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United States Department of State

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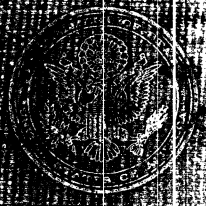
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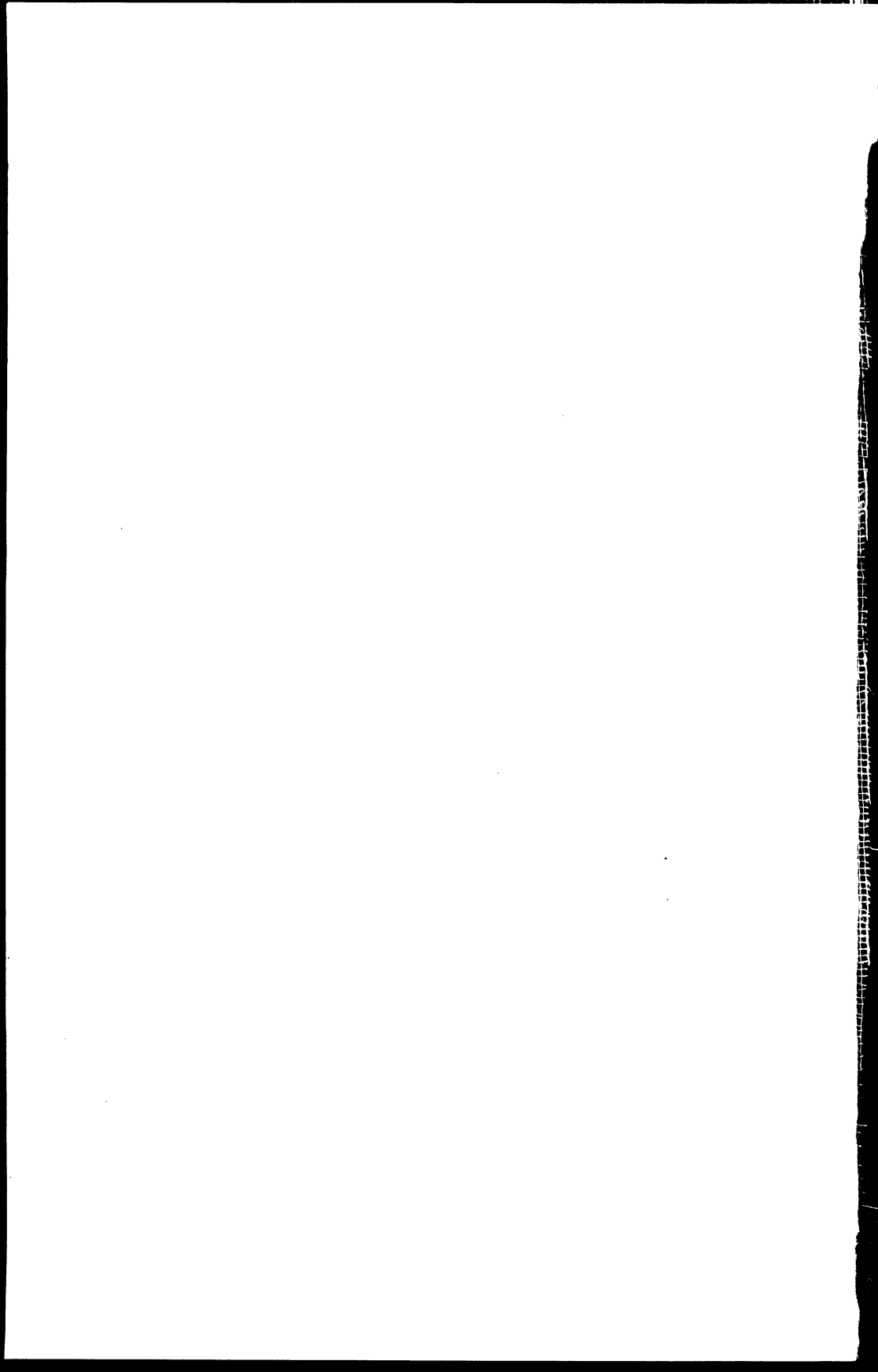
Foreign  
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Department of State  
Washington







Foreign Relations  
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United States  
Diplomatic Papers  
1940

(In Five Volumes)

Volume V  
The American Republics



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Washington : 1961

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# COOPERATION AMONG THE AMERICAN REPUBLICS IN THEIR REACTION TO THE EUROPEAN WAR: <sup>1</sup> THE DEFENSE OF THE WESTERN HEMISPHERE

## I. UNITED STATES POLICY TOWARD THE FURNISHING OF ARMS TO THE OTHER AMERICAN REPUBLICS <sup>2</sup>

810.24/953

*Memorandum by the Secretary of State and the Secretary of War  
(Woodring)*

[WASHINGTON,] March 12, 1940.

After consultation between the Department of State and the War Department, the plan of procedure outlined below has been agreed upon for dealing with the sale of surplus arms by this Government to foreign governments.

1. Properly authorized representatives of foreign governments desiring to purchase surplus arms from this Government will be referred to the Division of Controls, Department of State. The Chief of that Division, after ascertaining from the appropriate officers of the Department of State whether the sale of arms in any given case would be in conformity with the foreign policy of the Government, will, if there is no objection on the ground of foreign policy, refer the representatives of the foreign government to the Chief of the Military Attachés Section, G-2 Section, General Staff, War Department, and will see to it that the Secretary of War is formally notified in writing that the said named representatives of a foreign government have been referred to the War Department with the request that the War Department negotiate with the said representatives with a view to the sale of such arms as may have been declared surplus.

2. The Chief of the Military Attachés Section, G-2 Section, General Staff, War Department, will refer representatives of foreign governments who have been referred to him to the Clearance Committee, Army and Navy Munitions Board, which will conduct the necessary negotiations with a view to the sale of surplus arms. Any questions arising during the course of these negotiations which may seem to

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<sup>1</sup> For other correspondence on this subject, see vol. I, pp. 681-809.

<sup>2</sup> For War Department account of this 1940 phase of the policy, see Stetson Conn and Byron Fairchild, *The Framework of Hemisphere Defense* in the series *United States Army in World War II: The Western Hemisphere* (Washington, Government Printing Office, 1960), pp. 207-217. (Hereinafter cited as *The Framework of Hemisphere Defense*.)

require the attention of the Department of State will be referred orally and informally by the Chairman of the said Committee to the Chief of the Division of Controls, Department of State.

3. When the negotiations referred to above have proceeded to such a point that a tentative agreement has been arrived at, the Committee mentioned above will see to it that the Secretary of State is formally notified in writing by the Secretary of War of the details of this tentative agreement. The Chief of the Division of Controls, Department of State, after having consulted the appropriate officers of the Department of State, will see to it that the Secretary of War is informed formally and in writing whether or not there is any objection on the ground of foreign policy to the conclusion of a definite contract on the basis of the tentative agreement.

4. If no objection to the tentative agreement is expressed by the Department of State, the War Department will understand that that agreement is in accord with the policy of the Government, and the appropriate officer of the War Department will be directed by the Secretary of War to proceed to consummate the sale to the representatives of the foreign government.

It is understood and agreed that the transactions contemplated herein shall be between this Government and a state or foreign government with which the United States is at peace as provided for in the Act of June 5, 1920 [41, Stat. 949; U. S. C. 10: 1262; Sections 1991, 2013, Military Laws 1929],<sup>3</sup> with the further proviso that no surplus arms or munitions will be disposed of to any state or foreign government engaged in hostilities. The stipulations set forth above are necessary and are hereby made of record to give emphasis to the fact that under no conditions will negotiations be undertaken with individuals or groups of individuals acting as brokers or as intermediaries between this Government and a foreign government or with any person whomsoever except the duly authorized representative of a foreign government.

Approved:  
CORDELL HULL  
*Secretary of State*

Approved:  
HARRY H. WOODRING  
*Secretary of War*

810.24/97

*Memorandum by the Chief of the Division of Controls (Green)*<sup>4</sup>

[WASHINGTON,] March 26, 1940.

This memorandum summarizes briefly, for convenient reference, the principal developments which have occurred since February 22 in connection with the sale of surplus arms by the War Department.

<sup>3</sup> Brackets appear in the original.

<sup>4</sup> Addressed to the Secretary of State and the Under Secretary (Welles).

The Department on February 26, at the request of the War Department, informed the Brazilian Ambassador that the Secretary of War was prepared to deliver 90 6-inch guns to the Brazilian authorities. The War Department, feeling that the shipment of such a number of guns could not possibly escape public attention and fearing that distorted accounts of the transaction might appear in the press, issued on March 5, after consultation with this Department and with the President, a press release in regard to the matter. At the time the release was issued, an officer of the War Department, without consultation with this Department, permitted representatives of the press to make notes from a list of arms declared surplus. This list had not theretofore been communicated to anyone. The press stories relating to the sales to Brazil contained also partial and inaccurate copies of this list.

The publication of this list in various forms in different papers resulted in urgent requests from the Argentine, Colombian, Cuban, and Mexican Embassies and the Salvadoran and Dominican Legations that they be furnished with authentic lists with a view to possible purchases, and the Panamanian Embassy expressed interest in this matter, particularly with a view to the possible purchase of rifles. It was decided that fairness to the possible purchasers required that these requests should be complied with as representatives of Chile and representatives of Brazil had already been permitted to negotiate for the purchase of surplus arms. Therefore, officers of RA<sup>5</sup> and of Co,<sup>6</sup> acting under instructions, furnished copies of the list to the missions which had requested it. These missions were informed that some of the arms listed had already been offered to other governments and that those governments had first claim upon them. They were further informed that the Secretary would prefer that no negotiations with a view to purchases be initiated until after the return of the Under Secretary. In view of the probability that several of the governments referred to will wish to open negotiations for purchase as soon as possible, the Secretary and the Secretary of War agreed upon a procedure for dealing with these purchases.

In the meantime, every effort was made to expedite Señor Bianchi's<sup>7</sup> consideration of possible purchases of surplus in order that other governments might be definitely informed of what surplus supplies were available and not spoken for. Mr. Duggan<sup>8</sup> and I, at the direction of the Secretary, presented Señor Bianchi to the Secretary of

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<sup>5</sup> Division of the American Republics.

<sup>6</sup> Division of Controls.

<sup>7</sup> Manuel Bianchi, Chilean Ambassador to Spain on special mission in the United States to purchase military supplies.

<sup>8</sup> Laurence Duggan, Chief of the Division of the American Republics.

War, and he has had several further conversations with officers of the War Department in which he has been furnished with a full list of all arms declared surplus, together with a list of prices. Officers of the War Department have made it clear in conversations with us that that Department would be most reluctant to add any items whatever during the present calendar year to the list of surplus which has been prepared or to reduce prices below the figures which it has now fixed. It feels that to do so would adversely affect the interests of the national defense and might seriously affect the relations between the War Department and Congress. Señor Bianchi has been asked by the War Department to prevail upon his Government to decide, if possible, before April 15 what surplus arms, if any, it desires to purchase. The fixing of a date seemed necessary in view of the publication of the list and in fairness to other possible purchasers.

In addition to the list of surplus and the prices at which the arms can be furnished, the War Department has given Señor Bianchi a list of approximate prices at which what he terms the "minimum requirements" of the Chilean Army could be supplied by American manufacturers. The War Department fixes the approximate value of these arms at \$6,029,500. Señor Bianchi has expressed the hope that his Government may be able to purchase some of these arms from this Government if the bill "To authorize the Secretaries of War and the Navy to assist the governments of American Republics", etc., were enacted. That bill has again, within the last few weeks, be[en] passed over as a result of objection by Senator Vandenberg.

Mr. Duggan, Mr. Chapin,<sup>9</sup> and I, acting under instructions, also presented Señor Bianchi to Captain Collins with the Department's recommendation. Señor Bianchi handed Captain Collins his list of the "minimum requirements" of his Government and requested that he be informed whether the items listed could be obtained from American manufacturers and, if so, at what prices. Captain Collins referred this request for information to the Army and Navy Munitions Board, with officers of which Señor Bianchi has been dealing direct. They have attempted to prevail upon him to state which items on the list his Government might have serious intentions of purchasing in the hope that the Board may be spared the labor of preparing answers to questions which may not prove to be of practical importance.

The list of arms which Señor Bianchi hopes to purchase (1) from the War Department in case the bill mentioned above is enacted or (2) with the assistance of Captain Collins from American manufacturers would involve, as stated above, an expenditure estimated by officers of the War Department at approximately \$6,029,500. This is exclusive of airplanes and aeronautical equipment as well as such

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<sup>9</sup> Selden Chapin of the Liaison Office.



purchases as may be made from War Department surplus which, if added to the list, would considerably augment that amount. It is understood that Señor Bianchi has \$1,000,000 available immediately and that certain additional sums will become available from the allocation of taxes. He seems to be under the impression, however, that this Government is in some way committed to the making of arrangements which will enable his Government to obtain the arms desired.

The only representatives of foreign governments other than those of Brazil and Chile who have thus far been permitted to negotiate with the War Department for the purchase of surplus arms are the representatives of Sweden and Finland. The former have decided to make no purchases. The latter are on the point of completing an agreement for the purchase of 200 75-mm field guns, 32 8-inch howitzers, and a small quantity of howitzer ammunition.

JOSEPH C. GREEN

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810.24/98

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

WASHINGTON, April 18, 1940.

MY DEAR MR. SECRETARY: The Argentine, Colombian, Cuban, Mexican, and Panamanian Embassies and the Dominican and Salvadoran Legations have informed the Department that the governments which they represent may desire to purchase some of the arms which you have declared surplus and which are available for sale to foreign governments. I am informing the Chiefs of the Missions listed that on April 24 or thereafter I am prepared, if they so desire, to refer representatives of their respective governments to the appropriate officer of the War Department in order that they may negotiate for the purchase of such of these arms as may be available at that time. Should any of these governments determine to take advantage of this opportunity to negotiate for the purchase of arms, I shall, in accordance with the procedure outlined in paragraph (1) of our joint memorandum of March 12 in regard to the sale of surplus arms by this Government to foreign governments, refer the representatives named by them to the Chief of the Military Attachés Section, G-2 Section, General Staff, and inform you of this reference. April 24 has been selected for the date on which such negotiations may be initiated as it is my understanding that you have fixed April 23 as the date on which the Chilean representatives with whom you are now negotiating should communicate to you the decision of the Chilean Government as to which of the arms declared surplus their government desires to purchase. I venture to suggest that the representatives of the Brazilian Government with whom you are negotiating might be requested to arrive at a

similar decision on or before April 23 in order that the representatives of the governments listed above may, if they begin negotiations on April 24 or thereafter, be informed definitely as to what surplus arms are still available for purchase by their governments.

Sincerely yours,

For the Secretary of State:

SUMNER WELLES  
*Under Secretary*

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810.24/98a

*The Secretary of State to the Uruguayan Minister (Richling)*<sup>10</sup>

The Secretary of State presents his compliments to the Honorable the Minister of Uruguay and has the honor to inform him that the Secretary of War recently declared surplus some arms and ammunition belonging to this Government. A partial list of the arms and ammunition declared surplus was obtained by representatives of the press and published some weeks ago. As a result of this publication, the representatives in Washington of some of the American Republics have informed Mr. Hull that the governments which they represent may possibly desire to purchase some of the articles declared surplus. Arrangements will be made for them to discuss this matter, if they so desire, with the appropriate officers of the War Department. As this Government wishes to give all of the Republics of this hemisphere the same opportunity to purchase such of these surplus arms as they may wish to acquire for their own defense, Mr. Hull encloses, for Mr. Richling's information, a copy of the list of arms referred to.<sup>11</sup> Should the Uruguayan Government be interested in negotiating for the purchase of any of these arms, it is suggested that Mr. Richling may wish to communicate informally to the Chief of the Division of Controls of the Department the name or names of the representative or representatives of his Government who may be charged with conducting negotiations with the War Department. Arrangements will then be made for the presentation of such representatives to the appropriate officers of the War Department.

WASHINGTON, April 26, 1940.

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810.24/110

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, June 1, 1940.

MY DEAR MR. PRESIDENT: Recent world events have created apprehensions among the other American republics regarding their ability

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<sup>10</sup> Sent, *mutatis mutandis*, to the Chiefs of Mission of Bolivia, Costa Rica, Guatemala, Ecuador, Honduras, Nicaragua, Paraguay, Peru, and Venezuela.

<sup>11</sup> Not attached to file copy of this document.

to resist overseas aggression. The desire of our southern neighbors to obtain arms and munitions in this country for defense purposes and their inability, generally speaking, to purchase them for cash raises a question of major policy in our relations with them. The nature of the problem will be apparent from the following considerations of law, policy, and experience.

For a number of years our private arms manufacturers have sold arms, under license, to foreign governments. Experience indicates that neither manufacturers nor private banks have been willing to extend credits for the purchase of such commodities.

Recently certain surplus War Department stocks have been made available, for cash. Joint Resolution no. 367<sup>12</sup> which permits us to sell coast defense and anti-aircraft matériel and to construct naval vessels, has just gone to you for signature; this measure does not however authorize the extension of any credits.

Under existing legislation, the Export-Import Bank is definitely prohibited from making loans "for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition, or implements of war by the President of the United States in accordance with the Neutrality Act of 1939" (Public 420, 76th Congress<sup>13</sup>). Information obtained from the Reconstruction Finance Corporation indicates that while no comparable legal prohibition exists, Mr. Jones<sup>14</sup> has repeatedly informed members of Congressional committees that the powers of the Corporation would not be utilized to finance the sale of arms.

Thus the Export-Import Bank is prohibited by law and the Reconstruction Finance Corporation feels constrained by public declarations of policy, from extending credits to the other American republics, at a time when chaotic world conditions have rendered them—and us—acutely conscious of their relative vulnerability.

As you know, I approach this problem with a heavy reluctance. It has been the policy of our Government over a period of years not to facilitate the sale of arms in the New World or to take any action which might be misinterpreted as encouraging their purchase. Our legislation and our procedure reflect this policy, which was adopted after careful consideration of all the factors then involved. I believe however that the time has come when this policy should be examined in the light of the world situation and a decision reached whether to maintain with respect to the other American republics our policy of selling arms only for cash (under which few sales will be made), or to adopt a new policy with adequate authorization in law or otherwise

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<sup>12</sup> Approved June 15, 1940; 54 Stat. 396.

<sup>13</sup> Approved March 2, 1940; 54 Stat. 38.

<sup>14</sup> Jesse H. Jones, Federal Loan Administrator.

permitting the extension to those republics of modest credits to permit their acquisition of limited amounts of defensive armament.

In the foregoing connection I enclose a copy of a memorandum received on May 25 last from the Government of Uruguay concerning its desire to purchase defensive armament to the value of \$6,500,000 and inquiring whether the credit facilities of the Export-Import Bank would be available for such a transaction.

Faithfully yours,

SUMNER WELLES

[Enclosure]

*Memorandum From the Uruguayan Minister of Finance (Charlone)  
to the American Minister*<sup>15</sup>

1. Whether the Government of the United States is in these moments considering the possibility that long term credits might be granted to the American countries to acquire material destined for national defense?

2. If in the affirmative: (a) Within what period of time is it believed that such credits could be placed at the disposition of the interested countries? (b) If Uruguay should immediately acquire such material, making use of a short term credit granted by the Export-Import Bank, could Uruguay later close out this operation making use of a long term credit, in order not to diminish its dollar resources needed for the purchase of general merchandise imports from the United States?

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833.51/900 : Telegram

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

WASHINGTON, June 1, 1940—4 p. m.

50. Your telegram no. 83, May 26, 6 p. m. Under existing legislation the Export-Import Bank is prohibited from making loans "for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition or implements of war by the President in accordance with the Neutrality Act of 1939". If Guani<sup>16</sup> presses you for a reply, it will therefore be necessary for you to inform him that under existing law the facilities of the Export-Import Bank could not be utilized. However, for your confidential information, the question of the policy that should be pursued by this

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<sup>15</sup> Quoted in telegram No. 83, May 26, 6 p. m., from the Minister in Uruguay, p. 1166.

<sup>16</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

Government in connection with the desire of certain of the other American governments to increase their armament for defense purposes is being taken up with the President. You will be informed immediately if there should be any change in policy decided upon.

The joint resolution introduced at the instance of the Department last year "to authorize the Secretaries of War and Navy to assist the governments of the American Republics to increase their military and naval establishments and for other purposes" has recently gone to the President for signature; it is limited however to "coast defense and anti-aircraft matériel and ammunition therefor" and naval vessels and armament therefor. No credit transactions are authorized thereunder.

HULL

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833.51/902 : Telegram

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

MONTEVIDEO, June 3, 1940—11 a. m.

[Received 12:32 p. m.]

93. Your 50, June 1, 4 p. m. I cannot delay replying to Guani beyond two or three days more, since the Government is awaiting our reply to their memorandum before drafting a message to submit to the Legislature concerning necessary increases in armament.

I therefore propose to inform him as follows: "The general question is still under consideration and it is impossible at present to indicate when conclusions may be reached" and then go on to give him the information contained in your telegram regarding the Export-Import Bank and the joint resolution now before the President for signature.

Please telegraph if the foregoing meets with the Department's approval.<sup>17</sup>

WILSON

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810.20 Defense/68

*Memorandum by the Secretary of State, the Secretary of War (Woodring), and the Secretary of the Navy (Compton)*

[WASHINGTON,] June 10, 1940.<sup>18</sup>

After consultation among officers of the Departments of State, War, and the Navy, and between officers of the Department of State and

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<sup>17</sup> See telegram No. 53, June 3, 7 p. m., to Montevideo, p. 1168. On June 5, 1940, the American Minister handed to the Uruguayan Foreign Minister an informal memorandum along the lines indicated above (833.51/906).

<sup>18</sup> This date appears to be the one on which the memorandum was drafted, and not the one on which it was signed.

the Chief of the Procurement Division of the Treasury, Chairman of the President's Liaison Committee charged with maintaining liaison with foreign purchasing missions,<sup>19</sup> the plan of procedure outlined below has been agreed upon for the negotiation of transactions with the governments of the American republics, pursuant to the Joint Resolution "To authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes" approved June 15, 1940.<sup>20</sup>

1. Properly authorized representatives of governments of American republics desiring to take advantage of any of the provisions of the Joint Resolution approved June 15, 1940, will present their requests to the Division of Controls, Department of State. The Chief of that Division, after ascertaining from the appropriate officers of the Department of State whether the transaction in any given case would be in conformity with the foreign policy of the Government, will, if there is no objection on the ground of foreign policy, refer the representatives of the American republic to the President's Liaison Committee with the request that that Committee refer the said representatives to the Clearance Committee, Army and Navy Munitions Board. The Chief of the Division of Controls of the Department of State will see to it that the Secretary of War or the Secretary of the Navy, as the case may be, is formally notified in writing that the said named representatives of an American republic have been referred to the President's Liaison Committee.

2. The President's Liaison Committee will refer representatives of American republics who have been sent to it by the Chief of the Division of Controls to the Clearance Committee, Army and Navy Munitions Board, which will conduct the necessary negotiations for the transactions involved. Any question arising during the course of these negotiations which may seem to require the attention of the Department of State will be referred orally and informally by the Chairman of the Clearance Committee to the Chief of the Division of Controls, Department of State.

3. When the negotiations referred to above have progressed to such a point that a tentative agreement has been reached, the Clearance Committee will see to it that the Secretary of State is formally notified in writing by the Secretary of War or the Secretary of the Navy, as the case may be, of the details of this tentative agreement. The Secretary of State will then request the President to direct the Secretary of War or the Secretary of the Navy, as the case may be, to conclude a definite contract on the basis of the tentative agreement. When a

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<sup>19</sup> Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases.

<sup>20</sup> 54 Stat. 396.

definite contract has been concluded, the Secretary of War or the Secretary of the Navy, as the case may be, will see to it that the President's Liaison Committee is fully informed in regard to the details of this contract.

Approved:

CORDELL HULL

*Secretary of State*

Approved:

HARRY H. WOODRING

*Secretary of War*

Approved:

LOUIS COMPTON

*Secretary of the Navy*

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810.20 Defense/39a

*The Secretary of State to Diplomatic and Consular Officers in the American Republics*

WASHINGTON, June 15, 1940.

SIRS: The President approved on June 15, 1940, a joint resolution to authorize the Secretaries of War and of the Navy to assist the Governments of the American Republics to increase their military and naval establishments, and for other purposes. The text of the joint resolution is as follows:

[Here follows text of joint resolution printed in 54 Stat. 396.]

The Department desires that, so far as possible, all negotiations between this Government and the Government of any American Republic desiring to avail itself of the facilities offered by this Joint Resolution be conducted in Washington between the diplomatic or other authorized representatives of the American Republic and the appropriate authorities of this Government. Since the ultimate decision must of necessity rest with our War or Navy Department, it is obviously preferable that negotiations of this character be carried on directly with those Departments. Should the Government to which you are accredited, therefore, approach you with a view to opening such negotiations, you are requested to recommend, after answering as fully as possible inquiries in regard to the scope and purport of the law, that an authorized representative of that Government in Washington be authorized to carry on the necessary conversations there. These should be initiated with the Department of State, which will arrange for the representatives of the American Republic to confer with appropriate officials of the War and Navy Departments.

Should circumstances arise, however, which in your judgment render it desirable that a particular inquiry from the Government to which you are accredited be transmitted through you, you are authorized to forward the inquiry to the Department. That provision of the Department's Circular Instruction of November 21, 1935<sup>21</sup> which states that American diplomatic and consular officers should decline to use official channels for the communication of inquiries or offers between prospective purchasers and sellers is hereby modified to exempt from its scope inquiries from the Government of an American Republic relating to a purchase authorized by this Joint Resolution. The remaining provisions of the Circular Instruction shall continue in effect and American diplomatic and consular officers shall, while responding in every proper way to requests for assistance and information originating with the Government to which they are accredited, continue to refrain from attempting to create trade opportunities for arms, ammunition, and implements of war of United States origin and from undertaking on their own initiative to expand the sales of such articles.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

810.24/123½<sub>1</sub>

*Memorandum Prepared by the War Plans Division of the War Department, Revised by the Department of State, and Approved by President Roosevelt*<sup>22</sup>

[WASHINGTON,] July [27], 1940.

Proposed National Policy re Supply of Arms to American Republics

1. The policy adopted should provide:

*a.* For arming the countries named to the extent indicated, as determined in each case by our estimate of their requirements:

(1) *(a)* Brazil—To insure her ability to defend herself against a major [Axis] attack from neighboring states, or from overseas, and against internal disorder, until United States armed aid can arrive in sufficient force to insure success.

*(b)* Mexico—To insure her ability to defend herself against any probable attack from overseas, and against internal disorder, until U.S. armed aid can arrive in sufficient force to insure success.

(2) Ecuador, Colombia, and Venezuela—To insure their ability to meet and repel any probable minor attack from overseas, and to insure their internal stability.

<sup>21</sup> *Foreign Relations, 1935, vol. 1, p. 354.*

<sup>22</sup> Approved by President Roosevelt on August 1, 1940.



(3) Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Cuba, Haiti, and the Dominican Republic—To insure internal stability.

(4) Argentina, Uruguay, Chile, Paraguay, Bolivia and Peru—To be determined after requirements of other republics have been computed and plans to supply them have been approved.

b. For providing these arms on financial terms these Republics can meet.

c. For assistance in the matter of military, naval, and industrial personnel.

d. For adjusting the economic relations between the United States and Latin American states to insure the latter's political cooperation. Financial arrangements to accomplish this adjustment should be made on the basis of accepting the loss as a proper charge against our National defense.

810.20 Defense/39a Supplement

*The Secretary of State to Diplomatic Officers in the American Republics*

WASHINGTON, September 25, 1940.

SIRS: Reference is made to the Department's circular of June 15, 1940 (File no. 810.20 Defense/39A) on the purchase of armament from the United States Government.

There is enclosed a photostatic copy of a chart<sup>23</sup> which has been approved by the Secretaries of State, War and of the Navy setting forth schematically the procedure for handling requests made by the American republics of this Government for assistance in the purchase of armament.

It will be noted that in the future lists for military and naval matériel should be submitted separately, and that these lists should be in quintuplicate in both languages, duly authenticated by the authorities of the government making the request.

It is believed that the later steps in the procedure after submission of the requests through the Department of State are clearly set forth in the diagram. It is hoped that by submitting copies of future requests to the appropriate officials of the War and Navy Departments at the same time that they are submitted to the Clearance Committee of the Army and Navy Recommendations Board, some time will be saved in obtaining action on these requests.

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<sup>23</sup> Not printed; this chart showed that requests would be forwarded from the field to the Department of State, where the requests would be reviewed before being sent on to the Army or Navy.

For your own confidential information it may be added that an informal committee of the liaison officers of the State, War, and Navy Departments has been constituted which will act as a steering committee in obtaining prompt action on the requests. The functions of this committee do not appear on the chart.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

## II. CONSULTATIONS BETWEEN THE UNITED STATES AND THE OTHER AMERICAN REPUBLICS REGARDING DEFENSE MEASURES<sup>24</sup>

### GENERAL

740.00111 A.R./1126

*Memorandum by the Assistant Secretary of State (Berle)*<sup>25</sup>

[WASHINGTON,] May 14, 1940.

My distinct impression is that a difficult situation may arise among the American republics as a result of abortive moves either to re-define neutrality—as in the case of the Cantilo suggestion,<sup>26</sup> or to work out a new continental declaration (the Uruguayan suggestion).<sup>27</sup> It seems to me that Aranha's feeling that we should make a constructive suggestion has a solid basis for it.<sup>28</sup>

To my mind, the solid necessity is not one of setting up new legal and diplomatic conceptions, but of having some arrangements made looking toward hemispheric defense. This ought to include conferences relating to military and naval cooperation, in detail, rather than in general terms; and particularly to methods of handling "fifth column" or other similar penetrations.

I wonder if we could not turn some of the more or less legalistic suggestions into more practical channels, which might include the

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<sup>24</sup> Diplomatic correspondence of the Department of State with regard to arrangements with the governments of the individual American Republics for military and naval staff conversations is printed in the following sections under country headings. Records of the discussions and agreements reached are not here printed as they were the responsibility of the War and Navy Departments rather than of the Department of State. For an official narrative record, see *The Framework of Hemisphere Defense*, pp. 175-183, 274-278, 334-336.

<sup>25</sup> Addressed to the Secretary of State and the Under Secretary (Welles).

<sup>26</sup> See section entitled "Argentine proposal that the American Republics declare they cease to be neutrals and announce they have become nonbelligerents," vol. I, pp. 743 ff. José Maria Cantilo was Argentine Minister for Foreign Affairs.

<sup>27</sup> See section entitled "Collective protest by the American Republics against the violation of the sovereignty and neutrality of the Netherlands, Luxemburg, and Belgium by Germany (Uruguayan proposal)," vol. I, pp. 727 ff.

<sup>28</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs; see telegram No. 213, May 13, noon, from the Ambassador in Brazil, *ibid.*, p. 765.

interchange of views as to staff cooperation, etc., in the event that joint action might be necessary. Should necessity arise later, matters ought to be so arranged that plans are ready, intelligence has been interchanged and organized, agreement has been reached as to communications and transport, staff work has been blocked out, and perhaps even agreement reached as to command.

The situation might be met by indicating to the various interested parties that before any new declaration or revision of policy could be considered, a study of practical possibilities ought to be made. We could thus steer the existing pressure into useful channels for purposes of study. There are many forms which this might take; one of them might be a meeting of representatives of the general staffs, preferably unobtrusively; or by the quiet sending to Rio, or some other central point, of representatives of the various war departments.

A. A. BERLE, JR.

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810.20 Defense/21§

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

[WASHINGTON,] May 21, 1940.

To summarize briefly the thoughts of this Division regarding the best procedure to develop plans for continental defense, we suggest the following:

A. A circular instructing our missions in the large countries except Mexico to call to the attention of the governments to which they are accredited the need for increased cooperation among the American republics in military and naval matters relating to their common defense, and to inquire whether these governments are prepared to cooperate and, if so, in what ways. This initiative should be handled orally by our missions. (I understand that you would like this confined only to the South American countries at this time.)

B. Follow-up conferences between our military and naval authorities and those of the other American countries. It would seem that more rapid and efficient results could be obtained by dealing with the several countries individually, since the matters to be discussed will vary as will the approach. We urge that a State Department representative accompany our military and naval authorities and participate in the discussions, since we believe that the form of any arrangements concluded is important.

C. A general conference later on once, as a result of individual country-by-country discussions, we have obtained in general what is considered to be immediately essential. Our thought was that there would be a psychological value in a general meeting. (I understand that you do not think that this is desirable.)

In any discussions that might be carried on it would seem desirable to discuss the following matters which in some cases overlap those already suggested, but in others are new :

A. *Aviation*

Establishment and development of airports in the American republics; defensive measures for their protection.

Radio beacons and the training of personnel to operate them.

Fuel supplies at airports and the training of personnel to handle refueling operations rapidly.

Lighting of airports and airways.

Practice flights.

The training of United States Army and Navy pilots in commercial transport airplanes (Panair and Panagra).

Temporary stationing of airplanes in certain places (the War Department has already raised this in connection with Guatemala).

B. *Naval*

Coastal patrols.

Surveillance of ships in port.

Establishment of bases and fueling stations.

C. *Arms*

Purchase of new and surplus equipment.

Servicing and repairs.

D. *Military, Naval and Aviation Missions.*

E. *Fifth Column Activities in the American Republics.*

F. *Anti-Sabotage Precautions in the American Republics.*

LAURENCE DUGGAN

810.20 Defense/5-2340 : Telegram

*The Secretary of State to the Ambassador in Argentina (Armour)*<sup>29</sup>

WASHINGTON, May 23, 1940—noon.

76. Personal for the Chief of Mission. Please call as soon as possible upon the Minister for Foreign Affairs and inform him that in view of the critical turn which has taken place in the European war,<sup>30</sup> the Government of the United States has reached the conclusion that it would be in the interest of all of the American Republics from the standpoint of continental security and of continental self-defense if

<sup>29</sup> The same, *mutatis mutandis*, on the same date to Brazil as No. 131, to Chile as No. 84, to Colombia as No. 84, to Ecuador as No. 46, to Peru as No. 47, to Uruguay as No. 39, and to Venezuela as No. 50. Similar telegrams to the Minister in Haiti, as No. 77 and to Minister in the Dominican Republic as No. 61, both dated May 29, 3 p. m., differed only in that the call was to be made upon the respective Presidents rather than on the Ministers for Foreign Affairs. Similar telegrams sent on June 3, 3 p. m. to Costa Rica as No. 40, to El Salvador as No. 19, to Guatemala as No. 38, to Honduras as No. 18, and to Nicaragua as No. 39, contained in addition the substance of telegram No. 85, June 3, 3 p. m., to the Ambassador in Argentina, *infra*.

<sup>30</sup> For correspondence on the invasion of France by Germany and the collapse of French resistance, see vol. I, pp. 217 ff.

secret conversations could be undertaken between the military and naval authorities of the respective republics with a view to coordination of effort in the event that any act of aggression is actually undertaken against any portion of the Western Hemisphere. You should be sure to make it very clear that in the suggestion above made, there is no implication of any military alliance, of any military or naval commitments or any indication that the United States itself believes that its own participation in any hostilities is imminent. You should emphasize the fact that the suggestion is nothing more than the indication that this Government believes that the world situation has become increasingly dangerous and that it would, therefore, seem to be the part of wisdom on the part of the American Republics to determine what part each one would play in the event that they were obliged to repel aggression against the peace of the New World and thus avoid confusion and duplication of effort in the event that an emergency arises.

If the Government to which you are accredited shares the opinions above expressed, this Government believes that the most expeditious procedure would be for appropriate officers of the United States to travel in civilian clothes and by commercial plane and without publicity of any kind or description to Argentina and there hold, under your auspices, private conversations with officers designated for that purpose by the Government of Argentina.

In conclusion please emphasize the need for complete secrecy with regard to this communication.

Please telegraph the reply which may be made to your inquiry.

HULL

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810.20 Defense/6-340 : Telegram

*The Secretary of State to the Ambassador in Argentina (Armour)*<sup>31</sup>

WASHINGTON, June 3, 1940—3 p. m.

85. Personal for the Chief of Mission. Reference Department's 76, May 23, 12 noon. It is important that prior to the arrival of the officers in the capital of the country to which you are accredited to undertake the conversations alluded to in the telegram referred to above that there should be a clear understanding between the local officials designated to take part in the conversations and yourself that the American officers concerned are to act entirely under your auspices and are to make no suggestions or hold any discussion on points which have not first been taken up with and approved by you.

The underlying basis of the proposed conversations is one of mu-

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<sup>31</sup> Sent, *mutatis mutandis*, to Chile as No. 90, to Colombia as No. 92, to Ecuador as No. 57, to Peru as No. 60, to Uruguay as No. 51, and to Venezuela as No. 54.

tual cooperation for continental security. Since agreement in principle that there should be such cooperation has already been obtained from the highest authorities of the country to which you are accredited, the primary purpose of the proposed conversations should be directed at determining the form that such cooperation should take and specifically the kind and extent of the measures which the local authorities are prepared to contribute to that cooperation. The Department expects of course that you will personally participate in and guide the conversations and that you will bear in mind the necessity for conducting these conversations in such a manner as to avoid offending local susceptibilities.

HULL

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810.20 Defense/603

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, June 21, 1940.

DEAR MR. PRESIDENT: AS Chairman of the Liaison Committee, and with the full concurrence of the other members, Admiral Stark and General Marshall,<sup>32</sup> I suggest that the sum of \$500,000 in cash, be provided for the War Department, and \$300,000 in cash, be provided for the Navy Department, for use in the further development, under your direction, of our efforts towards hemisphere defense in cooperation with other American countries.

Our military and naval forces should have the intelligent cooperation of the armed forces of other American Republics on a basis of intimate accord. The desired cooperation requires that the armed forces of other American Republics should not only be trained in our methods and understand our plans and points of view, but their officers should be brought into intimate contact with our officers. Many of the smaller countries in South America cannot afford to bear the expense of military and naval missions from this country, nor can they afford to send their officers for instruction in this country. The officers themselves, cannot afford to come here for training because of the inadequacy of their pay to meet our higher cost of living.

If the money requested above is provided, it will be used to bear the expense of missions to countries which otherwise could not have the benefit of their services, to train personnel of their armed forces in conjunction with our own in the United States or Panama or with our Fleet, to pay the transportation of such personnel and to grant them money allowances, when necessary, and also for use of military

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<sup>32</sup> Following notations appear at end of letter :

"I recommend this action. G. C. Marshall."

"I concur H. R. Stark."

and naval Intelligence to counteract or offset where possible the activities of the totalitarian governments. Action looking to the last named objective might well involve matters beyond the mere entertainment of higher officials, both military and civil, of other American Republics.

There will undoubtedly be situations not now foreseen which should be met by the immediate expenditure of funds not provided in regular appropriations. Our vital interests in this hemisphere make it appear important that at this time the War and Navy Departments have discretionary funds available.

I am advised that the emergency funds provided for you in the military and naval appropriation acts for the fiscal year 1941 are legally available for the purposes stated above, although your message to Congress did not mention such purposes.

Respectfully yours,

SUMNER WELLES

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810.20 Defense/148½<sub>2a</sub> : Circular telegram

*The Secretary of State to the Chiefs of Diplomatic Missions in the American Republics Except Argentina, Bolivia, Mexico, Panama, and Paraguay*

WASHINGTON, July 11, 1940—4 p. m.

The results of the recent conversations undertaken by officers of the United States Army and Navy in various capitals of the American republics have been gratifyingly successful in all cases. As you will recall, it was proposed to follow these exploratory conversations with bipartite staff conversations between officers of the United States Army and Navy and local military and naval officials. Bolivia and Paraguay, which were not first approached in the preliminary conversations, will be included in the countries with which staff talks are to be undertaken.

It is considered advisable, however, to defer such staff talks until the adjournment of the forthcoming conference in Habana of Foreign Ministers to the American republics since it is believed that these talks will be even more productive when the results of the decisions taken at that conference are ascertained.

You are authorized accordingly to convey the substance of the foregoing to the appropriate officials of the government to which you are accredited and to state that it is the present intention of your Government, providing such a course is agreeable, to begin these bipartite staff conversations early in August. You may add that more detailed agenda of the proposed staff talks will, of course, be communicated in ample time to make preparations for these talks. In speaking with the appropriate officials under reference, you are further requested to

convey an expression of the gratification of this Government that the preliminary conversations so fully conformed to the spirit of solidarity existing among the American republics and that the secrecy surrounding the conversations has been so well maintained. Naturally you will indicate in all your remarks on this matter that it is the earnest desire of this Government, which is doubtless shared by the government to which you are accredited, that the arrangements for and the proceedings of the staff conversations should be maintained in strictest confidence.

HULL

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810.20 Defense/148 $\frac{1}{2}$ a : Circular telegram

*The Secretary of State to Diplomatic Missions in the American Republics Except Argentina, Bolivia, Mexico, Panama, and Paraguay*<sup>33</sup>

WASHINGTON, August 4, 1940—4 p. m.

The following is the agenda prepared by the War Department for the proposed military staff conversations with the military officials of the government to which you are accredited:

- “1. (a) Possible attacks by a foreign power on the American republic; the probable time, place, form, and objectives of such attacks;
- (b) A similar consideration of possible internal attacks directed from outside the continent;
- (c) The forms of aid desired from the United States by the other republic;
- (d) The aid which the United States would desire, if its armed forces were sent to assist either the republic concerned or another American republic;
- (e) The facilities the United States forces may require in extending aid; and their present condition, capacity, and availability;
- (f) The preventive measures now in force to control subversive activities directed from outside the continent.

2. It is hoped that a free exchange of views on the foregoing topics will result in definite agreements on the measures to be taken:

- (a) To make each republic reasonably secure against surprise attacks directed against its government and its vital facilities;
- (b) To exchange all intelligence relating to continental security; and,
- (c) To permit the rapid and effective entry into action of United States armed forces, if and when their assistance has been requested by the republic threatened, and their employment has been authorized by the United States Government.”

The Navy Department has prepared the following agenda for the proposed naval staff conversations:

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<sup>33</sup> The same to the Minister in Paraguay as telegram No. 26, August 15, 4 p. m. The same, omitting the naval agenda, to the Minister in Bolivia as telegram No. 33, August 21, 4 p. m.



“(a) and (b). Same as War Department’s 1 (a) and (b) ;

(c) The establishment of agencies in the Navy Department of the republic concerned for effecting close cooperation in hemisphere defense ;

(d) The establishment of local defense in the principal harbors, ports and anchorages ;

(e) The duties of the operating forces assigned to local defenses, and of naval forces escorting convoys ;

(f) The providing of special means of communications between Pan-American forces ;

(g) The material condition of existing naval forces and the methods of effecting repairs ;

(h) The establishment of an Intelligence Service to provide for prompt exchange of movements or actions of possible hostile forces ;

(i) Methods of extending aid, when requested, to neighboring states ;

(j) The security measures for the protection of existing naval forces and establishments.”

In communicating the above agenda to the appropriate officials of the government to which you are accredited and in informing them of the arrival of the officers you should emphasize in all your remarks that it is the earnest desire of this Government, which is doubtless shared by the governments of the other American republics, that the arrangements for and the proceedings of the staff conversations should be maintained in strictest confidence.

The officers designated to undertake the conversations will travel on diplomatic passports in order to insure the safety of such confidential material as they may carry with them. They will report in person to you upon arrival. They have instructions to conduct their staff conversations under the general directives of the chief of the diplomatic mission and to cooperate with each other in harmonizing the Army and Navy staff conversations.

You are requested to make available to these officers any assistance which they may require, including desk space, clerical assistance, the use of the codes of the Department, et cetera.

HULL

ARGENTINA <sup>34</sup>

810.20 Defense/5-2440 : Telegram

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

BUENOS AIRES, May 24, 1940—9 p. m.

[Received May 25—1 : 38 a. m.]

157. Department’s telegram 76, May 23, noon.<sup>35</sup> I have just brought the matter mentioned in the above telegram to the attention of the

<sup>34</sup> See also *The Framework of Hemisphere Defense*, pp. 181-182.

<sup>35</sup> *Ante*, p. 16.

Minister for Foreign Affairs. Dr. Cantilo was much interested, assured me that he appreciated the importance of the suggestion, particularly at this grave moment and would take it up with the President on his return tomorrow or Monday. He hoped to have a reply from [for?] me early next week.

During the course of the conversation the Minister who appeared to be in a somewhat defeatish mood made reference to the fate that had overtaken the weaker countries in Europe which had attempted to resist German invasion counting on assistance from France and England, but which owing partly to their remoteness had not been forthcoming. He asked in the event of an Allied defeat and the surrender of the Anglo-French fleet what assistance I thought the United States would be able to bring to Argentina and other distant American Republics should they endeavor to resist an attempted German invasion. I replied in general terms I thought that this was one of the questions which such a conference as that suggested would presumably deal with. Dr. Cantilo's attitude may possibly have been due to his preoccupation over the internal situation coupled with the discouraging news from Europe. I mention it, however, to show the lines along which for the moment he appeared to be thinking.

ARMOUR

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810.20 Defense/5-2940 : Telegram

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

BUENOS AIRES, May 29, 1940—3 p. m.

[Received 10:53 p. m.]

163. The Department's telegram No. 76, May 23, noon.<sup>36</sup> The Minister of Foreign Affairs informed me he has discussed this matter with the President who will gladly consider the question further in the light of the whole situation but feels that some more detailed plan of what we have in mind would be useful in reaching his decision. On the facts now before him Ortiz is inclined to doubt whether any useful purpose could be accomplished by such conversations. The President feels that an ill-prepared offense [*defense*] would constitute the poorest form of defense and only tend to invite attack. Cantilo himself feels that the best defense for the American continent for the present would be a victory for the Allies and that the greatest assistance the United States could render to continental defense at this stage would be to assist the Allies as much as possible.

From their estimate of the United States defense requirements, based upon President Roosevelt's message to Congress<sup>37</sup> and the state-

<sup>36</sup> *Ante*, p. 16.

<sup>37</sup> Department of State *Bulletin*, May 18, 1940, p. 529.

ments of Generals Marshall and Arnold forwarded by Espil;<sup>38</sup> Cantilo and the President feel that our Government probably for 2 years would not be in a position materially to assist them and other distant republics in the event of attack or aggression. For these reasons the President is inclined to favor their relying on their own defense resources for the time being, awaiting the outcome of the present phase of the European struggle.

I am not at all certain how far Cantilo is speaking for the President or to what extent the above are his own views. Cantilo suggested that I might wish to discuss the matter myself with Ortiz and I think this might be advisable if the Department agrees. In this case perhaps I could be furnished with further material which you feel would be useful in the light of talks thus far, also accounts of any replies received to date from other governments, notably Brazil.

On the other hand I feel that the following should be taken into consideration. It seems highly probable that the immediate reason behind the objections offered to our proposal may be the internal situation here, outlined in our recent telegrams and despatches, which is causing the Government to hesitate to take any action which, if it became known, might give further strength to the opposition as reported, the army officers are predominantly the less Nazi and pro-Fascist in their sympathies including Inspector General of the Army and the majority of higher officers who are in close touch with chief of German military mission, General Niefenfur. Any talks our officers might have even with leading chosen Argentine Army officers and to a lesser extent Naval officers could not be kept secret from pro-Nazi group. For this reason I am inclined to feel that so far as Argentina is concerned, the procedure would not only accomplish little but might well prove dangerous for us as well as for the Government here.

ARMOUR

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810.20 Defense/5-2440 : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

80. From the Under Secretary. Your 157, May 24, 9 p. m. If you have not yet had a reply from the Minister for Foreign Affairs please call on him immediately. You may say that the replies which have been received from the other principal republics in South America are favorable, and that it would seem clear that if action is to be effective and is to be developed in its initial stages in the secrecy required, it must be undertaken without delay.

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<sup>38</sup> Felipe A. Espil, Argentine Ambassador in the United States.

With this in mind schedules have been prepared for the various officers to proceed immediately to the different capitals concerned.

For your confidential information, which you may communicate to Doctor Cantilo as soon as you have received a favorable reply, Captain W. O. Spears, United States Navy, has been designated to undertake the conversations with the Argentine authorities and if the response is favorable will arrive in Buenos Aires on Pan American plane June 7. He will travel on special passport and carry credentials as a diplomatic courier. [Welles.]

HULL

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810.20 Defense/5-2940: Telegram

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

WASHINGTON, May 30, 1940—3 p. m.

82. From the Under Secretary. Your 163, May 29, 3 p. m. I intended to make it clear in the original telegram sent to you that all that was envisaged in the suggested conversations was a discussion as to exactly what each American Republic would be prepared and able to undertake in the way of defense measures should an act of aggression by a non-American power be committed which the continent would be obligated to repel. With regard to the Argentine Government, the problem would be specifically limited to the naval strength which the Argentine Government would be able to utilize in protecting its own coasts and perhaps the coasts of Uruguay from alien aggression.

I am unable to understand the statement in the first paragraph of your telegram under reference "that an ill-prepared offense would constitute the poorest form of defense and only tend to invite attack".

As indicated in the Department's telegram No. 80, May 29, 3 p. m., conversations of the character suggested are to be undertaken immediately and the suggestion made by this Government has now been welcomed by the Governments of Chile, Peru, Ecuador, Colombia, Venezuela, Brazil, and Uruguay, the only governments other than Argentina in South America so far consulted.

If, in view of the considerations set forth in the last paragraph of your telegram under reference, you feel it would be preferable to let the matter rest, the Department will be prepared to abandon the idea of having Captain Spears proceed to Buenos Aires for the purpose mentioned.

It would be inadvisable for you to discuss with the Argentine authorities the details of any replies received from other governments, notably Brazil, as mentioned in the penultimate paragraph of your telegram. [Welles.]

HULL

810.20 Defense/6-140 : Telegram

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

BUENOS AIRES, June 1, 1940—4 p. m.

[Received 5:28 p. m.]

169. For the Under Secretary. Your 82, May 30, 3 p. m. On my return from Montevideo this morning I saw the Minister for Foreign Affairs and presented matter in light of above telegram. Cantilo went at once to the President and has just informed me that they will be very glad to receive an officer for the purpose mentioned.

In view of favorable reply I am informing Cantilo that Captain W. O. Spears has been designated to undertake conversations with Argentine authorities and will arrive Buenos Aires by plane June 7.

Reference invited to statement first paragraph my telegram 163, May 29, 3 p. m., word "offense" should have been "defense". Statement should have read "that an ill-prepared defense would constitute the poorest form of defense and only tend to invite attack".

ARMOUR

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810.20 Defense/6-240 : Telegram

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

BUENOS AIRES, June 2, 1940—9 p. m.

[Received June 3—11:38 a. m.]

171. For the Under Secretary. Embassy's telegram of June 1, 4 p. m. The Brazilian Ambassador has informed me that in a conversation with the Foreign Minister yesterday afternoon (apparently he was called to the Foreign Office by Cantilo just after the latter had given me his Government's approval to the visit of Captain Spears) Cantilo had told him of the proposed visit of a United States naval officer to Buenos Aires.

I told the Ambassador that this was a matter with which the Brazilian Government was familiar and asked him to regard it as strictly confidential as I had requested Cantilo to do.

He assured me that he would do so and that in cabling his Government he would use a very confidential code.

The timing of the Brazilian Ambassador's visit coupled with the fact that he was apparently requested to communicate with his Government leads me to believe that the Argentine Government is seeking to learn the Brazilian Government's views prior to such discussion as may take place here.

Repeated to Rio de Janeiro.

ARMOUR

S10.20 Defense/6-1140

*The Ambassador in Argentina (Armour) to the Secretary of State*<sup>39</sup>

No. 774

BUENOS AIRES, June 11, 1940.

SIR: I have the honor, with reference to the Department's telegram no. 82 of May 30, 3 p. m., to report that Captain William O. Spears, U. S. N., arrived in Buenos Aires on Saturday, June 8. He was met at the airport by the Naval Attaché and a representative of the Ministry of Marine, both in civilian clothes.

In as much as it was not practicable to arrange a meeting with the Argentine officials before Monday, Saturday and Sunday were given over to informal conversations between Captain Spears, Captain William Brereton, U. S. N., Naval Attaché, and Captain Guy Baker, U. S. N., Chief of the American Naval Mission on duty at the Argentine War College. The first meeting was held at the Embassy residence yesterday, June 10, at 5 p. m. and was attended by representatives of the Ministry of Foreign Affairs and the Ministry of Marine. There is enclosed for the information of the Department a memorandum summarizing the discussion that took place.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

*Memorandum by the First Secretary of Embassy in Argentina  
(Davis)*

BUENOS AIRES, June 11, 1940.

In accordance with arrangements made with the Foreign Office an informal meeting took place at the Embassy residence at 5 p. m. on Monday, June 10, for the purpose of initiating conversations between Captain William O. Spears, U. S. N., and Argentine officials. The meeting was attended by the Ambassador, the First Secretary and the Naval Attaché from the Embassy, Dr. Pablo Santos Muñoz, Secretary General of the Ministry of Foreign Relations, Captain Francisco R. Renta (Capitán de Navío) now second in rank in the Argentine General Staff (Estado Mayor General) and formerly in command of the Argentine battleship *Moreno*, and Captain Francisco J. Clarissa (Capitán de Navío) now on the staff of the Naval War College (Escuela de Guerra Naval) and formerly on the General Staff in the position Captain Renta now holds.

The Ambassador explained to Dr. Santos Muñoz and subsequently to Captains Renta and Clarissa that the purpose of the meeting was to

<sup>39</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

initiate the discussions which the Argentine Government had expressed its willingness to have take place, and suggested that Captain Spears outline the questions that he had in mind. The latter said that the purpose of his mission was quite simple, viz. that it was merely to consult with Argentine officials as provided for by the Declaration of Lima in the event of threatened danger. In view of the seriousness of the situation, the United States Government considers that the time has come for consultation particularly with respect to defense in the event of an attempted invasion.

Captain Spears stressed that he did not propose to discuss details at the present time, but that he did wish to ascertain the answers to several important questions of policy, namely (1) whether the Argentine Government would be disposed to join in the common defense of the Western Hemisphere, (2) whether her military and naval forces are sufficient to protect her own territory from attack, (3) what assistance from the armed forces of the United States might be needed, (4) what assistance Argentina would be able and willing to give other countries, and (5) whether the American forces used in this area would be granted necessary facilities in the way of permission to fly aircraft over Argentine territory, make use of landing fields, have access to ports for use as bases of operations, etc. Captain Spears expressed the view that once these questions of policy have been determined it would be a comparatively easy matter to work out the details of a joint defense plan, which might be accomplished by one or more meetings between representatives with the General Staffs concerned.

Captain Renta of the Argentine General Staff said that he of course was not authorized to reply to these questions but that he would be very pleased to outline to the Minister of Marine the scope of the discussions contemplated and the questions of policy involved. Dr. Santos Muñoz indicated that he would make a similar report to the Minister of Foreign Affairs. Although he had not taken an active part in the discussions, he did give voice to the question asked earlier by the Minister of Foreign Affairs which was "Would the United States be able to defend the South American continent effectively in the event the Allies are defeated, even if it should be willing to do so?" To this Captain Spears replied that the American Government regarded the question a very practical one and as might be imagined had given it considerable thought in naval circles. He expressed the belief that the United States would be in a position to protect effectively the Western Hemisphere from any probable combination of forces even in the event of the elimination of the French as belligerents and the defeat of Great Britain in Europe. Captain Spears fell in with the suggestion made by Captain Renta that some informal talks

might take place at the Argentine War College and said he would be very glad to participate. It was mentioned also that Captain Guy Baker, head of the American Naval Mission on duty at the War College, might have a valuable contribution to make to these conversations. It was understood moreover that the Naval Attaché would as a matter of course take part in such conversations as might take place.

M[ONNETT] B. D[AVIS]

810.20 Defense/6-1440

*The Ambassador in Argentina (Armour) to the Secretary of State*<sup>40</sup>

No. 784

BUENOS AIRES, June 14, 1940.

SIR: I have the honor, with reference to the Department's telegram no. 82 of May 30, 3 p. m. and the Embassy's despatch no. 774 of June 11, 1940, to enclose for the Department's information a memorandum prepared by Captain William O. Spears, U. S. N., regarding his call on Admiral Leon Scasso, Minister of Marine, at 7:30 p. m. on Wednesday June 12, accompanied by the Naval Attaché, Captain William Brereton, U. S. N.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

*Memorandum by Captain W. O. Spears, U.S.N., for the Ambassador in Argentina (Armour)*

BUENOS AIRES, June 13, 1940.

1. The following is the substance of the interview which I had with the Minister of Marine at 7:30 p. m. Wednesday, June 12, in company with the Naval Attaché, Captain Brereton.

2. The atmosphere of the reception was neither cordial nor chilly. After the usual preliminaries of my thanking him for his having sent his aide to meet me at the airport and the discussion of the weather, I asked the Minister if he was aware of what my mission here was. He replied he knew in a general way but would like to hear from me personally what it was.

3. I explained that I was a member of the War Plans Division of the Navy Department and that we had gone as far as we could in making defense plans for this hemisphere without further consultation with South American countries; that we were particularly in-

<sup>40</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.



terested in Argentina on account of the Argentine Navy's being the most powerful one in this hemisphere outside the United States; and in order to complete our plans it was necessary to know what we could expect as regards what the Argentine Navy could do for the protection of Argentina, as well as what cooperation it could be expected to render in the defense of other South American countries.

4. The Minister of Marine then interrupted me to ask whether I represented the Government of the United States or merely the Navy Department. I naturally replied that I represented the Navy Department.

5. From then on he proceeded to give his ideas of the situation. He stated that neither he nor any of the officers of the Navy could make any commitments as to future cooperation of the Navy, as this was a matter of foreign policy. He added that Argentina had nothing to fear from any other country now nor could he imagine any danger of an invasion any time in the future, and therefore he thought the question of making joint plans was too remote to be considered.

6. I asked the Minister directly if the Argentine Navy would cooperate, if requested, in the case of Uruguay or Brazil's being attacked by foreign powers. He replied that in his opinion each country should take care of its own defense.

7. I then asked the Minister if he thought that the Declaration of Lima <sup>41</sup> or the discussions of the Argentine delegates to this convention had any bearing on the commitments to talk over hemispherical defense. He replied that his interpretation was that this Declaration offered a vehicle which could be invoked in time of danger for ministers of state to initiate talks for the purpose of making a common defense.

8. I then inquired if he did not think it would be advantageous to make all plans in advance and try to anticipate all possible dangers. He reverted to his former arguments that this country was not in any danger and that he could not imagine any danger from outside aggression in the immediate or distant future.

9. I told him that while we considered the United States Fleet powerful enough to protect the Western Hemisphere against foreign aggression, it would be a great assistance in case we could be assured of help in this part of the world, in the use of bases and air ports. He then again fell back on the idea that he could not make any commitments in this respect as that was a function of the Foreign Office.

10. Also, I told the Minister that having conversations with a view of making plans was not a violation of foreign policy and that in my

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<sup>41</sup> "Declaration of the Principles of the Solidarity of America," Article CIX, Eighth International Conference of American States, December 1938, *Final Act*, (Lima, 1938), p. 115.

opinion there was a misunderstanding about the matter. I told him further that the Navy Department in Washington considered that all matters of policy had been arranged for having these talks before I arrived here. I finished by stating I would take the matter up with the American Ambassador.

W. O. SPEARS

810.20 Defense/6-1540 : Telegram

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

BUENOS AIRES, June 15, 1940—4 p. m.

[Received June 16—9:48 p. m.]

228. For the Under Secretary. Reference your telegram 85, June 3, 3 p. m.<sup>42</sup> and Embassy's airmail despatch 774, of June 11, latter reporting first meeting with Argentine authorities. In discussing with the Minister for Foreign Affairs last night procedure regarding further conversations on common defense, Dr. Cantilo said he felt questions we raise involve government policy of so far-reaching and important a nature that these should first be discussed between Foreign Office and Embassy. When agreement reached on policy then he feels our respective naval authorities could discuss details regarding carrying out of these policies. Minister for Foreign Affairs therefore proposes that I submit to him concrete questions to which we desire replies. He will in the meantime study the whole matter in the light of general questions already submitted and probably hand me a memorandum setting forth the views and any suggestions of his Government.

In view of above, Captain Spears, in consultation with Naval Attaché and Captain Baker of Naval Mission is preparing memorandum embodying questions on which information desired, which memorandum I propose to submit to Cantilo.

As Captain Spears feels there will be nothing to be gained by remaining on here in view of Foreign Minister's decision, apparently reached after discussion with Minister of Marine, who has shown far from helpful attitude, he is proceeding to Montevideo on June 19 returning here about June 23 before returning to the United States. This will enable him to discuss matter further with us or Government officials here if in meantime there are other developments.

Captain Spears requests Navy Department be informed of his plans.

ARMOUR

<sup>42</sup> *Ante*, p. 17.

S10.20 Defense/6-1840

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

No. 805

BUENOS AIRES, June 18, 1940.

[Received June 25.]

SIR: I have the honor, with reference to despatch no. 784 of June 14, 1940 and the Embassy's telegram no. 228 of June 15, 4 p. m., to report that the general questions formulated in accordance with the suggestions of the Minister of Foreign Affairs referred to in the latter communication were duly completed and incorporated in a memorandum which I handed to Dr. Cantilo personally last night. He stated that the questions would receive the consideration of the President and that a reply setting forth the views of his Government would no doubt be forthcoming.

For the Department's files I enclose a copy of Captain Spears' memorandum, together with a copy of the memorandum left at the Foreign Office last night.<sup>43</sup> It will be noted that except for the heading and the numbering of paragraphs the latter is identical with the former.

Respectfully yours,

For the Ambassador:

MONNETT B. DAVIS

*First Secretary of Embassy*

[Enclosure]

*Memorandum by Captain W. O. Spears, U.S.N., for the Ambassador in Argentina (Armour)*

BUENOS AIRES, June 17, 1940.

1. In view of the present disturbed conditions of international relations, the United States Government is concerned regarding possible outside aggression against American Republics. Considering the broad provisions of the Declaration of Lima it would seem that the time has now arrived to initiate discussions looking to a better understanding as to our mutual defense.

2. Therefore, certain questions regarding hemisphere defense are submitted for the consideration of the Argentine Government, with the hope that the answers will later lead to detailed discussions which will be of mutual benefit.

3. The following questions are based on the assumption that certain non-American powers or combination of non-American powers may use force for the purpose of extending their sphere of influence in certain American Republics. This aggression may lead to an at-

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<sup>43</sup> Latter not printed.

tempt to occupy certain American areas, such as Uruguay which would offer the basis for further aggression against other American Republics and possibly against the Republic of Argentina. In this case:

(a) Would the Argentine Government offer assistance to the Uruguayan Government in case their sovereignty should be threatened by such activity or intervention on the part of a non-American state?

(b) In the event that the United States were involved in resisting foreign aggression against Uruguay, would the Argentine Government cooperate with the United States in resisting such aggression?

(c) In the event of such activity or intervention on the part of a non-American state in any other South American Republic on the Atlantic coast, would the Argentine Government cooperate in sending suitable naval and air forces?

4. In case a non-American state or a combination of non-American states should be able to establish a foothold in Uruguay or other American Republic on the Atlantic coast, or should such activity threaten an attack on Argentina:

(a) Would the Argentine Government desire aid from the United States in repelling such an attack?

(b) What aid would be required from the United States to make such operations effective?

(c) In case the United States should send aid to Argentina, can assurance be given now that certain airdromes, airfields, ports, and other facilities will be available to United States forces?

5. In order to make effective plans for any cooperative effort that may be necessary:

(a) Will the Argentine Government authorize staff conversations in the near future between designated members of the Argentine and United States naval staffs?

W. O. SPEARS

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810.20 Defense/6-1940: Telegram

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

BUENOS AIRES, June 19, 1940—7 p. m.

[Received 8:28 p. m.]

238. Embassy's telegram 228, June 15, 4 p. m. In discussing with the Minister for Foreign Affairs the memorandum which I recently submitted embodying questions on which we desired information regarding continental defense, I told the Minister that I felt sure that our Government appreciated fully the importance of some solution of the economic difficulties as part of the whole defense program. I added that I felt that if in considering the naval angle he and the

President understood that we were giving, as I knew we were, equally earnest consideration to the economic side of the picture it would help then in proceeding more confidently to a study of the naval angle of defense.

I told Dr. Cantilo that if the President desired to see me I should welcome the opportunity to discuss this matter with him.

Yesterday's radio bulletin contained the White House statement regarding inter-American economic cooperation along the lines of disposal of export surpluses, which information has been given wide and favorable publicity in the press.<sup>44</sup>

I should welcome receiving from the Department any further information which I might use in my talk with the President if arranged along the lines of the first paragraph of this telegram.

ARMOUR

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810.20 Defense/6-2940: Telegram

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

BUENOS AIRES, June 29, 1940—4 p. m.

[Received June 30—7:46 a. m.]

262. Embassy's despatch No. 805, June 18. A 5-page memorandum marked confidential has been received from the Foreign Office in reply to the Embassy's memorandum of June 17, submitting certain questions in connection with continental defense. The principal points are the following: Argentina is pursuing a strict neutrality. It does not see any danger in the near future to the sovereignty or interests of any of the American Republics but would welcome data from the United States or any other country of the continent which would indicate the existence of a potential menace to the independence or the integrity of the continent. The Argentine Government understands that "all the American countries are qualified to put down by themselves the internal activities of foreign group which may be in violation of their sovereignty." It could not properly make commitments in its foreign policy without consulting Congress nor could it properly submit to Congress situations that have not arisen and may not arise. However, if any American Republic close to Argentina should need assistance, the Argentine Congress would undoubtedly authorize it, and conversely, if Argentina should need assistance, it would be from other American countries. Mutual aid should not be confined to military matters but should embrace also cultural and commercial fields including the elimination of trade barriers. If a truly dangerous sit-

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<sup>44</sup> See section entitled "Program proposed by the United States for inter-American economic cooperation," pp. 353 ff.

uation should arise, the Argentine Government would examine the matter with the United States and the other American Governments in accord with the policy of mutual consultation provided for at the Lima Conference.

The text <sup>45</sup> will be forwarded in the air mail pouch leaving July 2, unless Department wishes it telegraphed.

ARMOUR

810.20 Defense/8-1040 : Telegram

*The Acting Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, August 10, 1940—2 p. m.

179. Lieutenant Colonel R. L. Christian, U.S. Army, will arrive in Buenos Aires by Pan American plane August 17. He will travel on a diplomatic passport indicating that he is undertaking important business for the Department of State. Colonel Christian and Captain Brereton have been designated by the War and Navy Departments to undertake staff conversations with representatives of the Paraguayan and Uruguayan Army and Navy. It is planned for them to leave for Asunción August 23 in time for conversations to begin in that capital on August 24 or 26. Following the conclusion of their conversations in Asunción they will leave August 30 for Montevideo starting similar conversations in that city on September 2.

It is hoped that these two officers may inaugurate similar conversations in Buenos Aires some time the following week and I have personally discussed the matter with Dr. Melo <sup>46</sup> who should return to Buenos Aires approximately August 27. Pending further instructions from the Department, however, you should not broach the matter to the Argentine authorities, although if they should of their own accord raise the subject with you you may indicate this Government's cordial desire to cooperate and the tentative plans which have been outlined in this telegram for the conversations.

WELLES

810.20 Defense/9-1240 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 12, 1940—3 p. m.

209. From the Under Secretary. Department's 179, August 10, 2 p. m. The Department is without word, since Dr. Melo's return to

<sup>45</sup> Not printed.

<sup>46</sup> Leopoldo Melo, Personal Representative of the Argentine Minister for Foreign Affairs at the Second Meeting of the Foreign Ministers of the American Republics at Habana, at that time visiting the United States.

Buenos Aires, whether the Argentine authorities are agreeable to the proposed staff conversations. You are requested, accordingly, to take up the matter with the appropriate authorities, pointing out that on the occasion of Dr. Melo's visit to this country we fully discussed together the desirability of staff conversations between representatives of our two countries, and inquiring whether the Argentine authorities are prepared to enter into such informal staff conversations with Colonel Christian and Captain Brereton preferably upon their return from Asunción some time next week.

If necessary, the two officers could go first to Montevideo and the talks in Buenos Aires could be postponed until these had been terminated, but I concur in the views of Minister Wilson that the talks in Montevideo would be much more productive if some agreement in principle had first been accomplished in Buenos Aires.

It is the Department's understanding that Colonel Christian and Captain Brereton already have copies of the proposed agenda which are no doubt available in the Embassy for presentation to the appropriate Argentine authorities in case they are disposed to agree to the staff conversations. [Welles.]

HULL

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810.20 Defense/9-1440 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 14, 1940—1 p. m.  
[Received 2: 44 p. m.]

412. For Under Secretary. Department's 209, September 12, 3 p. m. Christian and Brereton expect to return to Buenos Aires on September 18. On their return, I intend to take up the matter of the proposed staff conversations informally and confidentially with the Minister for Foreign Affairs in person. In order to obviate any occasion for having to explain Brereton's present absence, I shall not attempt to see Roca prior to September 18. In this connection, I request to be specifically informed whether, in the course of my proposed interview with the Minister for Foreign Affairs, I am authorized to state that staff conversations have taken place in Asunción and are contemplated in Montevideo.

Captain Brereton informs me that he has received no orders from the Navy Department authorizing him to undertake staff talks with the Argentine Navy. Should the Argentine authorities indicate that they would prefer the senior member of the naval mission in preference to the Naval Attaché, I shall designate Captain Metz unless instructed to the contrary.

In the event that the Argentine authorities are disposed to agree to such informal staff conversations, our Legation at Montevideo will be immediately advised.

TUCK

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810.20 Defense/9-1440 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 16, 1940—7 p. m.

215. Your 412, September 14, 1 p. m. Department approves procedure suggested by you. The Navy Department which has been consulted states that while it suggests that Captain Brereton should conduct the staff conversations with the Argentine naval authorities, since he has already conducted similar conversations in Asunción and is to do so in Montevideo, it gladly agrees to the designation of Captain Metz if the Argentine authorities should express a preference for the senior naval adviser. In any case the Navy Department understands that the officers will cooperate closely together on the conversations in question.

HULL

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810.20 Defense/9-1840 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 18, 1940—7 p. m.

[Received September 18—7 p. m.]

419. For the Under Secretary. Department's 215, Sept. 16, 7 p. m. I called on the Minister for Foreign Affairs this afternoon and conveyed to him confidentially the purport of the third paragraph of your telegram No. 209 of Sept. 12, 3 p. m. Dr. Roca said that he had heard nothing on this subject from Dr. Melo since the latter's return from the United States. He added by way of explanation that with the great volume of work which faced him on his assuming office it had been difficult for him as yet to take up many important matters or to see many people he would have liked to see. He said that he would talk with Melo on this subject at an early date and would also bring it to the attention of the Vice President. He would then let me know if the Argentine authorities were agreeable to such informal staff conversations.

I stressed the desirability of these confidential and informal talks and said that Colonel Christian and Captain Brereton stood ready to



initiate them whenever the Argentine authorities intimated that they were agreeable to the proposal. I added that if a preference should be expressed for the senior naval adviser, Captain Metz would be designated to replace Captain Brereton.

TUCK

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810.20 Defense/9-2540 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 25, 1940—7 p. m.

[Received 7:24 p. m.]

442. For the Under Secretary. Department's 215, September 16, 7 p. m. The Minister for External Affairs sent for me this afternoon to say that after consulting with the Ministers of War and Marine these officials had declared that they were agreeable to the proposed informal staff conversations with Colonel Christian and Captain Brereton. Dr. Roca suggested that these officers should call on the Ministers of War and Marine tomorrow in order that arrangements for these talks could be made at once.

In conveying my thanks to the Minister for External Affairs for this information, which I assured him would be greatly appreciated in Washington, I again stressed the confidential nature of the proposed conversations.

TUCK

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810.20 Defense/10-940 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, October 9, 1940—1 p. m.

[Received October 9—11:44 a. m.]

476. For the Under Secretary. Department's 236, October 8, 7 p. m.<sup>47</sup> On September 27 Christian and Brereton were asked to meet two Argentine naval captains in order to consider the agenda. On October 4 the conversations opened between our officers and senior officers of the Argentine Army and Navy. Christian and Brereton are satisfied with the interest shown in these informal talks which they consider are progressing slowly but satisfactorily.

TUCK

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<sup>47</sup> Not printed; the Department inquired whether any date had been fixed for staff conversations (810.20 Defense/9-2540).

810.20 Defense/10-1740 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, October 17, 1940—7 p. m.

[Received 8:10 p. m.]

492. For the Under Secretary. Embassy's telegram No. 476 of October 9, 1 p. m. Colonel Christian and Captain Brereton inform me that the answers in substance, furnished by the Argentine military and naval officers, in the course of the staff conversations just completed, have proved very general and for the most part evasive.

These Argentine officers stated that they were not authorized to embark upon a detailed discussion of the agenda on matters relating to hemisphere defense prior to the conclusion of a definite agreement between the two Governments concerned, for to do so might involve matters of policy far removed from the authority of their respective ministries.

Our officers plan to leave for Montevideo on the evening of October 21 and our Legation has been so advised.

TUCK

835.24/145a

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

No. 538

[WASHINGTON,] December 18, 1940.

SIR: The Department acknowledges the receipt of your despatches nos. 1012 of July 26, and 1490 and 1491 of October 31<sup>48</sup> in which you refer to the desire of the Argentine authorities to acquire military equipment, particularly airplanes, in the United States. You call attention to the importance of this matter from the standpoint of maintaining the good will of Argentina.

You will please point out to the Argentine authorities that the United States Government views with sympathy their wish to improve their country's military and naval defenses and will give immediate and careful consideration to any official request for military equipment or supplies that may be addressed to it by the Argentine Government. You should explain, however, that in view of the fact that so many requests of this character are being received from the various American republics this Government will be unable to reach a final decision on any request that Argentina might submit until the desires of all the others are known.

This Department is pleased to state that the War Department is prepared to accept an increased number of students in the Argentine

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<sup>48</sup> None printed.

Military Service at the United States Army schools. Arrangements therefor can be discussed by the Military Attaché of the Argentine Embassy in Washington with the appropriate officer of the War Department. In addition the War Department can supply the Argentine Government with model specifications, handbooks, and changes, technical orders, technical instructions, maintenance manual and Form 1 items required by specific models of airplanes that may be purchased by that Government.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

#### BOLIVIA

810.20 Defense/143a : Telegram

*The Acting Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, August 21, 1940—3 p. m.

32. As a result of certain conversations held in Washington between the Under Secretary of State and the Bolivian Minister, it has been agreed by the two Governments to hold staff conversations between officers of the United States Army and Navy and officers of the Bolivian Army in connection with plans for hemisphere defense and supplementing similar conversations which will be held between representatives of this Government and of all of the other American republics.

Major M. D. Taylor, United States Army, has been designated to represent the War Department in these proposed conversations. It is expected that following the termination of similar conversations in Santiago, Chile, Major Taylor will arrive in La Paz in time for the conversations to begin in that city on August 29. You may care to ascertain from him through the Embassy at Santiago the precise date of his arrival. Following the termination of his conversations at La Paz, Major Taylor will proceed to Lima to undertake similar conversations in company with a representative of the Navy Department with the Peruvian authorities.

You may inform Major Taylor on arrival that he is authorized to hear such considerations as the Bolivian military authorities desire to advance with regard to the possibility of pressure on Bolivia from other American republics, but that he should, of course, refrain from any comment in connection with this specific topic of the conversations proposed by the Bolivian Foreign Minister for inclusion in the agenda and not included in the agenda prepared by this Government.

A separate telegram <sup>49</sup> is being sent you outlining the agenda for the proposed conversations, a copy of which was handed to the Bolivian Minister in Washington. While the Department assumes that the text of the agenda was telegraphed to the Bolivian Government by the Minister here, you are authorized to communicate a copy in confirmation to the appropriate authorities of the Bolivian Government in confidence immediately in advance of Major Taylor's arrival.

WELLES

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810.20 Defense/143¾ : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, October 3, 1940—4 p. m.

[Received 4:45 p. m.]

79. For General Strong from Major Taylor.

"After numerous delays conversations with Bolivian Chief of Staff terminated satisfactorily. Air photographs authorized using American equipment. Medical mission approved. Leaving for Washington October 4."

JENKINS

BRAZIL <sup>50</sup>

810.20 Defense/58‡

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

No. 28

WASHINGTON, May 8, 1940.

DEAR JEFF: During the time that General Marshall <sup>51</sup> was in Brazil and subsequently during the period that General Góes Monteiro <sup>52</sup> was in this country, General Marshall and [*had?*] conversation with the latter and with Aranha. <sup>53</sup>

General Marshall informs me that the views expressed to him by these two officials of the Brazilian Government and particularly by General Góes Monteiro may be summarized as follows:

(a) In the event of a world war and even prior to United States involvement, Brazil's geographical position and situation with respect to South American countries will require concentration of the bulk of her forces in the south, as in fact they are at present concentrated.

(b) Brazil must then keep sea communications open with and insure the territorial integrity of her northeast region.

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<sup>49</sup> See circular telegram of August 4, 4 p. m., p. 20.

<sup>50</sup> See also *The Framework of Hemisphere Defense*, pp. 271-278.

<sup>51</sup> Gen. George C. Marshall, Chief of Staff of the United States Army.

<sup>52</sup> Gen. Pedro A. Góes Monteiro, Chief of Staff of the Brazilian Army.

<sup>53</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

(c) To do this will require outside aid. This Brazil would like from the United States.

(d) In exchange Brazil would offer us the use of bases in the Natal area, including the Island of Fernando do Noronha.

As you know, such bases are limited in number and all need development. If we are to operate air forces from that area in time of emergency, existing bases must be improved and new ones built. If our assistance in this work is desired, it would probably have to be limited to technical advice and assistance. Furthermore, even though Brazil is willing to occupy Fernando do Noronha with forces adequate to prevent its seizure through sea or air attack, and has such forces available, the danger may conceivably arise before Brazil has acted.

In a secret memorandum the President has asked me to take up this question. I have had a discussion with General Marshall and Admiral Stark,<sup>54</sup> and the requests I now make of you meet with the President's approval and with that of the Chief of Staff and the Chief of Naval Operations.

I suggest that you have a completely personal and confidential conversation with Aranha first of all, and in this conversation take up the following questions:

1. Refer to the views communicated to General Marshall as given in the first part of this letter.
2. Stress the strategic importance of the Island of Fernando do Noronha and the Natal area, both within ferrying range of European bombers operating from West African bases and both of which could be used to facilitate the transfer of planes, men and munitions to the Western Hemisphere.
3. The part such transfers could play in the support of subversive movements fostered on the South American continent by European or other non-American governments.
4. The vulnerability of Fernando do Noronha to surprise seizure by European powers.
5. The deep concern of the United States over this potential danger, particularly in view of the suddenness with which it might arise.
6. Finally I suggest that you then inquire as to the steps which the Brazilian Government contemplates to make definitely certain that this Island will not be used by any European nations in case the European war spreads, and inquire as to the specific assistance, if any, which the Brazilian Government may desire from the United States in order to provide for the defense of this Island in connection with the development of possible bases in the Natal area.

I assume that the Brazilian Government will be cooperative in this regard and that they would be glad to have some kind of technical

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<sup>54</sup> See memorandum dated April 30, 1940, from President Roosevelt to Admiral Stark, Chief of Naval Operations, printed in *F. D. R., His Personal Letters, 1928-1945* (New York, Duell, Sloan and Pearce, 1950), vol. II, p. 1016.

advice or assistance from us, which I assume could in part be furnished by the officers we already have in Rio and in part by the aviation mission which we will send to Rio as soon as possible, in accordance with the requests made of us two days ago. You may wish to say to Aranha that the President himself is responsible for the inquiries we are making, and that I personally will of course be glad to do anything I can at this end to facilitate any cooperative steps which President Vargas, he, or General Góes Monteiro might regard as helpful.

I assume it would be better not to telegraph but to communicate with each other on this matter by air mail pouch. I may be mistaken but I am beginning to have a considerable amount of suspicion that our codes are available to the German Government and in a matter of this kind I would rather use every precaution possible.

Believe me

Yours ever,

SUMNER WELLES

810.20 Defense/58½ : Telegram

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

RIO DE JANEIRO, May 24, 1940—5 p. m.

[Received 9:08 p. m.]

228. For the Under Secretary. I discussed the Department's telegram 131, May 23, noon,<sup>55</sup> this morning with Aranha. He says that Brazil is ready to "cooperate 100% with the United States in plans for military and naval defense or to repel aggression, and even to cooperate with the United States in war." He confirmed what he told me in my note to you No. 129 of May 20<sup>56</sup> in reply to your No. 28 of May 8. Aranha talked to Góes Monteiro and Góes affirms that the Brazilian authorities are fully disposed to cooperate in the sense desired. In this connection, Góes referred to the letter to General Marshall, copy of which was transmitted with my No. 128 of May 17<sup>57</sup> and desires that the contents of that letter reach General Marshall as soon as possible. Aranha brought up again today the matter of the importance of the early arrival here of Lieutenant Colonel Miller to take over the headship of the military mission. The Brazilian military authorities, he says, will be delighted to discuss the matters of defense, aggression, et cetera, with Colonel Miller as soon as he reaches here (under auspices of Aranha and me).

However, Aranha says that he is not in favor of discussing the matters mentioned in Department's telegram No. 131 with the other

<sup>55</sup> See footnote 29, p. 16.

<sup>56</sup> Not printed.

<sup>57</sup> Not printed; letter to General Marshall not attached to file.

American Republics. Nor does he like the plan for officers of the United States to travel to Brazil under the circumstances setting [set?] out in the second paragraph of the Department's telegram.

He repeats and emphasizes that as soon as Colonel Miller comes here as head of the military mission they will be glad to continue the conversations and correspondence which General Góes Monteiro has been carrying on with General Marshall with the end in view of full cooperation on the part of Brazil with the United States in regard to plans for defense, plans to repel aggression and even further than that if desired.

The reasons Aranha gives for his stand are these: There is no difference of opinion in the army as to the necessity of full cooperation under all circumstances between the Brazilian and United States military authorities; but the army he says would not approve a scheme for continental defense. Moreover, due to the presence of huge German-descended populations in this country and to the existence of the undercover Nazi-minded Integralista party and also to the fact that a good many officers in the army have very high admiration for the German military machine, the Brazilian Government must move with circumspection; also they do not want to stop the flow of what they term essential armaments from Germany.

(The Government is aware of the fifth-column danger here and aware that German residents even in Rio de Janeiro are now talking openly in unguarded fashion of what "will take place here later on." The German Embassy has adopted an arrogant tone in its notes to the Foreign Office since the recent German victories.)

In conclusion, he repeated, with the United States Brazil will go all the way, but does not want to get tied up with any other country or countries.

CAFFERY

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810.20 Defense/583b : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

142. From the Under Secretary. Your 228, May 24, 5 p. m. Lieutenant Colonel L. W. Miller, U. S. Army, and Captain A. T. Beauregard, U. S. Navy, have been designated by their respective Departments to undertake the proposed conversations in Rio de Janeiro with the appropriate Brazilian authorities. Colonel Miller, who will bring with him Captain Beauregard's instructions, will arrive in Rio de Janeiro June 6 by Pan American plane. He will travel on special passport and carry credentials as a diplomatic courier. [Welles.]

HULL

810.20 Defense/58‡ : Telegram

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

RIO DE JANEIRO, May 29, 1940—4 p. m.

[Received 7:48 p. m.]

235. For the Under Secretary. Department's 141, May 28, 3 p. m.<sup>58</sup> Aranha talked in my presence on the telephone to the Minister of War: they will be glad to have Colonel Miller relieve Colonel Kimberley as chief of the American military mission here any time after his arrival in Rio de Janeiro. They will be glad to have the other members of the military mission remain here until the completion of their military commission in December.

Aranha says the Brazilian military authorities will be glad to carry on conversations with Colonel Miller under his and my auspices (as an extension of those hitherto carried on between General Góes Monteiro and General Marshall) regarding the various military matters of interest to the United States and Brazil.

However, as set forth in the second paragraph of my telegram No. 228, of May 4 [24], 5 p. m., Aranha says that Brazil will not be interested in discussing matters of continental security and continental self-defense as such; they are prepared to discuss only military matters interesting our respective countries. Aranha repeats also that the Brazilian Government will welcome Colonel Miller, but definitely does not want him to be accompanied by other "officers of the United States in civilian clothes" as set forth in the antepenultimate paragraph of the Department's 131, May 23, noon.<sup>59</sup>

Aranha would favor participation if and when desired of the military and naval attachés of this Embassy and the American naval mission here.

CAFFERY

810.20 Defense/58‡ : Telegram

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

RIO DE JANEIRO, June 4, 1940—11 a. m.

[Received 12:55 p. m.]

245. For the Under Secretary. My 235, May 29, 4 p. m. Aranha now says he is disposed to cooperate with us in regard to our plans for security, et cetera, for the Argentine and Uruguay. However, he still desires conversations regarding the United States and Brazil military-naval understanding to be held previously.

<sup>58</sup> Not printed.<sup>59</sup> See footnote 29, p. 16.



He tells me that he hears from his Embassy at Buenos Aires that Chile has suggested to the Argentine a military-naval understanding for Chile, Argentina and Brazil.

CAFFERY

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810.20 Defense/588 : Telegram

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

RIO DE JANEIRO, June 7, 1940—9 p. m.

[Received June 8—1:50 a. m.]

255. For the Under Secretary. My 228, May 24, 5 p. m. Aranha tells me that the President held a special Cabinet meeting on Wednesday when the Chiefs of Staff of the Army and Navy were present for the purpose of discussing military and naval cooperation with the United States. It was unanimously agreed that Brazil would cooperate to the fullest extent with the United States and other American countries in case of an aggression against any of them from any quarter whatever. It was unanimously agreed also that Brazil would cooperate fully with the United States on military and naval matters in general. The question was broached as to what Brazil would do in case the United States intervened in the war in Europe. The definite answer to that was left in suspense. The Minister of War referred again to the arms they are getting from Germany and that they are getting them under extremely advantageous conditions and terms. The Ministers of War and Navy then referred to the difficulties they experience in acquiring material in the United States; they referred to "our cash and carry policy" and to our high prices. The Minister of War said that he has been unable to get ammunition for the 99 6-inch guns Brazil recently acquired in the United States; the 7-inch guns acquired at the same time lack propelling carriages; and it would take 2 years to build the carriages, et cetera, for the 7-inch guns then acquired.

Aranha read a prepared statement giving his point of view as to the necessity of Brazil's cooperating fully with the United States in all matters military, naval, aerial, as well as political, growing out of the European war situation. Unanimous approval was given by all present to Aranha's statement and the Ministers of Foreign Affairs, of War and of Navy were authorized to conduct conversations with me, also Colonel Miller and Captain Beauregard, with a view to working out means of practical cooperation along military, air and naval lines.

I took Colonel Miller this afternoon to call on Aranha. Aranha told him that Brazil was prepared to enter at once into the desired discussions and was willing to cooperate with us as desired. Brazil

is willing to work out with us detailed plans providing for practical cooperation in cases of aggression, direct or indirect, and subversive movements. Brazil is willing to expand her air fields, et cetera, at Fernando [do] Noronha and Natal in the manner we desire. (She needs credit for this he observed.) Brazil is willing in case of aggression or subversive movements to permit the use of these fields and any others needed by our air forces.

"Now the other side of the picture is this", said Aranha: "The Brazilian Army and Navy people are skeptical about receiving from you the one thing they need, and that is armament;" they doubt that we, by reason of lack of adequate legislation or from lack of adequate manufacturing facilities at this time, are in a position to let them have the much needed armament on terms or conditions in any way comparable to those conceded by the Germans. He feels strongly that it is more important for us to find some way or means to help out their army and navy on this question. He remarked to me in an aside: "You hold conversations with us and the Germans give us arms." Aranha went on to say that in his opinion it is vital for us to do everything to prevent a Nazi or near Nazi overturn in this country and he feels that the best possible thing that we can do to prevent such an overturn is to let the army and navy here have arms on advantageous conditions (Colonel Miller asked me later if I thought it would be possible to make any sort of a deal with the Brazilians for their purchasing air planes against what they could readily supply us).

Aranha said that Miller should talk over the whole situation with Dutra<sup>60</sup> and Góes, remarking that the Brazilian Army had given a list of their defense needs to General Marshall last year. He added that as soon as an agreement had been reached between the United States and Brazil they would gladly take up the matter of better cooperation with at least the Argentine also.

Aranha agreed that Captain Beaugard should talk with the naval authorities along indicated lines.

CAFFERY

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810.20 Defense/58§ : Telegram

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

RIO DE JANEIRO, June 10, 1940—3 p. m.

[Received 3 : 11 p. m.]

259. The German and Russian and notably the Russian broadcasts are talking a lot about our alleged imperialistic designs in Latin

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<sup>60</sup> Gen. Eurico Gaspar Dutra, Minister of War.

America under cover of acquiring air bases; and the Germans are stressing the trips of Colonel Miller and Captain Spears.

The local Germans are attempting to tie up the approaching visits of the *Quincy* and *Wichita* with all that.<sup>61</sup>

CAFFERY

810.20 Defense/58 $\frac{3}{4}$ : Telegram

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

RIO DE JANEIRO, June 10, 1940—5 p. m.

[Received June 10—4:15 p. m.]

261. For the Under Secretary. Captain Beauregard saw the Minister of the Navy this afternoon. The Minister told him that he is prepared to cooperate. He asked Beauregard, as Chief of the Naval Mission, to draw up a statement of Brazil's needs, et cetera, which he, the Minister, could submit to President Vargas for his approval.

CAFFERY

810.20 Defense/163 $\frac{1}{4}$ : Telegram

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

RIO DE JANEIRO, June 10, 1940—6 p. m.

[Received June 10—5:25 p. m.]

262. For the Under Secretary. My telegram 255, June 7, 9 p. m. Colonel Miller had a talk this morning with the Minister of War and gave him a full [apparent omission] conversation we had on Friday with Aranha. General Dutra said that the Minister for Foreign Affairs "had been empowered to speak and had spoken for the Brazilian Government" and that he agreed fully with what Aranha told me on Friday; that the army is ready to begin "the joint preparation of plans for resisting aggression either external or internal". At the same time, however, he stressed the Brazilian Army's present lack of arms and particularly of airplanes, harbor defense material, and motorized equipment. Dutra added that in his opinion Brazil would receive no more equipment from Germany in view of the approaching entry of Italy into the war.

CAFFERY

<sup>61</sup> See section entitled "Concern of the United States over Nazi activities in Uruguay; visits of United States naval vessels to the eastern coast of South America," pp. 1147 ff.

810.20 Defense/163§ : Telegram

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

RIO DE JANEIRO, June 14, 1940—midnight.

[Received June 15—5:30 a. m.]

281. For Under Secretary. My 279, June 14, 7 p.m.<sup>62</sup> In this armament matter the Brazilian military authorities since July speak very highly of General Marshall and in no way blame him for the failure of arms to come from the United States. They understand our legislative difficulties.

CAFFERY

810.20 Defense/163½ : Telegram

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

RIO DE JANEIRO, June 17, 1940—3 p. m.

[Received 6:30 p. m.]

286. For the Under Secretary. Colonel Miller and I have been talking to Aranha, Dutra and Góes Monteiro. They express much interest to cooperate with us, coordinate defense plans, et cetera. At the same time however they harp on their own unpreparedness: they insist on the importance of our selling them arms on credit. They repeat that they are willing to enlarge the air bases at Fernando do Noronha and Natal as well as strengthen their fortifications but say they must have credits for doing so. Aranha is to give me memorandum on the subject today.

CAFFERY

810.20 Defense/163§ : Telegram

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

RIO DE JANEIRO, June 18, 1940—4 p. m.

[Received 4:29 p. m.]

290. For the Under Secretary. My telegram No. 286, June 17, 3 p. m. We had another conversation with Aranha this morning. Aranha agreed that while Miller is getting from Dutra the lists of Brazilian armament needs, at the same time he will discuss plans for military cooperation between the United States and Brazil in the event of aggression from any quarter.

As I have stated before, the Brazilian Government will look to us for credit facilities for their arms purchases. In the case of arms

<sup>62</sup> Not printed.

purchased from private manufacturers they will want assistance of the sort now being provided in other cases by the Export-Import Bank.

Aranha set out forcibly this morning that if we do not find means to assist Brazil in acquiring armament, the Brazilian military authorities will necessarily turn to Germany and at the end of the war acquire armament (possibly free) there. He added that if all of the Brazilian armament is acquired in Germany it would be only natural that it should occur to the military authorities that German military instructors might be more efficient here than Americans or others. In this connection, a telegram was received today from Genoa stating that a new shipment of anti-aircraft guns has arrived at Genoa and is at the disposition of the Brazilian authorities.

CAFFERY

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832.24/234

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

No. 3285

RIO DE JANEIRO, July 16, 1940.

[Received July 24.]

SIR: Referring to previous reports concerning the possibility of Brazil's falling altogether into the German orbit, I have the honor to repeat that there are in sight at this juncture only two effective factors which are of any use in combatting the increasing German menace: the first factor is, as I have frequently reported, the desire of the Brazilian military authorities to purchase arms on credit in the United States; the second factor is the desire of President Vargas to have the Export-Import Bank, or other similar institution, finance the purchases in the United States of necessary equipment in connection with the construction of a steel plant in Brazil.<sup>63</sup>

Again, as I have frequently pointed out, if the Brazilian military authorities cannot purchase arms on credit in the United States they will purchase them on long-term credit or accept them as gifts from the Germans. This will eventually be followed by German dominance in the Army and elsewhere, of course. If President Vargas cannot obtain the desired steel plant financing in the United States, he will accept it from Krupp who has offered to finance not only purchases of material but construction, et cetera, as well, on terms and conditions to be fixed by the Brazilian authorities. If the Germans furnish the arms and finance the steel project, or if they do either of those things, it is idle for us to hope to maintain our present position in Brazil; it is equally idle to talk of financial or economic plans on a large or

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<sup>63</sup> See section entitled "Assistance by the Department of State to the Government of Brazil in establishing a steel industry," pp. 600 ff.

small scale if these two matters are not taken care of . . . The time has come when we must decide whether keeping Brazil out of the German orbit is worth taking these risks, if they are risks, or not.

I repeat that . . . President Vargas and the Minister for Foreign Affairs, Aranha, agree with the Army on these questions. For the long run, it will be idle to discuss military cooperation or military defense in any other terms than these.

Respectfully yours,

JEFFERSON CAFFERY

832.24/231a : Telegram

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

WASHINGTON, August 2, 1940—5 p. m.

236. From the Under Secretary. Reference your personal letter no. 147 of June 21 and its enclosed memorandum "Principal Requirements of the Brazilian Army" from Brazilian Minister of War dated June 12, 1940.<sup>64</sup> You may inform General Dutra that the Brazilian Government can procure some of the automotive equipment and some of the aviation material in the United States within the next few months. All can be procured within an estimated maximum period of 3 years.

The War Department suggests that a representative of the Brazilian Government be authorized and directed to confer with the representatives of this Government, who will furnish details of cost and schedules and conditions of delivery. [Welles.]

HULL

810.20 Defense/1635a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

239. Department's circular telegram July 11, 4 p. m.<sup>65</sup> The proposed staff conversations between representatives of the United States Army and Navy and of the armies and navies of the other American republics are scheduled to take place at various times beginning around August 19. Lieutenant Colonel L. W. Miller, U. S. Army, and Captain A. T. Beauregard, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Brazilian officials. You are authorized to inform them that they may begin their conversations at any time which is agreeable to the Brazilian authorities.

<sup>64</sup> Neither found in Department files.

<sup>65</sup> *Ante*, p. 19.

A separate telegram <sup>66</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Brazilian authorities.

HULL

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810.20 Defense/228 : Telegram

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

RIO DE JANEIRO, September 23, 1940—3 p. m.

[Received 4:25 p. m.]

476. Aranha tells me that on Saturday President Vargas called a meeting attended by Aranha, Dutra, Góes Monteiro, Under Secretary and the Chief of Staff of the Navy. They again discussed military cooperation with us and again decided that Brazil would place all of her resources on our side in case of aggression. This was decided, said Aranha, "without any reservations".

However, some one had sent Dutra a collection of clippings from newspapers in various parts of the United States containing articles attacking President Vargas and the Brazilian military authorities, who were much incensed. Aranha attempted to explain about freedom of the press, et cetera. Vargas remarked that he does not allow attacks in the Brazilian press on President Roosevelt or against the United States in any form. They discussed suing some of the papers for libel, et cetera.

CAFFERY

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810.20 Defense/230 : Telegram

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

RIO DE JANEIRO, September 24, 1940—2 p. m.

[Received 5:50 p. m.]

480. My 476, September 23, 3 p. m. In line with Aranha's statement to me on Sunday the Brazilian Chief of Staff gave Colonel Miller yesterday a secret signed 4-page statement regarding Brazil's willingness to cooperate with the United States in hemispheric defense. This is in reply to the memorandum prepared by our War Department on the subject.<sup>67</sup> I am forwarding the document and translation by air mail.<sup>68</sup>

CAFFERY

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<sup>66</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>67</sup> Memorandum not found in Department files.

<sup>68</sup> Not printed.

832.24/255a : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, November 6, 1940—6 p. m.

376. From Ambassador Caffery. Please give Aranha the following message and ask him to speak to Generals Dutra and Góes Monteiro.

I am giving most careful attention to the matter of the arms which our Government has promised to sell to Brazil. As was set forth in the telegram which I showed Aranha, we have promised to let Brazil have the arms they need in 3 years and will be able to commence deliveries of certain equipment within about 6 months. Our War Department will be more definite as to the exact timing of the deliveries around the end of the year than it is now; therefore in my opinion General Amaro Bittencourt's presence here might be more effective, say, early in January than later this month. In other words, if he came now he might find it necessary to remain longer than he planned and might feel he was wasting some time. [Caffery.]

HULL

## CHILE

810.20 Defense/67 ½ : Telegram

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

SANTIAGO, May 25, 1940—11 a. m.

[Received 2 p. m.]

103. Your telegram No. 84, May 23, noon.<sup>69</sup> Saw the Minister for Foreign Affairs<sup>70</sup> at 7:30 last night. He said he had been favoring something of the sort and would see the President<sup>71</sup> today and try to give a definite answer by night. I saw the President at dinner last night and prepared him for today's conference with the Minister. Confident of acceptance.

BOWERS

810.20 Defense/67 ½ : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

87. From the Under Secretary. Your 103, May 25, 11 a. m. If you have not yet had a reply from the Minister for Foreign Affairs please call on him immediately. You may say that the replies which have

<sup>69</sup> See footnote 29, p. 16.<sup>70</sup> Abraham Ortega.<sup>71</sup> Pedro Aguirre Cerda.



been received from the other principal republics in South America are favorable, and that it would seem clear that if action is to be effective and is to be developed in its initial stages in the secrecy required, it must be undertaken without delay.

With this in mind schedules have been prepared for the various officers to proceed immediately to the different capitals concerned.

For your confidential information, which you may communicate to the Minister for Foreign Affairs as soon as you have received a favorable reply, Captain B. L. Canaga, U. S. Navy, and Lt. Col. A. R. Harris, U. S. Army, have been designated to undertake the conversations with the Chilean authorities and if the response is favorable will arrive in Santiago on Panagra plane June 7. They will travel on special passports and carry credentials as diplomatic couriers. [Welles.]

HULL

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810.20 Defense/67 $\frac{1}{4}$ : Telegram

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

SANTIAGO, May 29, 1940—5 p. m.

[Received 7:56 p. m.]

106. In answer to your telegram of May 23, noon, No. 84,<sup>72</sup> the meeting was postponed until regular diplomatic reception today to make my visit less conspicuous. The Minister for Foreign Affairs and the President with whom alone he consulted unreservedly agree and urge that all American Republics be brought in. Only the two above mentioned now know of plan. The Minister for Foreign Affairs urges utmost secrecy and every possible precaution to conceal identity of visitors. When notified of time of arrival of the two officials mentioned will designate the Chilean officials who will confer. Nazi secret service active here and I understand and agree with the emphasis put on complete secrecy.

BOWERS

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810.20 Defense/67 $\frac{1}{4}$ : Telegram

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

SANTIAGO, May 30, 1940—5 p. m.

[Received 7:13 p. m.]

107. For the Secretary and Under Secretary. Your telegram No. 87, May 29, 3 p. m. The Minister for Foreign Affairs notified and pleased. I will be informed before arrival of visitors names of

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<sup>72</sup> See footnote 29, p. 16.

Chilean conferees who will be designated by the President personally. I suggest that no use be made courier credentials unless necessary.

Government greatly concerned over possibility of Nazi attempt and is conferring with rightist leaders to secure cooperation.

Council of Ministers tomorrow to discuss the danger, though object of meeting will be camouflaged. Feel strongly wiser for visitors to use ordinary passports and no courier credentials.

BOWERS

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810.20 Defense/67 $\frac{2}{4}$ : Telegram

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

WASHINGTON, May 31, 1940—2 p. m.

89. From the Under Secretary. After careful consideration of your suggestions the Department has decided, in view of immigration and other regulations of the intermediate countries en route to Chile and the desirability of protection of their persons and effects from unnecessary inquisitiveness or embarrassing formalities on their travels subsequent to leaving Chile, that the two officers concerned should travel on special passports stating merely that they are proceeding abroad on official business for their respective departments. They have however been specifically enjoined not to use their credentials as diplomatic couriers except in case of absolute necessity. [Welles.]

HULL

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810.20 Defense/67 $\frac{3}{4}$ a: Telegram

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

WASHINGTON, June 7, 1940—4 p. m.

94. From the Under Secretary. The Chilean Ambassador called this afternoon to say that he had been instructed by his Government to inquire whether a press report published in Santiago alleging that I had had a conference in the Department of State with the Ambassadors of Argentina and of Brazil, and the Minister of Uruguay to consider problems of continental defense was accurate.

I told the Ambassador that the report was absolutely unfounded, that no such conference had taken place, and that no suggestion had been made that such a conference take place.

The Ambassador gave no indication that he had any knowledge of the secret conversations which are to take place under your auspices in Santiago. I naturally made no mention of them.

[Welles]

HULL

810.20 Defense/67½ : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*SANTIAGO, June 10, 1940—1 p. m.  
[Received 4:11 p. m.]

116. For Under Secretary. Your telegram No. 90, June 3.<sup>73</sup> Conversations with highest authorities under the direction of the President Saturday and most satisfactory to our two men. Conferees will report result of last night's conversations to the President today and full detailed report will go forward by air mail Wednesday. Please notify Army and Navy.

BOWERS

810.20 Defense/67¾ : Telegram

*The Ambassador in Chile (Bowers) to the Secretary of State*SANTIAGO, June 10, 1940—4 p. m.  
[Received 6:05 p. m.]

118. For the Secretary and Under Secretary. At 1 o'clock the President after seeing his conferees gave me the following statement:

1. If Chile should be attacked she would defend herself to the utmost.
2. If the United States should be attacked Chile would aid her to the utmost.
3. If a third country which the United States wished to defend (Brazil for example) were attacked Chile would aid that country to the utmost.
4. If Chile undertakes an aggressive war she would of course not expect aid from the United States and vice versa.

Conferees agreed to everything with the exception of certain things which they described as political and beyond their jurisdiction but said they would do whatever the Government agreed to and the President's statement to me makes the agreement complete.

BOWERS

810.20 Defense/67 ¾a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

133. Department's circular telegram July 11, 4 p. m.<sup>74</sup> Major M. D. Taylor, U. S. Army, and Commander W. W. Webb, U. S. Navy,

<sup>73</sup> See footnote 31. p. 17.<sup>74</sup> *Ante*, p. 19.

have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Chilean officials. It is expected that Major Taylor will arrive in Santiago in time for the conversations to begin August 19. You will be informed later of the proposed date and means of arrival in Santiago of Major Taylor. Following the conclusion of the conversations in Santiago Major Taylor will proceed to La Paz and later to Lima to hold similar conversations.

A separate telegram <sup>75</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Chilean authorities.

HULL

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810.20 Defense/67  $\frac{1}{2}$  : Telegram

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

SANTIAGO, August 21, 1940—5 p. m.  
[Received 6:53 p. m.]

199. Department's telegram No. 133, August 4, 3 p. m. Conversations formally began today and progressing favorably. Chilean participants General Escudero, Chief of Staff of the Army, Admiral Daroch and Commander Mujica of [apparent omission], no better men could possibly have been found. They are accompanied by four or five assistants.

Unhappily, the United Press correspondent here, the day before the meetings began, displayed a telegram from United Press in the United States saying that an Army officer was on the way here and to observe his movements. I have stoutly disclaimed all knowledge of such visit.

BOWERS

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810.20 Defense/67  $\frac{1}{2}$  : Telegram

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

SANTIAGO, August 30, 1940—3 p. m.  
[Received 6:03 p. m.]

207. For General Strong.

"Leave for La Paz September 6. Prolonged stay due to Chilean request. Desire travel orders amended to permit stop-over here longer than 15 days. Chile will accept request for air photographs needed in connection with specific hemisphere plans. Will furnish

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<sup>75</sup> Circular telegram of August 4, 4 p.m., p. 20.

own photos in case request approved. Permission granted medical. Conversations satisfactory to date but reception photograph request cool. Taylor."

BOWERS

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810.20 Defense/67 1/2 : Telegram

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

SANTIAGO, September 6, 1940—6 p. m.

[Received 7:09 p. m.]

211. My telegram No. 199, August 21, 5 p. m. Major Taylor satisfactorily concluded his mission yesterday and is leaving for La Paz. Commander Webb has agreement with Navy staff but for some details which he will attend to at Valparaiso at once. Four items of political character I have submitted through the Foreign Minister who assures me of the President's sympathetic reaction and promises an answer in a day or so. I have written Welles in detail <sup>76</sup> and the minutes of all conversations when translated will be sent in a week.<sup>77</sup>

BOWERS

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810.20 Defense/67 1/2 : Telegram

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

SANTIAGO, September 10, 1940—5 p. m.

[Received 5:20 p. m.]

218. My telegram 211, September 6, 6 p. m. The President gives approval on all political points submitted but asks clarification on some particulars. Am reporting on conversation by pouch to Welles personally.<sup>78</sup>

BOWERS

#### COLOMBIA

810.20 Defense/5-2340 : Telegram

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

BOGOTÁ, May 23, 1940—9 p. m.

[Received May 24—12:53 a. m.]

120. Department's telegram No. 84, May 23, noon.<sup>79</sup> I have just returned from interview with Foreign Minister <sup>80</sup> at his home. He

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<sup>76</sup> Letter not found in Department files.

<sup>77</sup> Not found in Department files.

<sup>78</sup> Report not found in Department files.

<sup>79</sup> See footnote 29, p. 16.

<sup>80</sup> Luis López de Mesa.

personally fully approves rapid carrying out of proposed plan but cannot give me official answer until after seeing President<sup>81</sup> tomorrow morning.

KEITH

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810.20 Defense/5-2440 : Telegram

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

Bogotá, May 24, 1940—1 p. m.

[Received 2:40 p. m.]

121. My telegram No. 120, May 23, 9 p. m. Foreign Minister at Tela, after seeing President this morning, has informed me Colombian Government accepts with much pleasure and would appreciate being advised of time and other circumstances of arrival as much as possible in advance.

KEITH

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821.56/5-2740

*Memorandum by the Ambassador to Colombia (Braden), Temporarily in the United States*<sup>82</sup>

[WASHINGTON,] May 27, 1940.

#### PANAMA CANAL DEFENSE AND COLOMBIA

As you have been informed, in addition to measures already taken all of the German pilots and ground personnel in Scadta<sup>83</sup> are to be replaced on June 15 by Americans or native-born Colombians.<sup>84</sup> This substitution and other phases of the aviation situation are progressing sufficiently well to indicate that all danger to the Canal or elsewhere, such as the refineries in Aruba and Curaçao, will be entirely eliminated in so far as Scadta is concerned within the near future.

However, in the light of European developments, certain other defense matters now merit consideration:

(1) As individuals, when we employ a watchman to guard our homes, we give him adequate weapons. Hence, if we expect Colombia competently to assist in Canal defense we should help that country, without embarrassment to itself, to finance the purchase in the United States of military planes and accessory equipment, including machine guns and ammunition.

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<sup>81</sup> Eduardo Santos.

<sup>82</sup> Memorandum addressed to the Chief of the Division of the American Republics (Duggan) and the Adviser on International Economic Affairs (Feis).

<sup>83</sup> Sociedad Colombo-Alemana de Transportes Aéreos.

<sup>84</sup> For correspondence concerned with elimination of German influence from Colombian airlines, see pp. 723 ff.

Colombia, for nearly a year and a half, has employed our military-aviation mission, the members of which report that the nationals of that country readily can be trained to become competent pilots, but their aviation equipment is antiquated and entirely inadequate.

Rather than for us to assume the entire air defense of the Canal, it would be cheaper to give the Colombians the equipment. They would then relieve us of maintenance and personnel expense and what is far more vital, they would be grateful to receive this collaboration and such a demonstration of confidence.

I recommend as a minimum that Colombia be given facilities for the purchase of military aircraft and equipment.

(2) If by reason of disturbed world conditions, particularly in the market for Colombian coffee, that country were increasingly to suffer severe economic depression, the resulting chaos would give the totalitarian States and perhaps Japan an opening on which they would not fail to capitalize to our detriment.

Therefore, means must be found to assist Colombia financially and economically and especial attention should be given to developing means to take Colombian coffee at a reasonable price.

(3) In view of Nazi activities in Colombia I recommend that it be intimated to the Associated Telephone and Telegraph Company, owners of the Bogotá Telephone Company, and other similar organizations in Colombia at such points as Barranquilla and Cali, that the head of their organization in Colombia, Señor Alessandro Bondini, be removed from that country. He boasts of being one of the first Fascists in Italy and in Bogotá lives with Señor Nassi, the leader of the Italian Fascists in Colombia. Moreover, I have long suspected that the Embassy and Chancellery telephone lines have been intercepted and there are others, such as the new American Vice President and General Manager of Scadta, who have complained to me that they believed their communications also had been tampered with.

(4) . . . As I have previously reported, we know that the Germans make active use of the radio in Colombia. Specifically, we have the case of the message picked up after one of the accidents when the Colombian pilot was killed and also when about 10 weeks ago Asendorf, former head of the Scadta communications division, was caught redhanded communicating with Berlin from that Company's Barranquilla station.

(5) I am conveying with me to Bogotá an invitation from the Secretary of War for the Chief of Staff and Chief of Air Corps of the Colombian Army with their staff officers to visit the United States on about October 1, 1940.

Do the United States Army and Navy believe conversations looking to the drafting of joint defense plans should be pursued with the Colombian authorities?

If so, should these conversations be expedited?

Is there anything beyond what has already been done which the Embassy can appropriately do to assist in these particulars?

(6) In connection with the above, it may become desirable to arrange so that our military planes and ships may visit Colombian airfields and harbors without greater formalities than to give prior advice by radio. This facility should be reciprocal and as I reported to the Department last May or June, some conversations were had with the Minister of War and Chief of Staff in Bogotá by General Stone and myself during the General's visit there in May 1939. No further advance has been obtained because until now permission could not be granted for Colombian airplanes thus freely to visit the Canal Zone.

SPRUILLE BRADEN

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810.20 Defense/5-2340 : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

88. From the Under Secretary. Your 120, May 23, 9 p. m. Major M. B. Ridgway, U. S. Army, and Captain B. L. Canaga, U. S. Navy, have been designated by their respective Departments to undertake the proposed conversations in Bogotá with the Colombian authorities. They will travel on special passports . . .

Major Ridgway will arrive in Bogotá June 7, and he will advise you of the exact hour of arrival and method of transportation when he reaches Panamá. Captain Canaga will not arrive in Bogotá until some time later, as he is proceeding directly to Santiago and thence by way of Lima and Quito to Bogotá and Caracas. [Welles.]

HULL

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810.20 Defense/6-1140 : Telegram

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

BOGOTÁ, June 11, 1940—10 p. m.  
[Received June 12—10:10 a. m.]

151. For the Under Secretary. While Colombia as a whole remains anti-Nazi, after 2 months' absence I find German successes have in surprising measure altered opinions of many Colombians . . . to pro-Nazi attitude and have encouraged the German organization here



more openly to prosecute its efforts especially in propaganda which is being directed against the United States. Continued German and Italian successes will augment respect for them and will create in other quarters where disagreement with their ideologies still exists a reluctance openly to oppose them.

Sunday morning long conversation with Minister for Foreign Affairs. Principal points were:

1. British and French Ministers had informed me Minister of Foreign Affairs had become at least indifferent to their cause. To this I do not agree but he did remark that, if as appeared likely Germany won, Colombia could not overlook for spiritual reasons the material consequences. In singular contrast with this he later emphasized Colombia's determination for canal defense was not so much material as spiritual in her friendship for the United States.

2. He agreed as to seriousness of situation if German victory gave possession of allied navies but recognized as more reasonable that Germany would initiate economic rather than military warfare against the Americas.

3. He deprecated idea of any "fifth" column activities in Colombia beyond a certain proselyting to convert Colombians to Naziism.

4. When I urged Ridgway's conversations be initiated as promptly as possible under auspices of either himself or Minister of War and myself, he said he had understood these were to be purely informal talks between comrades of two armies and presence of a Cabinet minister or the American Ambassador would give unwarranted authoritativeness, which might subject Government to serious attacks if it became known to such opposition periodicals as *El Siglo* which recently has adopted a more or less wavering pro-Nazi attitude.

My conversation this afternoon with President may be summarized as follows:

(a) He began that neither of us when we parted 2 months ago could have believed possible by now we would see end of British Empire and France beaten to her knees, facing defeat within 2 to 4 weeks.

(b) Replying to his inquiries I said my purely personal opinion was our immediate entry into war was unlikely since Allies did not require men but only equipment which we were sending to limit of our abilities. For the future, I said that war could come:

1. If Germany attempted to seize any of Allied colonies in this hemisphere.

2. If Hitler, counter to what reasonably might be expected, having defeated Allies, proceeded with military aggression against America.

3. Because totalitarian and democratic systems of government could not exist together in the same world. We would arm to the teeth and eventual outcome must be war. At first he was inclined to view American Republics could live peacefully isolated from the rest of the world but finally he admitted impossibility of so doing and accuracy of my analysis.

(c) He expressed opinion United States was as unprepared as Allies and inquired what would happen in event of war. I stated United States, in eventuality of paragraph (b) 3 above, would have ample time to arm, to assist other republics to do so, would stop at no sacrifice and victory unquestionably would be ours. In case of (b) 1 and 2, I expressed hope Japan could not successfully attack us across vast expanses of Pacific and our navy definitely could protect Atlantic seaboard of the United States and Caribbean area but we could not go around corner of northeastern Brazil. He asked if this meant casting [aside?] Pan-Americanism. I said by no means, it was simply a frank statement of the situation as I saw it.

(d) It was arranged Ridgway should begin conversations alone with Colombian Chief of Staff Wednesday. The President . . . requested every facet of stabilization and canal defenses be frankly explored now. Ridgway is to report to me fully conversations with Chief of Staff, whereupon President, possibly with Minister of War, will himself review entire matter with me. In short, conversations, contrary to indication by Minister for Foreign Affairs, will be authoritative.

The following conversations would be preliminary for lead to more definitive ones and suggested as part of a report:

(1) There should be interchange of intelligence information. . . . The President stated he saw no objection to such a procedure but, before replying definitely, wished to consult his Cabinet.

Since I am satisfied there is widespread organized effort by Germans and Italians here tantamount to "fifth column" activities elsewhere I emphasized dangers thereof, stressing that long residence, naturalization, intermarriage or even racial considerations did not free any German from suspicion. He discounted all fifth column activity in Colombia except for propaganda to convert Colombians to Nazism. In this connection please read my telegram No. 152, paragraph 2.<sup>85</sup> I emphasized we never in slightest degree would abandon principles and ideals of Pan-Americanism or good neighbor policy but always would deal with Colombia as equal sovereign nation. Nevertheless I said our military authorities could visualize an attack for instance on Northeastern Brazil. In which event it might be suicidal were Colombia or the United States forced to delay action, for example by our airplanes until permission were obtained from Venezuela to use its air ports and gasoline supplies. Hence agreement on such measures was desirable before exigency occurred. He agreed this could be discussed by our military officers.

(e) He stated at recent Caribbean conference<sup>86</sup> in Santo Domingo a resolution apportioning Allied colonies to nearest American Republic had been presented but he instructed Colombian delegates to withdraw from conference if matter were discussed. It was dropped, but he suggested colonies might be left to Canada. I observed that

<sup>85</sup> Not printed. Major Ridgway reported that he concurred with Ambassador Braden, Colonel Lang (the head of the military mission to Colombia), and Captain Munn (the Naval Attaché) in the need for setting up an American intelligence organization in Colombia to secure information on activities of "non-American nationals and their sympathizers." (810.20/6-1240)

<sup>86</sup> Second meeting of the Inter-American Union of the Caribbean, Ciudad Trujillo, May 31-June 6, 1940.

was one, another was apportionment, but after all discussion of this was somewhat premature. Nevertheless, I think Ridgway may properly bring up in his conversations the aspect of a temporary occupation of colonies by our forces as a safety measure.

(f) He was notably surprised when, in reply to his question, I said there was probably more desire in Canada than in the United States for the former to join the union and while willing to render Canada every assistance we preferred her as a neighboring independent country.

(g) I informed him, because of shipments to Allies we could not presently supply Colombia with aviation or military equipment other than training planes but President Roosevelt had told me some time after January we would do so. Also, I said that satisfactory price and terms undoubtedly would be arranged.

(h) The President stressed the urgency of this aid and matters of military assistance Colombia would give us as follows:

"We will guarantee policing of our country, particularly coast line, against any attack on canal; establish garrisons at strategic points on limited oceans; have fast, armed revenue cutters on continuous patrol between garrisons and have 50 to 100 airplanes, including seaplanes, continuously on watch all enabling us immediately to report any German aggression in our territory asking me to offer temporary resistance thereto, of a few hundred men."

(i) He emphasized necessity for our support in maintaining Colombian economic equilibrium since otherwise Government would lose control thus greatly easing way for totalitarians. I replied my Government appreciated imperative situation and I personally expected we would be able to help materially but, as in case of recent 10-million dollars loan,<sup>87</sup> he must be patient while means to this end were developed.

(j) He felt we had come into new era wherein all former criteria must be entirely discarded. Therefore he considered it highly desirable there be held as soon as feasible Pan American Conference which, eliminating all platitudes, would endeavor solely to establish continental policy and orientation to meet new world conditions. He did not care where conference were held but if successful in following up on Lima and Panama it would be invaluable whereas if any republic failed to cooperate the sooner we knew it the better. He referred to creation of atmosphere of American solidarity which will block Germany. I rejoined while in no way deprecating strength of moral values I believe force alone would stop totalitarian aggression. Please instruct me what reply I shall make to President's plea for conference.

The Department will observe, while endeavoring to impress upon him gravity of the situation, particularly with reference to fifth column and need for intimate collaboration throughout, I also tried to convey thought that at least in Caribbean area we are and will remain paramount vis-à-vis Germany. This approach is important from viewpoint of Colombian psychology. . . . In concluding our conversation I stated, while such important matters as oil legislation, adjustment of power and telephone companies, debt, et cetera, were dwarfed by world crisis, nevertheless, they should not be forgotten,

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<sup>87</sup> See pp. 695 ff.

since their adjustment might materially assist to maintain Colombian economy. Likewise he agreed we should meet frequently and henceforth I am to request interviews whenever I wish directly from him without going through Foreign Office.

BRADEN

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810.20 Defense/6-1140 : Telegram

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

WASHINGTON, June 12, 1940—7 p. m.

107. From the Under Secretary. Your 151 June 11, 10 p. m. I shall probably want subsequently to comment at greater length on your telegram under acknowledgment but for the moment I desire urgently to send you my views with regard to three points.

I do not know where you obtained the idea which you expressed to the President, as reported in Section 4 of your telegram,<sup>38</sup> that in the event of the contingencies you mention the United States would not undertake to give assistance to the other republics "around the corner of northeastern Brazil". I think President Santos was quite right in saying to you in reply that any such policy on our part would imply a breakdown of Pan-Americanism. Any limitation of that kind on our policy would be counter to the basic principles of the Monroe Doctrine and destructive of fundamental principles in the basic inter-American agreements entered into during the past 5 years. As you know, confidential conversations similar to those now being held in Bogotá under your auspices are taking place more or less simultaneously in the capitals of every other American republic. I think nothing would be more fatal than for the republics of the southern part of South America to believe that this practical evidence of a willingness on our part to cooperate in time of need is merely an empty gesture and that we would leave them to their own devices in time of emergency should they be located below the "corner of northeastern Brazil".

I trust that at the first possible opportunity you will make it entirely clear to President Santos that it is the policy of this Government to consider an act of aggression committed against an American republic by a non-American power as an act of aggression committed against itself, and that all possible means would in such event be employed by the United States to join with the other American republics in defending the peace and integrity of the Western Hemisphere.

For your confidential information, I am sure you will understand that the very disquieting defeatist psychology already existing in Chile, Argentina and Uruguay would be greatly enhanced if the

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<sup>38</sup> See section (c), p. 62.

Governments of those republics believed that they could expect no help from the United States in time of need. I earnestly hope that President Santos has not repeated the opinion you expressed to him to the diplomatic representatives of any of those countries. If you have any reason to think that he has, please telegraph me immediately.

With regard to the suggestion for the early holding of an Inter-American Conference, please say that this suggestion, like any other suggestion coming from President Santos, will receive our immediate and careful thought. It would of course be helpful if the President would indicate to you a little more precisely some of the specific problems which he believes should be discussed at such a conference. I assume that he will agree with this Government that questions of naval or military cooperation should be discussed secretly and probably bilaterally, at least at the present moment.

Finally, with reference to your suggestion that Colonel Ridgway may properly bring up in his conversations with Colombian authorities the possibility of a temporary occupation of colonies by United States forces as a safety measure, Colonel Ridgway is not authorized to take up any questions other than those contained in his instructions. Under no conditions should he discuss any such possibility as that which you mention. The question involves problems of the most far-reaching nature involving our Far Eastern policy as well as many other matters of the utmost importance, and no reference whatever should be made to this question at this time. [Welles.]

HULL

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810.20 Defense/6-1240 : Telegram

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

BOGOTÁ, June 12, 1940—5 p. m.

[Received 8 p. m.]

154. For Under Secretary. My No. 151, June 11. Interview with the Minister of War<sup>89</sup> this morning could not have been more cordial. Chief of Staff, Assistant Chief of Staff, Chief of Air Corps begin conversations with Ridgway this afternoon. Minister of War will use members of our naval and military missions, particularly the former, as technical advisers. . . . he recognizes "fifth column" peril and said last remaining German employee (in minor position) of Ministry would be discharged within 2 or 3 days.

He stated instructions to aforementioned officers were to have frankest, friendliest and most detailed discussion possible and Colombia would cooperate with us to the limit of her abilities. He did, how-

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<sup>89</sup> José Joaquín Castro Martínez.

ever, emphasize need for our assistance in price and terms of purchase of aviation, revenue cutters and other military equipment. As soon as training planes are received (which based on my talk with President Roosevelt I hope may be at an early date), he declared intensive training campaign would be initiated and to this end four officers now in United States would be recalled to act as instructors under those of our mission.

He likewise was most appreciative of Secretary Woodring's<sup>90</sup> invitation for Colombian Chiefs of Staff and Air Corps to visit United States.

BRADEN

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810.20 Defense/6-1340: Telegram

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

BOGOTÁ, June 13, 1940—7 p. m.

[Received June 14—2 a. m.]

155. For the Under Secretary. I deeply regret that in haste to get word to you covering interview with President, I so abbreviated and phrased my telegram as to cause you anxiety by alluding to "around the corner". That idea and expression I obtained from President Roosevelt May 28.

I did not even remotely imply a limitation of our fundamental policies or that we would not always undertake to give assistance to the other republics. On the contrary, throughout, my statements closely paralleled the thoughts expressed in your cable<sup>91</sup> and my reference to "around the corner" was purely a personal illustration of the practical considerations governing the speed and effectiveness of our defense measures as influenced by distance from our bases and length of possible front of attack. This afternoon, following receipt of your telegram, I repeated my statement on this subject to Santos, employing as nearly as possible the effect of the pertinent parts of paragraphs 2 and 3 of your telegram. The President replied he had clearly understood me in this same sense. Therefore, and since the conversation was strictly confidential, I am confident he cannot possibly have mentioned it to any diplomatic representative.

I transmitted to him your message respecting inter-American conference, replied he had in mind:

1. "The general norms of defense and solidarity of this hemisphere, including precisely naval and military cooperation, although the details thereof could be worked out from nation to nation.

2. The possession or occupation of colonies.

3. Development of agricultural and industrial economies. ["]

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<sup>90</sup> Harry H. Woodring, Secretary of War.

<sup>91</sup> No. 107, June 12, 7 p. m., p. 64.

I observed the Inter-American Bank<sup>92</sup> was to forward this point. He replied "then we can give an impulse to the bank."

However, he would like to study the subject further and talk with me next week. Apparently as an afterthought he said: "What about a league of nations? I have always been opposed to it but, under stress of present circumstances, maybe we should have one under another name." I observed that sentiment in the United States had always been opposed to a league.

He then inquired what I thought of his writing personally to you after he had given further study to the conference idea. I said I knew you would deeply appreciate such a communication.

Ridgway and I had already decided not to discuss colonies at all.

BRADEN

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810.20 Defense/6-2140 : Telegram

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

Bogotá, June 21, 1940—6 a. m.

[Received 1: 50 p. m.]

165. For the Under Secretary. My telegram No. 151, June 11, 1940. Hour and a half conversation afternoon June 20, 1940 with [President] based on Ridgway's memoranda of June 13 and June 14<sup>93</sup> may be summarized as follows:

I expressed Ridgway's and my own thanks for sincere, frank conversations of former with Colombian officers and emphasized need for speed especially in connection with Canaga's arrival here Saturday. (Have arranged for Canaga to begin conversations Sunday with Colombian representatives, who will be Chiefs of Staff and Air Corps, and Reifsnider.<sup>94</sup>)

Santos depreciated possibility any surprise attack as contemplated in paragraph 1 (a) Ridgway's June 13 memorandum and doubted possibility 1 (b) at least for some time to come. Instead he feels Germany, exhausted by her intensive efforts in Europe, will endeavor to conquer South America by commerce propaganda and enhancement of German prestige. (We have it from several sources Germans are now urging clients not to buy in the United States of America because they will return to this market within another 3 months.)

(Section 2) Santos, because of strength of Liberal Party throughout the masses; wide distribution of population with relatively small concentration thereof in Bogotá and other locations; similar dissemi-

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<sup>92</sup> For correspondence regarding the proposed Inter-American Bank, see pp. 695 ff.

<sup>93</sup> Neither found in Department files.

<sup>94</sup> Capt. L. F. Reifsnider, U. S. N., Chief of the United States Naval Mission to Colombia.

nation of Germans (maximum of 400 men in any one place); careful watch being kept on them by Government; small influence of military; police force equal in number to army and for other reasons, is absolutely convinced the Government cannot be overthrown.

With proper control, particularly of Atlantic and Pacific seacoasts, he is satisfied no base for an attack on Canal would be established in Colombia.

Santos stated improvement Intelligence Service has already been made and will henceforth progress rapidly. . . .

(Section 3) . . . As a practical procedure he approved my proposal Minister of War and I should meet frequently to exchange and discuss intelligence information in addition to that which will be exchanged by Colonel Lang and War Ministry.

Coastal waters and interior of country (to prevent establishment of gasoline dumps, et cetera) will be patrolled to limit of Colombia's ability but to do so adequately Colombia must purchase from the United States on best possible terms 50 to 100 airplanes, 10 to 12 fast cutters and improve landing fields in various parts of the country as for example Guajira Peninsula. To this end will require financing preferably from banks in United States on the same terms obtained by the United States Government. If for any reason this aid from us is unobtainable Colombia will nevertheless expend every effort in patrols and otherwise for Canal defense.

(Section 4) Colombia's military equipment needs will be submitted to us as soon as prepared, apparently will coincide with Ridgway's estimates and will be largely based upon the recommendations of Reifsnider and Whitson.<sup>95</sup> While Colombia desires most liberal terms, she will not accept gift of equipment from United States of America.

President continued that protection of communications and guarding of sensitive points on rail, water and highways is physically impossible but all feasible precautions will be taken. Ammunition stores, et cetera, are already adequately guarded.

Respecting paragraph 3 Ridgway's June 13 memorandum, the desired aid and facilities will be given unreservedly. Regarding paragraph 4, we will have Colombia's complete moral support but Santos desired special pains be taken for American Republics not to intervene in any internal disturbances of neighboring countries. I stated we were just as concerned on this point as he but observed that were Germany able to set up and dominate in this hemisphere a puppet state susceptible of disturbing peace of America our attitude would be identical to Colombia's in opposing it. But Santos agreed such an occurrence could not be tolerated.

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<sup>95</sup> Maj. Wallace E. Whitson, Chief of the United States Military Mission to Colombia.



(Section 5) 5 (b) Ridgway's June 14 memorandum. President said question really was what would be United States attitude if Germany, through a peace treaty, acquired English-owned petroleum properties in Venezuela which he thought were about equal to those owned by American corporations and some of them were close to the Colombian border. I was able to pass over this and point 5(c) without answer.

The sole reservation made by Santos, to what in all other particulars I regard as the most ample and sincere assurances of complete collaboration we could hope for, within Colombia's financial and other limitations, was that patrol of Colombian territory and territorial waters must remain exclusively in Colombian hands and none would be acceptable by any other country.

In thanking the President for his wholehearted attitude I stated we were proud to have such a sincere friend.

(Section 6) The President is unable to see slightest analogy between German activities, including "fifth column", in Europe and in this country. He retains large measure of confidence in those Germans who have lived here for a considerable period and he relies implicitly on effectiveness of Colombian intelligence service, the army as a whole, and Government's ability easily to suppress all subversive activities.

. . . I am satisfied Germans in Colombia are well organized, they have become arrogant with military successes abroad, are anxious themselves to play a patriotic role and have been able to convert to open admiration for Nazi efficiency and acceptance of their ideologies a number of Colombians, including some army officers. In short, conditions already have deteriorated from those described first paragraph my telegram No. 151. Moreover, there is marked increase in defeatist attitude of Colombians that nothing should be done to affront Germany. From distinct sources, we hear Nazis, together with younger and more violent conservatives, plan a push to take over the Government within next 3 to 6 months.

(Section 7) A successful *coup d'état*, if competently organized, is possible and certainly President is overconfident in believing it impossible for relatively small group to seize power in principal centers of Colombia. Governmental procrastination and inefficiency, poverty of the middle and lower classes, including army, and the characteristics of the people described in my despatch No. 680<sup>96</sup> render situation vulnerable should the Germans desire to seize power.

While I am convinced of entire sincerity of President's good intentions as stated to me, I doubt the effectiveness of aid Colombia may

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<sup>96</sup> Dated March 22, not printed.

endeavor to give us. Therefore, for maximum safety we must depend upon our own efforts and resources.

(Section 8) Were there to be *coup d'état* airplanes and other equipment received from us might fall into unfriendly hands. However, we will be better able to calibrate this danger before deliveries are made.

Under all the circumstances I reiterate recommendations numbers 1, 2, and 4 of my May 27, 1940, memorandum to Duggan and Feis.<sup>97</sup>

BRADEN

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810.20 Defense/6-2540 : Telegram

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

BOGOTÁ, June 25, 1940—4 p. m.

[Received 7 p. m.]

169. My telegram No. 165. Canaga left this a. m. for Caracas. He had entirely satisfactory conversations here which largely covered same ground as Ridgway's and make unnecessary my pursuing subject further with the President at this stage or until we desire to enter into more on these matters. However, Colombian nervousness was again evidenced to Canaga by Colombian officers and by Minister of War to me respecting German acquisition of Venezuelan oil properties and especially possibility of revolution in that country with secret Nazi support raising the banner of territorial differences with Colombia.

BRADEN

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810.20 Defense/6-2140 : Telegram

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

WASHINGTON, July 3, 1940—2 p. m.

124. Points 1, 2 and 4 of your strictly confidential memorandum of May 27, 1940 and Sections 6 to 8 of your telegram no. 165, June 21, 6 a. m. We recently brought this dilemma to the President's attention, it being pointed out to him that while Joint Resolution 367<sup>98</sup> of which you have by now received a copy would permit the sale of coast defense and anti-aircraft matériel and the construction of naval vessels, it would not authorize credits; that the Export-Import Bank is prohibited by legislation from making loans for the purchase of military aircraft, et cetera (Public 420, 76th Congress<sup>99</sup>);

<sup>97</sup> *Ante*, p. 58.

<sup>98</sup> Approved June 15, 1940; 54 Stat. 396.

<sup>99</sup> Approved March 2, 1940; 54 Stat. 38.

and that the RFC<sup>1</sup> by public declaration is committed against extension of credits for these purposes.

2. You are confidentially informed that the Department in reply to a consultation from the Third Pan American Coffee Conference now meeting in New York has stated to the President of the Conference that this government is prepared to recommend action to the Congress to implement a program for the production and marketing of coffee provided this government is able to approve the program which may be worked out.<sup>2</sup> The conference was further informed that this government would have to be represented in the negotiations leading to a program of control and in any body that may be set up to administer the plan, it being stressed that recognition of the legitimate interests of consumers as well as of producers would be essential to the success of a program. With regard to the broad program of economic and trade cooperation between the American republics, you are already aware that the government is giving the most active attention to the proposal to establish a trading corporation of all the American republics to assist in the handling the marketing problems which are arising and will continue to arise as a result of the course of the war. In this connection reference is made to the President's statement to the press quoted in radio bulletin no. 148 of June 21.<sup>3</sup>

4. The Navy Department's action on this request is the subject of another telegram which will be sent you, probably today.

HULL

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810.20 Defense/7-1040 : Telegram

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

Bogotá, July 10, 1940—7 p. m.

[Received 10:20 p. m.]

186. For the Under Secretary. Department's telegram No. 124. President summoned me today. He said he was speaking "personally and not as President". Conversation may be summarized:

With reference to discussions between Ridgway, Canaga and Colombian officers, he wished "further to define proposed cooperation between the United States of America and Colombia". Repeating many of his remarks on previous occasions, he stated that study by his Government indicated Colombia required 10 revenue cutters (5 for each coast) not merely fast speed boats but vessels which could sub-

<sup>1</sup> Reconstruction Finance Corporation.

<sup>2</sup> See section entitled "Inter-American Coffee Agreement, signed at Washington November 28, 1940," pp. 380 ff.

<sup>3</sup> See section entitled "Program proposed by the United States for inter-American economic cooperation," pp. 353 ff.

sist on own supplies for 10 or 15 days if necessary; 60 to 80 airplanes; extension of landing fields and ground facilities; 50,000 rifles, ammunition and other military equipment to permit increasing present army of 11,000 to at least 15,000 or possibly to double its size. He desired to replace existing European armament with American so Colombia would be independent of uncertain supply or whim of European dictators. Estimated cost of foregoing program 16 million dollars, which Colombia can only finance through a loan from the United States as described in my telegram No. 165, sections 3 and 4.<sup>4</sup>

Santos enigmatically still insists there is absolutely no danger of *coup d'état* by Germans but stated that with the foregoing loan and equipment Colombia could guarantee:

- (1) Internal order and normal political conditions.
- (2) Security of sea coasts and prevention of any attack on Canal from Colombian territory.

President explained his urgency for obtaining definition of what we can do in connection with aforementioned program especially with respect to possibility of loan, was because it is essential for him to present a definite plan to Congress when it convenes on July 20. Otherwise he fears Colombia's action may be muddled by stress of political debate. (Informed strong opposition attack in Congress on Administration's policy vis-à-vis United States of America.) Moreover, he believed enactment of this program, putting Colombia in a position to carry out points 1 and 2 of preceding paragraph, would be deterrent to totalitarians.

I explained I had informed my Government concerning Colombia's needs but, since legislation might be necessary, I did not know how or when our plans in this particular would be formulated and I would cable his thoughts to you.

While I bear in mind second paragraph of Department's telegram under reference, I must nevertheless make reply to President's specific proposal. Please instruct.

BRADEN

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810.20 Defense/7-1240 : Telegram

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

BOGOTÁ, July 12, 1940—9 p. m.

[Received 11:10 p. m.]

188. Department's telegram dated July 11, 4 p. m.<sup>5</sup> Minister for Foreign Affairs in my presence telephoned Minister of War. Both of them are entirely agreeable to renewing talks early August.

BRADEN

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<sup>4</sup> Telegram No. 165, June 21, 6 a. m., p. 67.

<sup>5</sup> *Ante*, p. 19.

810.20 Defense/7-1040 : Telegram

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

WASHINGTON, July 13, 1940—3 p. m.

131. From the Under Secretary. Your telegram 186, July 10, 7 p. m. You may inform President Santos in confidence that Congress is being asked to authorize the Export-Import Bank to grant credits for the purchase of munitions in this country and that as soon as such authorization has been obtained the requests formulated by the President of Colombia will be given immediate consideration and every possible step will be taken to try to assist the Colombian Government along the lines indicated. Although the session will not be resumed until July 22 I perceive no present reason to doubt favorable legislative action at an early date. It would accordingly be my suggestion that the Colombian Government proceed to formulate a definite statement of its anticipated needs so that there need be no delay in the presentation of its request to the Bank.

As you were informed in the Department's strictly confidential telegram of July 11, 4 p. m.,<sup>6</sup> it is the intention of this Government to begin bipartite staff conversations with all the American republics sometime in August and the conversations in Bogotá should afford ample opportunity to discuss concrete measures of assistance and cooperation which may be accorded to each other by the two Governments. As you know, the question of obtaining delivery of new armament equipment may be considerably delayed in some cases due to the enormous orders needed to equip our own forces and our expanding industry. However, an effort is being made to make it possible for the governments of the other American republics to obtain material required to satisfy essential defense needs without undue delay.

There are no vessels now in the possession of the United States suitable as revenue cutters which might be sold to the Colombian Government but it is believed that there is still ample capacity in shipyards in this country to build such vessels up to approximately 150 feet in length. The United States Coast Guard has on several occasions furnished plans and specifications of Coast Guard cutters to governments of the other American republics, and would presumably be prepared to furnish such plans to the Colombian Government provided an indication is given as to the approximate characteristics desired in the vessels which the Colombian Government proposes to have built.

With regard to the other items, you may assure the President that every favorable consideration will be given to the Colombian request

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<sup>6</sup> *Ante*, p. 19.

consistent with demands for our own rearmament. Although there are available some Lee Enfield rifles in good condition now carried as surplus, no indication can be made with respect to our ability to comply with requests for other military equipment until an exact list has been furnished to this Government. [Welles.]

HULL

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810.20 Defense/7-1540 : Telegram

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

Bogotá, July 15, 1940—6 p. m.

[Received 10:35 p. m.]

191. For the Under Secretary. Department's No. 131, July 13, 3 p. m. Yesterday noon I read a paraphrase of your telegram to the President. He replied it could not have been more satisfactory and in his message at opening of Congress July 20 he will refer briefly to Colombian civics needs and request necessary authorization to obtain financing.

He also praised your confidential statement to committee in Washington regarding Habana Conference agenda,<sup>7</sup> as demonstrating complete comprehension by you of necessities of the situation.

BRADEN

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810.20 Defense/8-440 : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

147. Department's circular telegram July 11, 4 p. m.<sup>7a</sup> Lieutenant Colonel N. Randolph, U. S. Army, and Captain L. F. Reifsnider, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Colombian officials. Since Captain Reifsnider is now serving as Chief of the United States Naval Mission to Colombia, you should ascertain from the Colombian authorities whether it is agreeable to them that he act in this capacity for the United States Government. It is expected that Lieutenant Colonel Randolph will arrive in Bogotá in time for the conversations to begin August 30. You will be informed through the Embassy in Caracas of Colonel Randolph's precise date and means of arrival. Upon the conclusion of the conversations in Bogotá, Colonel Randolph will proceed to Quito.

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<sup>7</sup> See statement to be made orally by Mr. Welles at the meeting of the Inter-American Financial and Economic Advisory Committee of July 11, 1940, p. 371.

<sup>7a</sup> *Ante*, p. 19.

A separate telegram <sup>8</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Colombian authorities.

HULL

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810.20 Defense/8-2840 : Telegram

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

BOGOTÁ, August 28, 1940—4 p. m.

[Received 7:14 p. m.]

240. My telegram No. 233 of August 24.<sup>9</sup> Minister for Foreign Affairs stated to me this morning that the Minister of War was as anxious as I to initiate staff talks at the earliest possible moment and suggested conversations begin between September 5 and 10. Therefore, I recommend designated officers arrive here not later than September 4.

The Minister again referring to debate in Congress said Colombia being a democracy could not give so prompt acceptance as certain other countries to our inquiries or requests relating to canal and hemisphere defense. There must always be maintained a balance between solidarity and sovereignty. He could at any moment obtain congressional approval of Habana Convention and Government's foreign policy but was determined at all times to have backing of entire country irrespective of political divisions. To this end he must always be careful not to exceed his authority and responsibilities to Congress and the people. "It would be just as disastrous for him continuously to be juridically overdrawn as for an individual to be financially overdrawn at his bank." Therefore, he earnestly requests that in forthcoming staff talks we specify everything we may want henceforth from Colombia insisting that entire program can be laid down now thus avoiding presentation subsequently of a series of requests. His Government is impressed with fact forthcoming staff conversations are to be more definitive than those held in June.

I replied I appreciated his desires but kaleidoscopic developments abroad I feared would frequently make it impossible for us to anticipate requirements but I would advise the Department of his wishes and was confident every possible effort would be made to meet them in staff conversations.

Minister of War at Embassy dinner last night inquired why staff conversations had been postponed. This, combined with above, indicates Minister for Foreign Affairs, due to preoccupation over Senate

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<sup>8</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>9</sup> Not printed.

debate, requested postponement without consulting his Cabinet colleague and advancing date to September 5, is probably a compromise between them.

BRADEN

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810.20 Defense/9-940 : Telegram

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

Bogotá, September 9, 1940—10 p. m.  
[Received September 10—1:40 a. m.]

260. Staff conversations which begin here 3 p. m. September 10 contemplate establishment of offices or agencies in Colombian and United States Governments for the purpose of maintaining close liaison on military and naval matters pertaining to hemisphere defense.

In order to assist Latin American countries and better to assure timely and progressive development of their military and naval preparations, I recommend American liaison officers with headquarters in Panama or United States make periodic visits to designated nearby countries in South and Central America and Cuba, that liaison officers of these countries be authorized to visit the Canal Zone and the United States.

Captain Riefkohl and Colonel Randolph concur in these recommendations and request that they be transmitted to Captain Crenshaw, Navy Department, and to the Assistant Chief of Staff, War Plans Division, for consideration.

Authorization is requested to discuss the matter in current staff conversations here. Colonel Randolph requests similar authority in Ecuador.

BRADEN

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810.20 Defense/9-940 : Telegram

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

WASHINGTON, September 10, 1940—7 p. m.

178. Your 260, September 9, 10 p. m. The War and Navy Departments state that they perceive no objection in principle to occasional exchanges of visits between officers of the United States Army and Navy and officers of the defense forces of other American republics, but that they feel that through existing military and naval attachés and our military and naval missions it should be possible to maintain effective liaison between our defense forces and those of the neighboring American republics adequate for normal purposes. If specific and complicated problems should arise at a later date, it may be neces-



sary to exchange liaison officers, but the War and Navy Departments do not desire that the American officers representatives should initiate at this time any suggestion for periodical exchange of liaison officers. However, should the subject be broached by the Colombian or Ecuadoran representatives, our own officers are authorized to manifest friendly and sympathetic interest and to say that they will be glad to refer the suggestion to their Departments for consideration.

HULL

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S10.20 Defense/9-1340 : Telegram

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

Bogotá, September 13, 1940—7 p. m.  
[Received September 14—7 : 32 p. m.]

267. My telegram No. 260, September 9, 1940. As the Department will have observed from my previous telegrams on the subject, throughout all discussions leading up to staff talks I have endeavored to have these work no embarrassment on ourselves or on the Santos Administration and its foreign policy of friendship for the United States and protection of the Panama Canal, which is being subjected to severe Congressional and press criticism by Conservative opposition. I have left no stone unturned to avoid this delicate political situation being reflected in staff conversations. To these ends I several times urged on Ministers of War and Foreign Relations that one of them and I be present at the talk so that we could quickly nip any difficulties or iron out political kinks.

Perhaps due to the fact that these two Ministers have had to be present almost daily at Congressional debates on foreign and defense policies . . . my recommendation was not followed.

On arrival here of Captain Riefkohl and Lieutenant Colonel Randolph I explained to them in detail afore-described situation, Colombian peculiarities and sensitiveness . . . in order that they should at all times steer conversations in keeping with these considerations.

Also I rephrased and altered the order of procedure for conversations they had outlined in order better to meet afore-described conditions. Based on State, War and Navy Departments' directions, they drafted and had translated into Spanish a proposed agreement between staffs. I informed them that this document contained much which I was sure would be unacceptable to Colombians. Nevertheless so that they should have opportunity frankly and fully to express views of United States Army General Staff and Chief of Naval Operations, War Plans Section, I consented to their discussion of aforesaid draft agreement with Colombian officers but strongly recommended copies thereof should not be given to the Colombians.

However, Riefkohl and Randolph at the meeting on the afternoon of September 10 considered attitude of Colombian officers so entirely cooperative that they gave them Spanish copy on which Colombians made only minor changes in phraseology. They succeeded in getting through approximately two-thirds of the document that afternoon. Colombian officers agreed on all points covered subject only to their Government's approval. So completely successful did our officers consider the meeting that my fears appeared to have been unfounded.

The second meeting was scheduled for afternoon of September 11 but only Chief of Staff and Director of Navy came. They were evidently embarrassed and frustrated and stated that because of political aspects of draft agreement conversations had been suspended pending discussion between Minister of War and myself. Whereupon the two Colombians departed.

Since the Minister of War did not call in this instance, as Colombian officers had indicated he would, I informed him that I had requested an interview with the President of the Republic whom I saw in a 2-hour interview yesterday evening. . . .

He had in his hand an English draft of proposed agreement in which he objected to the points which I had anticipated he would.

Typical of his objections were:

1. Reference to the "recognized" Government of Colombia, since all governments of Colombia had been recognized.

2. Mention of "fifth column" because as he had repeatedly declared publicly and to me personally, no subversive activities existed or could exist in Colombia.

3. The expression that, in event no requests were forthcoming from Colombia nor were consultations possible, the United States would employ its armed forces and "in all cases, it is understood the decision will rest with the United States Government when the emergency arises".

4. Repeated recitals throughout the draft of action to be taken by Colombia in its defense he considered elementary and therefore belittling to make commitments thereon, since, as he said "If you have a house, of course you defend it".

5. That in event the United States sent its forces to assist another American Republic, Colombia would mobilize public opinion in support of such action and counteract propaganda against the United States. He said he would gladly commit his Government and the Republic to support of our action, but he could not and would not undertake any restriction whatsoever of Colombia's fundamental tenet of freedom of press and speech.

6. Where reference was not to insuring that the existing Government remained in office and continued to exercise authority, he objected, since of course it would do so, but the recital of this inherent obligation was demeaning.

I stated I had urged our officers to emphasize throughout conversations that we were anxious that insofar as possible every request made

of Colombia be one which the United States would gladly accept on an entirely reciprocal basis. He replied he appreciated our fine principles in this connection but after all, the difference in size and power of the two countries per se rendered this impracticable.

Santos reemphasized that Colombia was now taking and would continue to take, to the limit of its abilities, every precaution for her own defense, to prevent subversive activities and to patrol her territory especially coast lines so that no attack on the Panama Canal could ever be made from this country. But in order to render their efforts effective he required a dollar loan for improvement of military establishments.

He is satisfied, despite every argument I could advance to the contrary, that even if Germany defeats England she will be exhausted, will have to digest her European conquests and even if she goes on to further aggression it will be against Russia. Therefore "you and I, Mr. Ambassador, will be long in our graves before she attempts any aggression against the Western Hemisphere."

I reiterated to him in detail the purposes of the conversations and of the proposed agreement, which I said was simply to be the recommendations of the two general staffs to their respective governments.

Santos said he would call a special Cabinet meeting early today to review the entire matter and then have it taken up with me. Since this procedure would still further delay and greatly complicate the matter, I countered that it might be best for the Minister of War and me to iron out the political aspects and objectionable phraseology of the document, retaining all of the salient military points including those which had been agreed upon during June conversations. I added that while we were doing this Randolph could proceed to Quito and Riefkohl to Panama where they were urgently needed, and they could return here for conclusion and signature of staff agreement. The President agreed to this. Nevertheless, the Cabinet has been in special session all morning and I am very reliably informed they were discussing defense, armaments and foreign policy. The Minister of War telephoned me at 4:15 p. m. to make appointment for Monday morning and said the Minister of Foreign Affairs would see me tomorrow. The latter called 15 minutes later to make this appointment.

I have told both Colombians and our officers I consider staff talks and consummation of agreement thereon extremely important. From our viewpoint, they serve to clarify exactly what is to be expected from both sides, impress on Colombians the dangers of aggression, aid and pave the way for further hemisphere defense, and solidarity, and give us a lever with which at least to exact such cooperation as the Colombians may become capable of rendering.

. . . . .

Net of the situation is that . . . we should on Riefkohl's and Randolph's return obtain an agreement embodying every essential desired by our military and it will have been accomplished in a manner agreeable to the Colombians thus insuring their sincere desire to comply with all commitments taken. Moreover, we will know exactly the extent to which we may depend on them.

The foregoing has been read to Riefkohl and Randolph who request that it be transmitted to Navy and War Departments.

Please also transmit the following to Assistant Chief of Staff, War Plans Division:

"Am proceeding to Quito Saturday, arriving there Sunday. Unless staff conversations as such are resumed can see no further need my presence here. In the event that I am to return to Bogotá request necessary change of orders as well as to send by air mail additional expense money—staff."

BRADEN

810.20 Defense/9-1540 : Telegram

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

Bogotá, September 15, 1940—6 p. m.

[Received 9 : 54 p. m.]

270. My telegram No. 267, September 13. In a 2-hour conversation today with Minister of Foreign Affairs essential points advanced by him were (in addition to that of my telegram No. 269 of September 14<sup>10</sup>):

1. Debate on foreign and defense policies was now won but Government before taking vote would permit members of opposition to get undelivered speeches out of their systems.

2. Gomez was losing following which will not participate in uprising against Government. Nevertheless he still is Conservative Party leader because only he dedicates 24 hours a day to politics.

3. Far and away most valuable defense cooperation Colombia could offer the United States and other republics was maintenance of its internal stability and order. This his Government did without reservation.

4. Efficacy of Colombian patrols and other military forces would be increased by \$16,000,000 armament loan but irrespective of whether this or other economic aid were forthcoming from the United States this country would perform its duty to guarantee that no attack could ever be launched on Panama Canal from here.

5. The essential for United States-Colombian relations was mutual confidence and he begged that my Government have complete confidence in his.

<sup>10</sup> *Post*, p. 396.

6. He had warned German, Italian and Spanish Ministers against improper propaganda dissemination especially that directed to the army. Because of proven infractions he had had to issue a second warning to the first-named representative.

My opinions on the foregoing are:

1. This is wise procedure.
2. The upper class intelligent Conservatives differ with Gomez but the party masses appear to be following him enthusiastically. . . .
3. This is accurate statement made in complete good faith. . . .
4. *Idem*; and I have already discreetly intimated to Minister of War that armament aid from us should be subject to Colombia's ability to utilize it and to our production schedules; for example today aviation materials should be restricted to training planes and ground equipment. While we must at least make a show of assisting in these particulars each step must be carefully and surely taken.
5. I replied that since there existed such a complete mutuality of interests between our two countries there must be a corresponding confidence and reciprocity.
6. These warnings will serve for little beyond inducing Nazis more carefully to cover their movements.

The Minister barely touched upon suspended staff talks but acknowledged wisdom of my having urged that either he or Minister of War and I be present.

He raised no question about my conversation with Minister of War scheduled for September 16.

He expressed the President's and his own gratification with my understanding of Colombian nature, without which there already would have been serious difficulties. The United States with its vastly superior size and power could force agreements by coercion; instead we proceeded on entirely reciprocal basis and always with respect for rights of others. He said I gave impression not so much of representing the United States alone as of being intermediary to smooth the way for both countries.

I thanked him and seized this opening as I had a similar one with the President September 11, to say while I was first of all my country's representative my second interest was always Colombia's well-being. In that spirit I hoped he and his colleagues did not feel it presumptuous when I at times thought it my duty frankly to make suggestions which appeared to me beneficial to his country. I added there were influential groups in the United States who alleged that good neighbor policy was a one-way street where we gave all and received little or nothing. Therefore, I had emphasized both publicly and privately during my recent trip home that Colombia had already treated the good neighbor policy as a two-way street and I was confident she would continue so to do.

I have deemed it advisable discreetly thus to impress upon the Colombians the necessity for reciprocity since particularly because of their economic distress appeals are going to be made for our assistance and while we should give it insofar as possible, we should not fail to obtain appropriate and fair *quid pro quos* in several directions.

BRADEN

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810.20 Defense/9-1640 : Telegram

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

BOGOTÁ, September 16, 1940—4 p. m.

[Received 5:55 p. m.]

273. My telegram No. 270, September 14 [15], 1940. In an hour's conversation with Minister of War this morning, it was agreed I should prepare for him memorandum of all points we desire covered in staff agreement. Based on this, he will endeavor to draft the latter and will have further consultations with me thereon.

Two points emphasized by Minister of War were:

1. Delicate political situation necessitates utmost caution by Colombian Government in these matters.

2. What Colombian Government can and will guarantee without reservation is to maintain internal order and that there shall never be an attack on the Canal from its territory.

BRADEN

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810.20 Defense/9-2040 : Telegram

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

BOGOTÁ, September 20, 1940—5 p. m.

[Received 6:15 p. m.]

283. My telegram No. 263 [273], September 16. In conversation with Minister of Foreign Affairs this morning, he informed me that my memorandum handed to the Minister of War had been discussed by the Cabinet yesterday afternoon and he was now studying it himself. I gathered it would again be considered by Cabinet today.

BRADEN

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810.20 Defense/9-2640 : Telegram

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

BOGOTÁ, September 26, 1940—9 p. m.

[Received September 27—1:01 a. m.]

292. My telegram No. 286, September 25.<sup>11</sup> Minister of War translated my memorandum of draft staff agreement into Spanish.

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<sup>11</sup> Not printed.

It was then approved by Minister for Foreign Affairs and this afternoon in the presence of Minister of War and myself Colombian Chief of Staff and Captain Reifkohl and Colonel Randolph signed four copies, two in Spanish and two in English one each of which will be forwarded to the Department by air mail pouch.

The document is called "recommendations which the General Staffs make to their respective governments". While the phraseology differs some from the directives given to our officers all essential military points are satisfactorily covered. As for instance arrangements to procure aerial photographs of strategic areas is arranged and it is understood although not specified Colombian plane and pilot will fly American photographer with his equipment. The Colombians already have large number of aerial photographs which Colonel Randolph will look over tomorrow. All photographs can be made available to us.

Minister of War expressed his delight with consummation of the understanding as "marking the beginning of a new and highly important epoch in the friendship and cooperation between our two countries and the military forces thereof".

Captain Reifkohl and Colonel Randolph considered it to be the best possible agreement and entirely satisfactory in which I concur. They request War and Navy be informed of foregoing.

BRADEN

COSTA RICA

810.20 Defense/72½<sub>15</sub> : Telegram

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

SAN JOSÉ, June 4, 1940—noon.

[Received 6:32 p. m.]

60. Department's cable No. 40, June 3, 3 p. m.<sup>12</sup> I conferred with the President at 11 a. m. He accepted the proposals in their entirety and is anxious to cooperate at the earliest possible date. Please advise as to date of arrival of officers.

HORNIBROOK

810.20 Defense/72½<sub>15</sub> : Telegram

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

SAN JOSÉ, June 5, 1940—5 p. m.

[Received 9:45 p. m.]

63. The President of Costa Rica<sup>13</sup> today urgently wants loan or gift from the United States Government of arms and ammunition for

<sup>12</sup> See footnote 29, p. 16.

<sup>13</sup> Rafael Angel Calderón Guardia.

internal defensive purposes, on account supply here is antiquated and wholly inadequate.

The President is manifestly concerned as the result of Nazi and Communist activities and he ventured the hope that either by Executive order or legislation this request might result in a shipment at a very early date. He further expressed the hope that the officers mentioned in the Department's telegram No. 40 of June 3, 3 p. m. would arrive at a very early date in order to consult on local defense measures.

Referring to my telegram No. 61 dated June 4, 1 [2] p. m.,<sup>14</sup> it has been definitely established that the arms and ammunition found at Golfito yesterday were transported from San José by Taca plane to that point. Investigation proceeds.

HORNIBROOK

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810.20 Defense/72½<sub>15a</sub> : Telegram

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

WASHINGTON, June 5, 1940—6 p. m.

42. Department's 40, June 3, 3 p. m. Captain Maxwell D. Taylor, U. S. Army, and Major Clayton C. Jerome, U. S. Marine Corps, have been designated by the War and Navy Departments respectively to undertake the confidential conversations with the Costa Rican authorities.

They expect to arrive in San José by plane from Panamá June 10. After they have terminated their conversations in San José they will visit Managua, Tegucigalpa, San Salvador and Guatemala in the order named to undertake similar conversations in each capital.

You will be advised through the Embassy in Panamá of the exact hour of their arrival in San José.

HULL

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810.20 Defense/72½<sub>15</sub> : Telegram

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

WASHINGTON, June 8, 1940—3 p. m.

44. Your telegram No. 63, June 5, 4 [5] p. m. Please inform President Calderón Guardia that there is no legislation which would authorize the loan or gift of surplus arms and ammunition to foreign governments. However, on April 26, 1940, the Department furnished the Costa Rican Minister a list of arms and ammunition which had been declared surplus by the Secretary of War, inviting the Minister to discuss informally with officers of this Government the possibility of

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<sup>14</sup> Not printed.



purchasing such material as might be of interest to the Government of Costa Rica. No reply was made to this communication.

A limited quantity of the surplus arms referred to above still remains available for purchase. These include a large number of unused Lee-Enfield rifles, caliber .30, model 1917. They are being sold at the nominal price of \$12.50 for unused rifles or \$7.50 for used rifles. Both used and unused are in perfect condition. The prices include bayonets, scabbards, slings, and spare parts. Should the Costa Rican Government be interested in acquiring any of these rifles, it is suggested that the Minister designate Señor Luís Fernandez, who is now in Washington, be instructed to inform the Department. The Department would then arrange for him to negotiate with appropriate officers of the War Department. Ammunition for the rifles would have to be purchased directly from private manufacturers.

HULL

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810.20 Defense/30%<sub>11</sub>

*The Minister in Costa Rica (Hornibrook) to the Secretary of State*<sup>15</sup>

No. 2256

SAN JOSÉ, June 11, 1940.

SIR: I have the honor to refer to the Department's telegram No. 44 of June 8, 3 p. m., and to report as follows:

I communicated the contents of the above-mentioned telegram to President Calderón Guardia and am quite certain that the reaction thereto was most unfavorable. The President reminded me that Costa Rica is a very poor nation, faced at the present time with the possibility of a "Fifth Column" movement, and finds itself in a position where it is unable to appropriate the necessary funds for the purchase of essential military equipment.

The President next suggested that in order to meet with the requirements of present American laws on this subject, it is quite possible my Government might be able to negotiate a trade of the used equipment in Costa Rica for the used equipment in the United States. He admitted frankly that the equipment owned at the present time in Costa Rica is of little monetary value, but suggested that in some manner my Government might be better able to dispose of it than his own.

I then asked the President as to the actual needs of his Government from a military standpoint, and he asserted that he should like very much to obtain four thousand used or unused rifles and forty-five .45 calibre sub-machine guns. The ammunition, he asserted, would of course be paid for by the Costa Rican Government.

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<sup>15</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

There is not the slightest question as to the belief of the President that there is better than an even possibility of the "Fifth Column" menace and he is manifestly worried as to the strength of his own military establishment in such an emergency. He definitely looks to the United States for protection and only yesterday asked me as to how many men could be transported from the Canal Zone to San José by plane in a three hour period. He gave me every possible assurance of the desire of his Government to cooperate with our own in the event we became involved in the European war and made it plain that the present régime here expected the United States to act speedily and effectively in the event the German and Italian elements here make an effort to upset the present Government.

A careful study of the memorandum<sup>16</sup> which I have caused to be prepared and am including in this pouch as to the conversations held between the President, Major Clayton C. Jerome, Captain Maxwell D. Taylor and myself contains a close up view of the President's mind on this subject, and should properly be read in connection with this despatch.

My own personal feeling is that it will be a great mistake not to work out some plan whereby at least five hundred or a thousand of these rifles can be speedily obtained by the Costa Rican Government without cost. Our relations with the present administration are now on such friendly terms, the proximity of Costa Rica to the Canal Zone make this territory so important from a military, naval and air standpoint, and the activities of the Germans and Italians so aggressive in character, that it appears to me the cost involved is infinitesimal in comparison with the good will and safety that might be obtained.

Respectfully yours,

WM. H. HORNIBROOK

810.20 Defense/30%11

*The Minister in Costa Rica (Hornibrook) to the Secretary of State*<sup>17</sup>

No. 2258

SAN JOSÉ, June 11, 1940.

SIR: I have the honor to refer to the Department's strictly confidential telegram No. 41 [42] of June 5, 6 p. m., and to report as follows:

Major Jerome and Captain Taylor arrived in San José on June 9 and spent the greater part of the same afternoon in consultation with me at the residence. The general outline of the questions which they proposed to submit to the President of the Republic was approved

<sup>16</sup> Not printed.

<sup>17</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

by me, and others suggested, all of which were submitted at the interview which was arranged for the following afternoon.

After the usual preliminary exchange of courtesies the two officers propounded their questions. They conducted themselves as officers and gentlemen and used rare tact and discretion in the method of approach. At no time during the interview did the President appear to be irritated with their frankness, and on the contrary, appeared to appreciate the candor with which the entire matter was being presented.

After the interview had been completed highballs were served in the President's adjoining home. On this occasion, as during the interview, the President was courtesy and kindness combined and showed every indication of his appreciation of the interest which the United States Government is taking in the possible internal disturbances in Costa Rica.

I commend to the Department the importance of the enclosed memorandum<sup>18</sup> which was prepared by the two officers, in collaboration with Vice-Consul Ben Zweig, who accompanied me as a Legation interpreter.

Respectfully yours,

WM. H. HORNIBROOK

818.00N/73

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

[Extracts]

No. 2298

SAN JOSÉ, June 24, 1940.

[Received July 1.]

SIR: I have the honor to refer to my despatch No. 2290 of June 21, 1940,<sup>19</sup> and to report as follows:

Following the funeral of the Salvadorean Minister today I had an opportunity to sound out one or two of the colleagues as to the activities of the Germans in Central America.

The Guatemalan Minister<sup>20</sup> asserted that his Government had taken the necessary steps to prevent a "blitzkrieg" in his capital, but added that there are now domiciled in his country so many Germans that the matter of controlling them is most difficult. He stated, however, that he hoped and believed his President would be able to handle the situation.

<sup>18</sup> Not printed. The President indicated the willingness of Costa Rica to cooperate fully with the United States in defense measures.

<sup>19</sup> Not printed.

<sup>20</sup> Alfonso Carrillo.

In view of the repeated assurances given by Germany, Great Britain and France to the small countries of Europe during the past year as to the maintenance of their sovereignty, all of which were violated with impunity, these people down here have lost faith in treaties, conversations and pledges. They expect and demand something more concrete than words. We are on trial at the present moment in Latin America, and unless we are prepared to make good our assurances by a substantial contribution to the defense of this part of the world in terms of arms and ships, it is not impossible that we may expect as an alternative a successful German "blitzkrieg" in the not too far distant future.

We have a group of women coming down here during the next week to talk of cultural relations, friendship and goodwill, but unfortunately these people are not thinking in terms of cultural relations at the present moment. They are thinking in terms of armament, and asking each other as to whether or not the United States Government is strong enough, and also willing to throw all of its military and economic resources behind Latin America in its hour of need. . . .

I should roughly say that three-fourths of the people here are pro-ally and pro-American at heart, but they will play with us only as long as they are convinced we are ready to play the game with them. Without encouragement from us, they are not going to buy arms and ammunition to defend the Sabana airport against a German "blitzkrieg", even though they know that the commercial planes basing on such field may possibly be used for an attack on the Canal locks. They expect our material aid as a condition precedent to further cooperation. In my opinion this aid should be given speedily and without cost to the Costa Rican Government.

Respectfully yours,

WM. H. HORNIBROOK

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818.20/25 : Telegram

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

SAN JOSÉ, July 11, 1940—10 a. m.

[Received 3:54 p. m.]

87. In two separate conferences held today with the President and the Foreign Minister <sup>21</sup> I was requested to cable the Department and urgently request the immediate despatch of an American-Spanish speaking military mission to San José to prepare a plan upon which the Costa Rican Government could base the reorganization of its military establishment. Number of such commission not mentioned

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<sup>21</sup> Alberto Echandi Montero.

but Foreign Minister indicated that the study might require some months. As a matter of policy most urgently recommend that this commission be named at earliest possible date.

HORNIBROOK

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818.00N/81 : Telegram

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

SAN JOSÉ, July 12, 1940—3 p. m.

[Received 6:20 p. m.]

88. Referring to my despatch No. 2298, June 24 and others on the subject of basing gunboat at Puntarenas. Commander of destroyer now at that port recommends he be permitted to remain there until relieved by other vessel. I respectfully recommend that this be done.

HORNIBROOK

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818.20/25 : Telegram

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

WASHINGTON, July 12, 1940—5 p. m.

63. Your 87, July 11, 10 a. m. War Department is instructing the Commanding General in Panama to send a Spanish-speaking officer immediately to San José to confer with the Government authorities there and to consult in conjunction with the Military Attaché, Colonel Pate,<sup>22</sup> with regard to the needs of the Government of Costa Rica for a military mission to prepare and put in operation a plan for military reorganization.

You may inform the Costa Rican authorities that this Government is prepared to give every favorable consideration to a formal written request of that Government for a United States military mission. This request should be submitted either directly to you by the Foreign Minister or to the Department of State through the Costa Rican Minister in Washington.

Upon the receipt of the formal request and of the suggestions of the officer detailed from Panama to conduct the survey of Costa Rican needs for a military mission, a contract can be immediately drawn up for an American military mission to go to Costa Rica to undertake such work as may be desired by the Costa Rican Government.

If any doubt should be expressed to you as to Costa Rican ability to pay sufficient additional compensation to the personnel who are to form this mission, you may assure the Costa Rican authorities that this Government, under the general plan for cooperation in matters of

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<sup>22</sup> Col. Joseph Benjamin Pate, Military Attaché and Military Attaché for Air.

hemisphere defense, is confident that arrangements can be made to fix such additional compensation at a scale well within the financial capacity of the Costa Rican Government.

HULL

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818.20/26 : Telegram

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

SAN JOSÉ, July 15, 1940—10 a. m.

[Received 1:40 p. m.]

89. Department's telegram No. 63, July 12, 5 p. m. The Legation has now received the formal written request of the Government of Costa Rica for the detail of the military mission and requesting to know the terms upon which it would be sent. The Government requests reply at the earliest possible date.

HORNIBROOK

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818.00N/81 : Telegram

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

WASHINGTON, July 17, 1940—4 p. m.

67. Your telegram no. 88, July 12, 3 p. m., and despatch no. 2312 of July 2.<sup>23</sup> The Department has conferred with the Navy Department with regard to the continued presence of a naval vessel at Puntarenas and believes that unless there is imminent danger it may be embarrassing to keep a United States naval vessel in the port of Puntarenas for an indefinite stay. Arrangements have been made, however, to have a naval vessel put in to Puntarenas from time to time for brief visits and in case of emergency a naval vessel can be sent there immediately.

As you may be aware, existing law and procedure do not authorize Government credit for arms purchases. However, it is anticipated that within the next few days the President will recommend to Congress that the necessary authorization be granted.

You may inform the President of Costa Rica that the United States is disposed to cooperate with Costa Rica in every possible way in connection with its defense requirements, that you have already taken up the matter with the Department, and that you hope to be in a position to inform him definitely at a very early date.

HULL

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<sup>23</sup> Latter not printed.

810.20 Defense/721 $\frac{1}{2}$ <sub>5a</sub> : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

75. Department's circular telegram July 11, 4 p. m.<sup>24</sup> The War Department has designated Major L. Mathewson, U. S. Army, and the Navy Department has designated Major C. C. Jerome, U. S. Marine Corps, and Captain F. L. Riefkohl, U. S. Navy, to conduct the proposed staff conversations with the Costa Rican officials. It is expected that they will arrive in San José in time for the conversations to begin August 19. They will inform you later of the proposed date and means of arrival in San José. Following the conclusion of their conversations in San José they will proceed to Managua.

A separate telegram<sup>25</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Costa Rican authorities.

HULL

810.20 Defense/721 $\frac{1}{2}$ <sub>5</sub>

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

No. 2482

SAN JOSÉ, August 24, 1940.

[Received August 29.]

SIR: I have the honor to refer to my despatch No. 2462 of August 20, 1940,<sup>26</sup> and to report as follows:

Captain F. L. Riefkohl, Major C. C. Jerome and Major L. Mathewson, have been in close conference with the military authorities of Costa Rica since the date of their arrival and have prepared and obtained the signature of responsible Costa Rican officials to the two original documents which I am enclosing, together with the required number of copies, viz: "Report of Staff Conversations between Members of the Government of Costa Rica and Representatives of the United States Navy", and "Result of Staff Conferences on Hemisphere Defense between Representatives of the Government of the Republic of Costa Rica, and the Military and Naval Services of the United States".<sup>27</sup>

These two documents were signed last night in the presence of the President of the Republic, Major Jerome and Major Mathewson.

<sup>24</sup> *Ante*, p. 19.

<sup>25</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>26</sup> Not printed.

<sup>27</sup> Neither printed. These documents indicate a satisfactory conclusion of the staff conversations.

Out of courtesy I invited Colonel Pate to accompany me to this ceremony. After the documents were signed the President invited the group to partake of high-balls in his residence, and the Minister of War also invited those of us who attended to an informal dinner on the following evening.

I wish to make the observation that the three members of this Commission have made an excellent impression in Costa Rica, and that I personally feel that the Mission has been a complete and thoroughgoing success.

Respectfully yours,

WM. H. HORNIBROOK

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818.20/37

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

No. 433

WASHINGTON, September 4, 1940.

SIR: The Department has referred a copy of your despatch no. 2397 of July 25, 1940<sup>28</sup> transmitting a copy of the report of Lieutenant Colonel S. M. Montesinos on the requirements of the Costa Rican Government with respect to the United States Military Mission.

The Department has now received a reply dated August 24, 1940 from the Secretary of War<sup>28</sup> stating that "provided the Costa Rican Government is prepared to make the changes recommended by Lieutenant Colonel Montesinos, the War Department will arrange to send an appropriate mission". The War Department adds that unless these changes can be made, it would seem useless to send the United States Military Mission to Costa Rica.

The Department of State concurs in the views of the Secretary of War and therefore requests that you take up the matter informally with the appropriate authorities of the Costa Rican Government. You should endeavor to obtain assurances on the three points under paragraph (b)<sup>29</sup> of the recommendations on page 3 of Colonel Montesinos' report as a prerequisite to the furnishing of a military mission to Costa Rica. You may assure the Costa Rican authorities that provided that the Costa Rican Government takes steps to meet these conditions, arrangements will be made immediately for the selection of a competent United States military mission and that consideration will be given to ways and means of assisting the Costa Rican Government to obtain on favorable terms the arms, munitions, and supplies listed in paragraphs (c), (d), and (e) of the recommendations.

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<sup>28</sup> Not printed.

<sup>29</sup> Recommendations for increasing the terms of enlistment for the Army and National Police and enlarging the latter to form a protective force to be known as the President's Guard of Honor.



Finally, you may assure the Costa Rican Government that this Government is confident that in the event the Costa Rican Government should contract for the services of a United States military mission, an agreement can be reached with respect to the compensation to be paid to the members of that mission which will be entirely satisfactory to the Costa Rican Government and well within its capacity to pay.

Very truly yours,

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

818.20/42

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

[Extracts]

No. 2556

SAN JOSÉ, September 17, 1940.

[Received September 23.]

SIR: I have the honor to refer to the Department's instruction No. 433 of September 4, 1940, stating that the War Department was prepared to send a military mission to Costa Rica provided that the Costa Rican Government agreed to the changes recommended by Lieutenant Colonel Montesinos.

The substance of the Department's instruction under reference was forwarded to the President and a copy of his reply is enclosed,<sup>30</sup> as well as a translation of it. It will be noted that the President does not say that he has agreed to the recommendations of Colonel Montesinos, but only that the recommendations are being studied very carefully. I believe that the reason that a more definite and affirmative reply was not made is due to fears that the cost of the Military Mission might be too great, in spite of the fact that my letter to the President, which was almost a verbatim copy of the Department's instruction under reference, specifically stated that "my Government has informed me that it is confident that an agreement can be reached with respect to the compensation to be paid to the members of that mission which will be entirely satisfactory to the Costa Rican Government and well within its capacity to pay". . . .

The Costa Rican Government desires the Military Mission and is fully in agreement with the statement of the War Department that unless the recommendations of Colonel Montesinos are carried out that it would be useless to send the Military Mission. It is believed that as soon as they are sure of the compensation they will have to

<sup>30</sup> Reply not printed.

pay that they will give a definite affirmation to the recommendations of Colonel Montesinos.<sup>31</sup>

Respectfully yours,

WM. H. HORNIBROOK

CUBA

810.20 Defense/13½

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

WASHINGTON, May 29, 1940.

DEAR GEORGE: You may remember that when you were in Washington we talked about the desirability of undertaking secret military and naval conversations between the appropriate authorities of the United States and the Governments of the other American Republics. This matter was first broached in a conversation which I had with Colonel Batista when he was in the United States a year and a half ago.<sup>32</sup> In a recent conversation which I had with Martínez Fraga I told him that we would soon be ready to move in this regard and, in a subsequent conversation, the Ambassador told me that the Cuban authorities would be ready at any time to commence these conversations.

I have now secretly arranged for conversations of this character to be undertaken in the immediate future in all of the more important Latin American capitals, and, accordingly, two American officers, one naval and one military, will arrive in Habana on June 7. They will carry special passports as diplomatic couriers and will be instructed to get in touch with you immediately after their arrival.

I should assume that the proper people for them to see would be Colonel Batista and Colonel Pedraza<sup>33</sup> and that the smaller the number of people in Cuba who participate in these conversations or who know of their existence, the better it will be. As you will understand, if there is any publicity with regard to what is going on, the German propagandists will immediately seize it as an indication that we are planning to go into the war and are forcing the other American Republics to sacrifice their sons in our behalf.

Colonel del Valle, one of the officers appointed to go to Cuba, and his companion will be instructed as follows: 1. Any conversations they hold are to be solely in your presence and under your auspices.

<sup>31</sup> No agreement for a military mission was reached at that time. Such an agreement was finally signed on December 10, 1945. See Department of State *Bulletin*, December 16, 1945, p. 975.

<sup>32</sup> Fulgencio Batista, then Chief of Staff of the Cuban Army, visited Washington in November 1938 and at that time conferred with officials of the Department of State. No record of these conversations has been found in Department files.

<sup>33</sup> José Pedraza, Chief of Staff of the Cuban Army.

2. They are to make it entirely clear that the holding of these conversations in no way implies that the United States is getting into the war, that it desires a military alliance or that any military or naval commitments are envisaged. 3. They are to make it equally clear that all that is in mind is to make it plain just what every one of the American Republics could do in the way of cooperation in the event of any aggression against the continent so that if an emergency arises there will be no duplication nor confusion. 4. What we particularly need so far as Cuba is concerned is the construction of adequate air-fields (which we would be prepared to finance although they would, of course, be entirely under the sovereignty of the Cuban Government), utilization of Cuban ports in time of need and adequate protection and vigilance by Cuba of her own coastal waters and of alien activities within the Republic.

I think it might be well, before the officers arrive, for you to have a preliminary conversation with Colonel Batista along these lines so that he may not have any mistaken impression of the exact nature of the conferences which are to take place.

My best regards [etc.]

SUMNER WELLES

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810.20 Defense/81 $\frac{1}{2}$ a : Telegram

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

WASHINGTON, June 1, 1940—1 p. m.

61. From the Under Secretary. My personal letter May 29. Lt. Col. N. Randolph, U. S. Army, and Colonel P. A. del Valle, U. S. M. C., have been designated respectively by the War and Navy Departments to undertake the proposed conversations in Habana with the Cuban authorities. They will arrive in Habana June 7, and following the termination of their conversations there will proceed by air to Port-au-Prince and Ciudad Trujillo to undertake similar conversations with the Haitian and Dominican authorities. [Welles.]

HULL

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810.20 Defense/81 $\frac{1}{2}$ : Telegram

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

HABANA, June 10, 1940.

DEAR SUMNER: Supplementing my letter of June 8th<sup>34</sup> with regard to the conversations to take place on the question of cooperation, I am glad to be able to tell you that the conversation took place between the

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<sup>34</sup> Not printed.

President<sup>35</sup> and Colonel Pedraza, and the two officers from the Army and Navy, and myself, at 5 o'clock in the afternoon of June 8th at the President's Finca. I am unable because of immediate pressures to get a full report to you by this airmail, but am getting this word to you to say that the conversation went even better than I expected and we ended with complete agreement in principle on all the points raised by the two officers under their instructions, and there was agreement to immediate staff conferences to work out details.

Del Valle and Randolph will, of course, report directly. I saw them this morning and at my suggestion they have prepared a statement of what took place in sufficient detail to cover all major points, and del Valle is typing this out this morning, and we will all three initial it so that Army, Navy and State may have a copy. We were in full agreement this morning on the report to be made.

I will comment to you later today or tomorrow in full on the memorandum of the conversation and shall transmit this comment with the memorandum to you.<sup>36</sup>

Colonel del Valle, Colonel Randolph and I were in agreement that a further conversation with the Cuban authorities was not necessary at this time on their part as full agreement in principle had been reached. The way is now open for staff conferences whenever we take the initiative. The only reserve which the President made was that, of course, the decisions of the staff conferences would have to be approved by the respective Governments.

When Colonel Batista and I talked over this matter first, it was our understanding that if he wished to see me after the first meeting, even though no further conversation with the two officers from Army and Navy was necessary now, I would be glad to see him before he left on his trip through the Island should he wish to see me. Not wishing to leave anything undone, I therefore communicated with him yesterday and said that in view of the agreement reached, of which Colonel Pedraza and the President had undoubtedly informed him, I did not consider a further conversation with these two officers necessary at this time. I also said that I saw no further need of he and I talking together before he left on this trip unless he wished to see me. He sent me back word later yesterday afternoon that he would like to see me at three o'clock today.

I would not be surprised if, in his conversation with me today, he may not wish to raise this question of material aid in various forms and, if he does so, I am going to say that I think this can best be raised during the staff conferences which are to be held.

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<sup>35</sup> Federico Laredo Brú.

<sup>36</sup> Neither printed.

You will be interested to know that Colonel Pedraza took a very helpful attitude during the conversation on June 8th. I shall send you the details in the next day or two.

With all good wishes [etc.]

G. MESSERSMITH

810.20 Defense/81½

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

No. 567

HABANA, July 16, 1940.

[Received July 19.]

SIR: I have the honor to acknowledge the receipt of the Department's strictly confidential circular telegram to Chiefs of Mission, dated July 11, 4 p. m.,<sup>37</sup> with reference to the recent informal conversations undertaken by officers of the United States Army and Navy in various capitals of the American Republics.

I called on the President of Cuba on July 13, and brought to his attention the contents of the Department's telegram under reference and did not fail to convey to him an expression of the gratification of our Government that the preliminary conversations with Cuba and the other American States so fully conform to the spirit of solidarity existing among the American States.

The President, Dr. Laredo Brú, expressed his appreciation of the information which my Government had transmitted to him with respect to these conversations and his gratification that the conversations had been found in every case successful. He indicated that the appropriate Cuban authorities would be prepared to continue the conversations whenever we took the initiative which, I informed him, would be after the end of the Habana Conference of Foreign Ministers and most likely early in August.

I asked the President whether he wished me to communicate the information in this telegram to other officers of the Cuban Government, and he suggested that I communicate it to Dr. Ramos, the Secretary of National Defense, and to Secretary of State, Dr. Campa, and, if I so wished, to Colonel Pedraza, the head of the Army. As Dr. Ramos happened to be in the Palace at the time I saw the President, the President called him in and I conveyed the contents of the telegram under reference to Dr. Ramos in the presence of the President. It so happened that the Secretary of State, Dr. Campa, was also in the Palace at the time and I conveyed to him later the same afternoon the information in this telegram. All of them expressed

<sup>37</sup> *Ante*, p. 19.

themselves as gratified with the results of the conversations here and elsewhere, and the desire of the Cuban Government to continue them when we took the initiative.

As Colonel Pedraza, the head of the Cuban Army, had been present during the conversations which were held with the representatives of the Army and of the Navy when in Habana, and as Colonel Pedraza was most helpful in his attitude during these conversations, I shall, as a matter of courtesy, seek an early opportunity to convey the contents of the telegram under reference to him.

I did not fail in bringing this telegram to the attention of the above-mentioned members of the Cuban Government to convey our desire and hope that the arrangements for, and proceedings of, these bipartite conversations should be maintained in the strictest confidence. They assured me that they shared this desire and that the confidential character of the conversations would be maintained.

I shall, at any time, on the receipt of appropriate instructions be very glad to facilitate the continuance of these conversations between the officers of our Army and Navy and the appropriate officials of the Cuban Government.

Respectfully yours,

GEORGE S. MESSERSMITH

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810.20 Defense/817a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

125. Department's circular telegram July 11, 4 p. m.<sup>38</sup> Lieutenant Colonel A. R. Harris, U. S. Army and Commander Rufus King, U. S. Navy, retired, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Cuban officials. It is expected that they will arrive in Habana in time for the conversations to begin September 3. You will be informed later through the American Legation in Port au Prince of precise date and means of their arrival in Habana. At the conclusion of their conversations in Habana which follow similar conversations in Ciudad Trujillo and Port au Prince, they will return to the United States.

A separate telegram<sup>39</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Cuban authorities.

HULL

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<sup>38</sup> *Ante*, p. 19.

<sup>39</sup> Circular telegram of August 4, 4 p. m., p. 20.

810.20 Defense/8172a

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

No. 732

HABANA, September 3, 1940.

[Received September 5.]

SIR: I have the honor to refer to previous despatches, and particularly to my last despatch No. 715, of August 30, 1940,<sup>40</sup> on the conversations with the Cuban Government with respect to cooperation in matters of defense.

I am happy to be able to report that after the preliminary conversation reported in my despatch No. 715, it was arranged for the appropriate officials of the Cuban army and navy to meet with Colonel Harris and Commander King on Saturday, August 31. The conversations continued between them, and Commander King and Colonel Harris have called this morning to leave with me copies of the joint recommendations which have been made by the officials of the Cuban Government and themselves. Copies of the recommendations in English and Spanish are being furnished to the Cuban Government by the officials of the Cuban army and navy who participated in the conversations. Copies of the recommendations in English and Spanish are being delivered to the army and navy in Washington by Colonel Harris who is leaving for Washington today.

For the information of the Embassy Colonel Harris and Commander King have left with us copies of the recommendations in English and in Spanish for our confidential files. Colonel Harris states that a copy of their recommendations will be furnished to the Department of State<sup>41</sup> through the Army and Navy Departments in Washington.

It is my opinion that Commander King and Colonel Harris have carried through their mission here in a tactful and effective and very satisfactory manner. The recommendations to which they have agreed in my opinion are sound. The appropriate officials of the Cuban army and navy have now agreed in writing that our Government shall have full use of Cuban territory not only in the defense of the United States and Cuba, but of the other American Republics. As the Cuban Government had already agreed in principle to such use, there is no reason to believe that the Cuban Government will not ratify this agreement in writing of the head of the Cuban Army and Cuban Navy.

The one observation I would make is that any measures of cooperation in defense which involve expenditure of funds by our Govern-

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<sup>40</sup> Not printed.

<sup>41</sup> Not found in Department files.

ment should be carried through in such a way that there may be adequate and appropriate controls, so that any funds which may be allocated for this purpose will be used only for the purpose intended.

It has been a pleasure to cooperate with Commander King and Colonel Harris in their mission here, and I believe they are to be commended for the manner in which they carried it through.

Respectfully yours,

GEORGE S. MESSERSMITH

#### DOMINICAN REPUBLIC

810.20 Defense/181 $\frac{2}{3}$  : Telegram

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

CIUDAD TRUJILLO, May 30, 1940—3 p. m.

[Received 6:02 p. m.]

83. Department's telegram No. 61, May 29, noon [ 3 p. m.]<sup>42</sup> The President<sup>43</sup> said that his Government was entirely in accord with the Department's suggestion and that it would be ready to put into operation at any time. The President added that General Trujillo authorized him to offer any type of cooperation whatsoever.

HINKLE

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810.20 Defense/181 $\frac{2}{3}$  : Telegram

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

CIUDAD TRUJILLO, May 31, 1940—noon.

[Received 2:50 p. m.]

85. Legation's telegram No. 83, May 30, 3 p. m. Doctor Troncoso later in the day called me to say he had talked over the matter with General Trujillo who stated that he wished to reiterate his desire to cooperate in this and any other way and that whenever the officers arrive he himself would undertake conversations with them at his house accompanied possibly by an aide. The President said that General Trujillo welcomed having the conversations under the auspices of the Chief of Mission and that the matter would be kept in strict confidence between himself, General Trujillo and myself.

HINKLE

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<sup>42</sup> See footnote 29, p. 16.

<sup>43</sup> Manuel de Jesús Troncoso de la Concha.



810.20 Defense/181<sup>4</sup>: Telegram

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

WASHINGTON, June 1, 1940—1 p. m.

62. From the Under Secretary. Your 85, May 31, noon. Lt. Col. N. Randolph, U. S. Army, and Colonel P. A. del Valle, U. S. M. C., have been designated respectively by the War and Navy Departments to undertake the proposed conversations in Ciudad Trujillo with the Dominican authorities. The date of their arrival in Ciudad Trujillo is not yet fixed as they will go first to Habana, arriving there June 7, and then to Port-au-Prince, undertaking similar conversations with the Cuban and Haitian authorities. They will advise you through the Legation in Port-au-Prince of the date and hour of their arrival in Ciudad Trujillo. [Welles.]

HULL

810.20 Defense/181<sup>4</sup>

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

No. 1273

CIUDAD TRUJILLO, June 18, 1940.

[Received June 25.]

SIR: I have the honor to enclose a memorandum of the conversation held this afternoon between members of the American Military Mission and President Troncoso de la Concha at which I was present. This memorandum, prepared with the concurrence of Colonel Del Valle, Lieutenant Colonel Randolph and myself, has my entire endorsement. Copies of the memorandum have already been forwarded to the Chief of Naval Operations, Navy Department, and the Chief of War Plans Division, War Department.

Respectfully yours,

EUGENE M. HINKLE

[Enclosure]

*Memorandum Report of a Conference Held Monday, June 17, 1940,  
at the Presidential Office, Ciudad Trujillo*

Present:

President Troncoso of the Dominican Republic.

Brigadier-General Hector Trujillo, M. M., representing the Dominican Army;

Mr. Eugene M. Hinkle, Chargé d'Affaires, of the United States of America;

Colonel P. A. del Valle, U. S. Marine Corps, representing the United States Navy; and,  
Lieutenant-Colonel Norman Randolph, U. S. Army, representing the United States Army.

The conference began about 5:00 p. m.

The American Chargé d'Affaires made an introduction of the subject and of the members of the Mission. Colonel del Valle as spokesman for the Mission set forth each of the points which the Mission had instructions to discuss beginning with the three main points, namely:

*First*

Preparation of the Dominican Republic for defense against attack.

*Second*

Assistance to the United States in case that government was obliged to undertake military operations in connection with hemisphere defense.

*Third*

Assistance required by the Dominican Republic for its defense against foreign aggression.

President Troncoso then was allowed time in which to formulate his reply in general to these questions.

President Troncoso replied that the state of their defense was known to us and that their military capacity was just sufficient for maintaining order; that they were willing to do anything in general to assist our operations as publicly stated by former President Trujillo, and that the details of these questions and of the question of the assistance required by the Republic from the United States for its defense would have to be worked out at a military conference later.

Colonel del Valle then continued with the remainder of the questions and they were all agreed to without demur by both the President and the Chief of Staff. It was fully agreed that at a later date staff conferences would be authorized between representatives of the United States Army and Navy and the military and naval representatives of the Dominican Republic for the purpose of formulating plans of mutual defense in case of foreign aggression.

The questions of the construction by our government of an air field at the expense of the United States with the proviso that we were to have the use of it in proceeding to and from our Puerto Rico bases, and in proceeding to the assistance of another Latin American Republic

which was in danger were brought out and were accepted in principle including the proviso that defense and security measures would be jointly taken by both governments. Sovereignty would remain with the Dominican Government. Details of these measures were also to be discussed in the staff conferences.

President Troncoso assured us that the Generalissimo was in full accord with their acceptance of our proposals and that he had expressed a desire to have a conference with the members of the Mission as soon as the state of his health permitted.

The American Chargé d'Affaires assured the President that the officers of the Mission would remain here at his disposal awaiting the call to make the visit to the Generalissimo.

During the conference the President showed Mr. Hinkle a copy of a telegram his government had just received from the Dominican Minister in Haiti reporting that the Haitian government had been approached by us for the establishment of air bases in that country. The President seemed put out by the fact that this information should have been passed on presumably by the Haitians to his Minister.

The conference was terminated at about 7:00 p. m.

EUGENE M. HINKLE

*Chargé d'Affaires, of the United States of America*

P. A. DEL VALLE

*Colonel, U. S. Marine Corps*

NORMAN RANDOLPH

*Lieutenant-Colonel, U. S. Army*

810.20 Defense/181f

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

No. 4

CIUDAD TRUJILLO, June 21, 1940.

[Received June 25.]

SIR: I have the honor to enclose a memorandum of the conversation held this evening between members of the American Military Mission and General Trujillo at which I was present. This memorandum was prepared with the concurrence of Colonel del Valle, Lt. Colonel Randolph and myself, and has my entire endorsement. It is requested that a copy of this memorandum be forwarded to the Chief of Naval Operations, Navy Department, and the Chief of War Plans Division, War Department.

Respectfully yours,

ROBERT M. SCOTTEN

[Enclosure]

*Memorandum Report of Conference Between Representatives of the United States Government and Generalissimo Trujillo, June 21, 1940*

The conference took place at about 8:30 p. m. at the country seat of Generalissimo Trujillo. There were present in addition to the Generalissimo his Chief of Staff, General Hector Trujillo, and Lt. Colonel McLaughlin of the Dominican Army. Representing the United States were the Minister, Mr. Robert McGregor Scotten, Colonel del Valle of the United States Marine Corps, and Lt. Colonel Norman Randolph. It is worthy of noting that the Generalissimo received the representatives of the American Government at a time when he was suffering obviously from a serious operation, and the fact that he did receive us was in itself an indication of his good will. The American Minister introduced the general subject of the object of the Military Mission, and there followed a general conversation in the course of which the Generalissimo reiterated again and again that Santo Domingo was 100% with the United States insofar as concerns the necessary measures of hemisphere defense. He stated that anything that we should desire in this connection was ours, and even went so far as to emphasize that should it be necessary the Dominicans were willing to spill their blood in this cause. The Generalissimo showed active interest in the strategical aspects of the various bays and harbors, and the Members of the Mission indicated the possibility of expanding the aviation field at Santo Domingo, lighting it and adding radio direction control. In addition, it was brought out that various auxiliary fields within the radius of about fifty to sixty miles from the capital might be desirable, and particularly the areas about Puerto Plata, San Lorenzo (Samaná Bay) and Calderas Bay were mentioned. Upon his own initiative the Generalissimo set forth the desirability of the location situated on the bay south of La Romana sugar estate (Saona) for a naval and air base controlling the Mona Passage.

The impression gained by the Members of the Military Mission and the Minister was that the Generalissimo spoke without reservation of any sort, and that anything the United States Government desires him to do he will carry out without qualification.

The Minister and Members of the Military Mission noted that the Generalissimo placed considerable emphasis upon the location referred to above, Saona Bay, and feel that (from political, if not military reasons, although the two may be entirely compatible) attention should be given to carrying out his wishes.

The interview was terminated at about 9:30 p. m.

## ECUADOR

810.20 Defense/148 $\frac{1}{2}$  : Telegram*The Minister in Ecuador (Long) to the Secretary of State*

QUITO, May 24, 1940—8 p. m.

[Received May 25—12:05 a. m.]

68. The Provisional President<sup>44</sup> approves plan outlined in Department's No. 46, May 23, noon,<sup>45</sup> and will be pleased to receive emissaries. Secrecy emphasized as per instructions.

LONG

810.20 Defense/148 $\frac{1}{2}$  : Telegram*The Secretary of State to the Minister in Ecuador (Long)*

WASHINGTON, May 29, 1940—3 p. m.

52. From the Under Secretary. Your 68, May 24, 8 p. m. Captain B. L. Canaga, U. S. Navy, and Lieutenant Colonel A. R. Harris, U. S. Army, have been designated by their respective Departments to undertake the proposed conversations in Quito with the Ecuadorean authorities. . . .

They are proceeding direct to Santiago by Panagra plane and following the termination of their conversations there will proceed to Lima and Quito. You will be advised in advance through the Embassy in Lima of the exact date of their arrival in Quito. [Welles.]

HULL

810.20 Defense/148 $\frac{1}{2}$  : Telegram*The Minister in Ecuador (Long) to the Secretary of State*

QUITO, June 20, 1940—10 a. m.

[Received 5:45 p. m.]

122. Referring to the Department's telegram No. 57, June 3, 3 p. m.<sup>46</sup> a conference was held between the Ministers of Foreign Affairs and National Defense, Canaga, Harris and myself with regard to the defense of the Americas, last night. The Foreign Minister reasserted Ecuador's intention to stand by conference agreements and both Tobar and Plaza asserted the disposition of their Government to cooperate in every practical way. They are also prepared to hold staff conferences any time after July 10.

LONG

<sup>44</sup> Andrés F. Córdova.<sup>45</sup> See footnote 29, p. 16.<sup>46</sup> See footnote 31, p. 17.

810.20 Defense/1487 $\frac{1}{2}$ a : Telegram*The Secretary of State to the Minister in Ecuador (Long)*

WASHINGTON, August 4, 1940—3 p. m.

106. Department's circular telegram July 11, 4 p. m.<sup>47</sup> Lieutenant Colonel N. Randolph, U. S. Army, and Lieutenant Commander J. F. Barbaro, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Ecuadoran officials. It is expected that they will arrive in Quito in time for the conversations to begin September 9. You will be informed of the proposed date and means of arrival in Quito of Colonel Randolph through the Embassy in Bogotá and of Lieutenant Commander Barbaro by the Department. For your confidential information, Lieutenant Commander Barbaro has been tentatively selected by the Navy Department as Chief of the proposed Naval Mission to Ecuador. Following the conclusion of the conversations in Quito Colonel Randolph will return to the United States as will Commander Barbaro unless the arrangements for the mission have been perfected.

A separate telegram <sup>48</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Ecuadoran authorities.

HULL

810.20 Defense/1487 $\frac{1}{2}$ a*The Minister in Ecuador (Long) to the Secretary of State*

No. 1207

QUITO, August 16, 1940.  
[Received August 20.]

SIR: In reference to the Department's telegrams No. 106, of August 4, 3 p. m., and Circular, of August 4, 4 p. m. I have the honor to report that no action has as yet been taken to notify appropriate authorities because of the prospective change in Government on September 1st. This means that an entire new set of officers will, in all probability, have to consider the propositions therein enumerated. Moreover, it is thought that, on account of the confidential character of the subject matter, it would be safer to await the designation of the new Cabinet, which presumably will occur some nine days prior to the visits announced in the telegrams under acknowledgement.

Should it develop that the newly appointed officials are not prepared to initiate conferences on September 9th, it might be well to consider

<sup>47</sup> *Ante*, p. 19.<sup>48</sup> Circular telegram of August 4, 4 p. m., p. 20.

the advisability of having our officials visit Ecuador at a later date. As soon as appointments are made under the new Government, the substance of the Department's telegrams will be discussed with the appropriate authorities.

With reference to the Naval Mission, we would be pleased to receive the Department's ideas with respect thereto and the status of negotiations concerning this Mission.

Respectfully yours,

BOAZ LONG

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810.20 Defense/222%

*The Minister in Ecuador (Long) to the Secretary of State*<sup>49</sup>

No. 1258

QUITO, September 13, 1940.

SIR: In continuation of my despatch No. 1207 of August 16th, I have the honor to report the arrival here, on September 1st, of Lieutenant Commander J. F. Barbaro.

It was not until September 9th, the date originally mentioned in the Department's telegram No. 106 of August 4th, that it was possible to initiate the conversations.

The Minister for Foreign Relations requested the Acting Minister of National Defense, Mr. Vicente Illingworth, to arrange the conferences. I introduced the representative of our Navy Department to the Acting Minister, who in turn presented the Assistant Secretary, Colonel Eliodoro Saenz, the Commander in Chief of the Army, Colonel R. A. Villacis, and the Chief of the General Staff, Colonel Francisco Urrutia. Later on, Commander César Mogollon, of the Naval Section, was brought into the conference.

The fact that the new Minister of National Defense had not left Santiago, where he has been serving as Ecuadoran Minister to Chile, caused the persons mentioned above to proceed with some caution. However, conversations were held on the 10th, and part of the information required in the Naval Agenda (Department's circular telegram of August 4th, 4 p. m.) was obtained, which suggested that fair progress was being made. Thereupon, Commander Barbaro, with the aid of Colonel Urrutia, drafted in pencil the substance of the tentative conclusions reached and handed it to the Acting Minister of National Defense, who offered to let Commander Barbaro know what he thought the next day.

On the 11th, at 3 p. m., the Minister for Foreign Affairs, after conference with the President, advised us that the pencil draft was inadmissible, because some of the paragraphs invaded diplomatic fields,

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<sup>49</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

which had no proper place in undertakings of a Naval or Hemisphere Character. Dr. Tobar Donoso suggested that Commander Barbaro resume conferences with Colonel Urrutia, limiting the memorandum they might draft to Naval preparedness steps required by us in collaboration with Ecuador. Commander Barbaro spent the remainder of the afternoon working with Colonel Urrutia, writing up at night a memorandum in connection with Commander Greenacre.

Early on the 12th, this was shown to me, it being explained that a paragraph had been included at the request of Colonel Urrutia, but as this referred to the Galápagos Islands, it was deleted. However, enclosure No. 1 contains the text.<sup>51</sup> It serves to illustrate what Colonel Urrutia thought, or possibly what he may have been told to suggest.

The memorandum was then rewritten and shown to the Foreign Minister, at 3:30 p. m. He thought it could not be signed as drafted, but offered to rephrase it in terms that might be acceptable.

At the afternoon meeting of the 13th, the Minister for Foreign Affairs handed us his idea of what a memorandum might include. It was read by Commander Barbaro and myself. Two or three points were discussed, and it became apparent that what Doctor Tobar had redrafted was about all that could be secured at the moment. Commander Barbaro explained that neither Colonel Urrutia nor Commander Mogollon would sign without written instructions, whereupon Dr. Tobar wrote an Okey (*Visto Bueno*) on the edge and signed it, suggesting that if we showed that to Acting Minister Illingworth he would give the necessary authorization. We immediately proceeded to interview Mr. Illingworth, who, along with Colonel Saenz, read the Tobar redraft, approved it, and said that, if Commander Barbaro brought it back typed in satisfactory form, it would be signed Saturday morning. As the airmail pouch closes before the signatures can be affixed, one copy of the Tobar redraft is enclosed, in the belief that it will be signed as indicated.

Respectfully yours,

BOAZ LONG

EL SALVADOR

810.20 Defense/67 $\frac{1}{4}$  : Telegram

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

SAN SALVADOR, June 4, 1940—2 a. m.

[Received 6:33 p. m.]

24. I saw President of Salvador<sup>52</sup> today who cordially concurs in all ideas set forth in the Department telegram 19 of June 3, 3 p. m.<sup>53</sup>

FRAZER

<sup>51</sup> Not printed.

<sup>52</sup> Gen. Maximiliano H. Martínez.

<sup>53</sup> See footnote 29, p. 16.



810.20 Defense/67a : Telegram

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

WASHINGTON, June 5, 1940—6 p. m.

20. Department's 19, June 3, 3 p. m. Captain Maxwell D. Taylor, U. S. Army, and Major Clayton C. Jerome, U. S. Marine Corps, have been designated by the War and Navy Departments respectively to undertake the confidential conversations with the Salvadoran authorities.

They expect to arrive in San José June 10 and after terminating their conversations there will proceed to Managua, Tegucigalpa, San Salvador and Guatemala in the order named to undertake similar conversations.

You will be advised through the Legation in Tegucigalpa of the date and hour of their proposed arrival in San Salvador.

HULL

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810.20 Defense/67 $\frac{1}{2}$  : Telegram

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

SAN SALVADOR, July 17, 1940—3 p. m.

[Received 5:05 p. m.]

34. President of El Salvador today expressed complete accord with proposals contained in Department's circular telegram dated July 11, 4 p. m.<sup>54</sup>

FRAZER

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810.20 Defense/67 $\frac{1}{2}$  : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

27. Department's circular telegram July 11, 4 p. m. Major L. Mathewson, U. S. Army, and Major C. C. Jerome, U. S. Marine Corps, have been designated respectively to represent the War and Navy Departments in the proposed conversations with Salvadoran officials. It is expected that they will arrive in San Salvador in time for the conversations to begin September 9. You will be informed through the Legation at Tegucigalpa of the proposed date and means of their arrival in San Salvador. Following the conclusion of their conversations in San Salvador they will proceed to Guatemala.

A separate telegram<sup>55</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Salvadoran authorities.

HULL

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<sup>54</sup> *Ante*, p. 19.

<sup>55</sup> Circular telegram of August 4, 4 p. m., p. 20.

810.20 Defense/67 $\frac{3}{4}$  : Telegram*The Chargé in El Salvador (Gade) to the Secretary of State*

SAN SALVADOR, September 11, 1940—5 p. m.

[Received 8 p. m.]

45. For General Strong. Permission granted by Salvadoran Government for photographic air mission to operate in this country based on San Salvador. Strongly urge that both Honduran and Salvadoran aviators be given some instruction in methods and equipment used. Mathewson.

GADE

## GUATEMALA

810.20 Defense/52 $\frac{9}{16}$  : Telegram*The Minister in Guatemala (Des Portes) to the Secretary of State*

GUATEMALA, June 4, 1940—noon.

[Received 6:48 p. m.]

47. Department's strictly confidential telegram No. 38, June 3, 3 p. m.<sup>56</sup> The President<sup>57</sup> is in entire agreement with suggestion made in the Department's telegram. He suggests that the officers come to Guatemala at the time of the June 30th celebrations when their presence will pass quite unnoticed. They might perhaps come with General Brett who expects to come at that time in a flying fortress.

The President emphasized the necessity for supplying arms and equipment to Guatemala in order that it might fight off an aggression until effective aid could be brought. He also asserted that the Americas should take over the European colonial possessions in this hemisphere.

DES PORTES

810.20 Defense/52 $\frac{3}{16}$ *The Minister in Guatemala (Des Portes) to the Secretary of State*

No. 1286

GUATEMALA, June 4, 1940.

[Received June 10.]

SIR: With reference to the Department's telegram no. 38, of June 3, 3 p. m., I have the honor to report that immediately upon receipt of this telegram, I conferred with President Ubico regarding its subject matter.

The President vigorously assented when I mentioned the dangers of the present situation, and reminded me that before the Buenos

<sup>56</sup> See footnote 29, p. 16.<sup>57</sup> Gen. Jorge Ubico.

Aires Conference he had proposed a treaty which would have provided that any aggression against an American nation would be considered a danger by all and would be resisted by all with all their resources. He immediately approved the suggestion that there be military and naval consultations, and reiterated this when I specifically requested a confirmation.

The President suggested that the officers sent for the consultations come here at the time of the June thirtieth celebrations. In as much as an important flight of Army planes is to be here at that time, the presence of additional officers would not be noted and the significance of their visit would not be appreciated by the public. I mentioned that General Brett had expressed the intention of coming to Guatemala with a Flying Fortress at that time and that it might be possible for these officers to come with him.

The President then spoke of the necessity of supplying arms and equipment to the economically weak Latin American nations. He said that the United States was now arming itself, but that this would not suffice for the defense of the Hemisphere. A quick aggression, he pointed out, might enable the Germans to seize possession of Guatemala or another country before effective aid could be furnished by the United States and, he asserted, it would be much easier to repel a German attack than it would be to drive German forces out of the country once they had established themselves. He said that he wished to have equipment for one hundred and fifty thousand men but that at the moment he had equipment for not more than forty thousand. He mentioned thirty thousand Mauser rifles as the principal item in this equipment and added that his artillery was antiquated. He also spoke of the desirability of having a couple of U. S. pursuit planes always on hand in Guatemala in order that Guatemalan pilots might have training in their use.

The President discussed at some length the world political situation. He said that Norway, Belgium and Holland had made a bad mistake in awaiting the German attack, when they knew that they were bound eventually to be attacked, and that their intervention earlier might have been decisive. He felt that England and France should have demanded to know immediately where these countries stood: if they were for the Allies, then appropriate aid should have been extended at once; if against, then England and France "would have known what to do". The same rule, he said, applied to the Americas; the United States should ask every American Republic whether it stood with or against the United States; if the former, it should be equipped and aided; if the latter, it should be crushed. He added that two simple rules should guide the policy of the Americas; one, that the

Americas would not attack anyone; two, that they would act as a unit to repel any aggression against any of them.

The President mentioned that he had given orders that the press bulletin issued daily by the German Legation should not be distributed through the mails except to Germans, who, he said, had the right to receive communications from their own diplomatic representative. The German Legation, he added, is apparently very annoyed about this, and had made inquiries at the Post Office, so he anticipated a German protest. He said that he had told the Post Office authorities to intimate that they knew nothing about it and, if pressed, to answer that the German Legation had no right to distribute information except to Germans, if it disturbed Guatemalan public opinion, as the dissemination of this bulletin was in fact doing. He concluded by stating that he had an order in his desk ready for issuance at the proper moment, stating that anybody whose activities disturbed the independence or security of the State would be immediately shot.

The President's remarks about the distribution of the press bulletin of the German Legation were implicitly confirmed by the bulletin of May 31, which spoke of irregularities in their distribution and asked for information from anyone failing to receive it.

Respectfully yours,

FAY ALLEN DES PORTES

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810.20 Defense/527a : Telegram

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

WASHINGTON, June 5, 1940—6 p. m.

39. Department's 38, June 3, 3 p. m.<sup>58</sup> Captain Maxwell D. Taylor, U. S. Army, and Major Clayton C. Jerome, U. S. Marine Corps, have been designated by the War and Navy Departments respectively to undertake the confidential conversations with the Guatemalan authorities.

They will arrive in San José, Costa Rica, June 10, and after they have terminated similar conversations in that city they will proceed via Managua, Tegucigalpa and San Salvador in the order named to Guatemala. It is calculated, since several days must necessarily be spent in each capital, that they should arrive in Guatemala approximately on June 30, as suggested by President Ubico (your 47, June 4 noon). They will inform you through the Legation in San Salvador of the date and hour of their proposed arrival in Guatemala.

HULL

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<sup>58</sup> See footnote 29, p. 16.

810.20 Defense/52½ : Telegram

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

GUATEMALA, June 21, 1940—11 a. m.

[Received 12:51 p. m.]

56. Department's telegram 39, June 5, 6 p. m. Having completed their mission, Jerome and Taylor wish to know whether there are any further instructions for them, and if not, they request cabled authority to return on 24th.

DES PORTES

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814.24/95

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

No. 1344

GUATEMALA, July 3, 1940.

[Received July 8.]

SIR: I have the honor to report that Colonel Pate, the Military Attaché of this Legation, who is normally stationed at San José, Costa Rica, visited this city over the week-end in connection with the flight of the 19th Wing Squadron.

On July 1st he came to the Legation for a long conference which dealt principally with the possibility of subversive activities in this country. The first matter discussed was the Guatemalan desire to secure arms from the United States to equip the already trained men which the country could call to the colors in an emergency. Colonel Pate spoke of the strongly-worded requests which have been made of him, as equally of the Minister and Captain Taylor, by the Guatemalan authorities in this connection. He said that the Guatemalan soldiers, even though allegedly trained, would not be remotely capable of standing up against even a small force of properly trained men, but that if we did nothing to help Guatemala it would merely drive this country into the arms of Germany. He mentioned the bad impression which had been caused in El Salvador by the insistence of the United States upon cash payment for rifles recently purchased from the United States Government, when Germany had offered El Salvador war equipment free. He agreed to my comment that it was essential that there be a force here able to hold this country against any enemy, either foreign or internal, until help could arrive from the United States.

Colonel Pate then said that in his opinion the German Government could arrange for the overthrow of this Government and all the other Governments in Central America at a moment's notice, and that in that case a surprise aerial attack might be made on the Panama Canal before its defenses could be properly organized. He said that

on this account it was essential that if any arms were sent to Guatemala for the use of Guatemalan soldiers, this must be done only under the supervision of an American Military Mission which would be sufficiently numerous to form a nucleus of resistance in the event of any attempted coup. He emphasized the importance of nuclei in such a situation. He said that whereas a few hundred Germans might seize the barracks in this city by surprise, a real rallying point would probably enable the loyal Guatemalans to recover and counterattack. He agreed to my suggestion that the Escuela Politécnica under its American Director might constitute such a rallying point in the case of a German coup, and pointed out that cadet schools have had a magnificent record in many countries under such conditions. The possibility of training Guatemalan officers and pilots in the United States was also discussed, but we agreed that this might be inadequate.

While not dismissing the possibility of the overthrow of the Guatemalan Government by a sudden German coup, the Legation is inclined to believe that such an attempted coup would not be likely to succeed. The German colony in this country could scarcely muster 500 men of military age. They are scattered all over the country; so far as is known they have no considerable quantity of arms; they are not able to drill militarily; they are carefully watched by the Guatemalan authorities, and the Guatemalan Government is alert against any subversive movement. It seems scarcely possible under these conditions that they could seize all three of the vital forts in this city together with the vital strategical points without very considerable assistance from Guatemalans.

But if Guatemalans were involved in such a plot, the risk of detection both through treachery and because of the Government's vigilance, would be enormously increased. Moreover, the Legation knows of no important Guatemalan leader who would be willing to act as a mere rubber stamp for a German-dominated Guatemala, unless he were convinced that the United States was unable or unwilling to do anything about it. For this reason the Legation doubts the possibility that it would be possible that a German coup could seize this country and immediately use it as a base for a surprise attack on the Panama Canal. It believes that the more likely sequence of events is that the Germans will arrange for the assassination of the President, and in the confusion will endeavor to set up a Government which they hope will fall more and more under German influence. However, even if they were able to install their own man in the Presidency, there is no certainty that the United States could not wean such a man away from the Germans if the man could be persuaded that it was not to his personal advantage to be obviously dominated by Germany.

In conclusion, I may say that I agree entirely with Colonel Pate on these points:

1. The Guatemalan Government must in one way or another be supplied with sufficient arms to hold this country against the first brunt of sudden internal or external aggression. The quantity furnished should not be so great as to constitute a serious military problem if it fell into the hands of an openly pro-German dictator.

2. These arms must be in the hands of an American mission which on the one hand must be large enough to train Guatemalan soldiers properly and to furnish some slight protection for the arms and, on the other, must not be so large as to wound Guatemalan susceptibilities. In furnishing arms and a mission the susceptibilities of neighboring countries obviously must also be considered.

3. The Guatemalan Government would probably be very glad to accept such an arrangement. If nothing is done, it might tend to fall under German influence.

4. Guatemala is much too important strategically to be neglected.

Respectfully yours,

JOHN M. CABOT

810.20 Defense/52½ : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

61. Department's circular telegram July 11, 4 p. m.<sup>59</sup> Major L. Mathewson, U.S. Army, and Major C. C. Jerome, U.S. Marine Corps, have been designated respectively to represent the War and Navy Departments in the proposed conversations with Guatemalan officials. It is expected that they will arrive in Guatemala in time for the conversations to begin September 16. You will be informed through the Legation at San Salvador of the proposed date and means of their arrival in Guatemala. Following the conclusion of their conversations in Guatemala they will return to the United States.

A separate telegram<sup>60</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Guatemalan authorities.

HULL

814.24/100

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

No. 462

WASHINGTON, August 22, 1940.

SIR: Reference is made to your despatch no. 1344 of July 3, 1940 regarding possible military assistance to Guatemala.

<sup>59</sup> *Ante*, p. 19.

<sup>60</sup> Circular telegram of August 4, 4 p. m., p. 20.

The presence of a United States military mission in Guatemala might serve a highly useful purpose in stabilizing the situation and in improving the armed forces of Guatemala, but in the absence of an official request from the Guatemalan Government for a military mission and of a survey of the defensive needs of the Guatemalan armed forces in this regard, no definite decision can be taken by this Government in the matter. However, anticipating the possibility of such a request the matter has been given preliminary consideration by the War Department, which has advised this Department informally that it is prepared in principle to accede to a request for a military mission of moderate size. Accordingly, if the matter is broached to you by the Guatemalan Government, you may say that you are confident that this Government would be glad to entertain an official request for such a mission and to give it every favorable and sympathetic consideration.

With regard to the supplying of arms, the surplus stocks of military matériel have been exhausted. At the present time a legislative proposal now before the Congress for consideration would include provision for financing the sale of arms on credits extended by appropriate agencies of this Government. Such arms would be of new manufacture, with the exception of such military matériel as would from time to time be declared surplus. You will be informed at a later date of the final decision of the Congress with respect to the possibility of supplying military and naval matériel by credits extended to the governments of the other American republics.

In your conversations with the Guatemalan authorities, you may extend unreserved assurance that the Government of the United States is prepared to give every possible consideration to any request which the Guatemalan Government may make for assistance and that in every possible manner this Government is willing to cooperate on behalf of common inter-American interests in accord with the resolutions and declarations of the Habana Conference.

For your strictly confidential information, in case disturbances of the character considered in your despatch under reference, namely a subversive movement or other attack upon the Guatemalan Government by foreign interests or parties favorable to those interests, should become threatening, arrangements will be discussed with the Navy Department for the sending of a destroyer or cruiser to a Guatemalan port.

Very truly yours,

SUMNER WELLES



810.20 Defense/52 1 $\frac{1}{16}$  : Telegram

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

GUATEMALA, September 20, 1940—10 a. m.

[Received 12: 55 p. m.]

85. For General Strong. Permission granted by Guatemalan Government for photographic air mission to operate this country based on Guatemala City. Depart Friday. Delay one day Mexico. Signed Mathewson.

DES PORTES

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814.24/101 : Telegram

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

GUATEMALA, October 29, 1940—11 a. m.

[Received 10 p. m.]

99. The President has called Colonel Glass<sup>61</sup> in and has expressed his surprise and perturbation at the long delay in giving any concrete military assistance to Guatemala. He referred particularly to the repeated requests for arms which he has made and which have never been answered. He also referred to the desirability of sending air-planes to be permanently stationed at Guatemala City the officers of which might give instruction to Guatemalan flying officers.

I have also received similar messages from the President in the last few days but in view of the President's talk with Glass, I feel the matter is more urgent than I had originally believed.

I have discussed the matter with Glass and June.<sup>62</sup> We agreed on the danger of sending any considerable amount of arms to Guatemala; on the other hand, we agree with the President's comment that it is useless to send military instructors as recommended in the recent staff talks unless the instructors bring with them the necessary equipment to give instruction. Moreover we all feel that it would be highly desirable to have a few obsolescent combat airplanes permanently or semi-permanently stationed in this country and to authorize the officers to give instructions to Guatemalan officers. It would seem that such a move made at the direct request of the Guatemalan Government could not be misinterpreted either locally or elsewhere, would be concrete evidence of the United States' intention to protect this region and would be of definite service in keeping Guatemala in line in the event of subversive movements or hostilities involving the United States.

CABOT

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<sup>61</sup> Lt. Col. Edward L. N. Glass, American Director of the Guatemalan Polytechnic School.

<sup>62</sup> Capt. Frank M. June, Naval Attaché and Naval Attaché for Air.

S14.24/101 : Telegram

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

WASHINGTON, November 7, 1940—6 p. m.

88. Your 99, October 29, 11 a. m. Will you please express to the President the Department's sympathetic interest in his desire to obtain military assistance. In this connection reference is made to instruction no. 462 of August 22, 1940, indicating that this Government is prepared to send a military mission when officially requested to do so and after a survey of the defensive needs of the Guatemalan armed forces has been made. With this end in view this Government would be pleased to send to Guatemala promptly and without cost to the Guatemalan Government an Army officer who would make a thorough study of the situation and confer with the appropriate authorities. He would embody his recommendations in a report which would be submitted to the Governments of Guatemala and the United States for their consideration.

The Department hopes that the President will approve of this suggestion which it is believed will be helpful in achieving the ends desired by the Government of Guatemala.

HULL

810.20 Defense/521§

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

No. 1573

GUATEMALA, November 9, 1940.

[Received November 13.]

SIR: With reference to the Department's strictly confidential Instruction No. 492 of October 5, 1940,<sup>63</sup> I have the honor to enclose herewith copy and translation of the reply which I have received from the Foreign Office with respect to the staff conversations held between Guatemalan and American officers in this City in September last. This reply has been delayed due to the absence of General Mendoza in the United States.

The Department will note that although the points made in this note largely cover those raised in the Department's instruction No. 503 of October 21, 1940,<sup>64</sup> the Foreign Minister has made it clear to me that this reply was prepared before he had received the note which I submitted in accordance with the Department's instruction under

<sup>63</sup> Not printed.<sup>64</sup> Not printed. This instruction transmitted a letter from the Secretary of War, October 11, 1940, pointing out certain discrepancies between the Spanish and English texts of the staff agreement (810.20 Defense 287½).

reference. I shall of course forward the Guatemalan reply to my second note as soon as it has been received.

Respectfully yours,

JOHN M. CABOT

[Enclosure—Translation]

*The Guatemalan Minister for Foreign Affairs (Salazar) to the American Chargé (Cabot)*

GUATEMALA, November 7, 1940.

MR. CHARGÉ: I have the honor to refer to that Honorable Legation's Note No. 111 of October 17 last,<sup>65</sup> in which you were good enough to inquire as to the attitude of this Government with regard to the recommendations resulting from the conversations recently held between high military authorities of the United States and General Rodolfo A. Mendoza, Chief of the General Staff of the Guatemalan Army.

I take pleasure in informing Your Honor that the Ministry of State of the Office of War has today communicated to me that the Government of the Republic accepts the following points discussed in the above-mentioned conversation:

1. The Government of Guatemala is interested in sending to the United States some agents of the investigation service to receive training under the Federal Agency of Investigation (FBI) in the methods employed by that secret service.

2. The Government of Guatemala does not object to having a military airplane of the United States come to the country with the object of taking aerial photographs of airdromes, maritime ports and other strategic regions, it being understood that the Government of the Republic will receive copies of all the photographs taken and that opportunity will be given Guatemalan aviators to receive instruction in all the aspects of this type of work.

3. The Government of Guatemala sees no objection to the coming to this country of the following officers of the United States Army:

*a.* A doctor to make a study of the climate, diseases, hospitals, shelters, water (quantity and potability).

*b.* An engineer to make a similar survey of the highways, railways, rolling stock, repair shops, wharves and landing facilities and construction materials.

*c.* An officer of the signal communication corps to make a similar survey of facilities and the system of electric communications.

With regard to the suggestion that the Government of Guatemala make use of a small launch, preferably armed, to reinforce the patrol which the aerial forces and land observers are actually maintaining along the coast, I much regret to inform Your Honor that this will

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<sup>65</sup> Not printed.

not be possible inasmuch as in the Pacific it is not possible to use a small launch, and a larger craft for this purpose does not exist.

I request that Your Honor be good enough to communicate the above to your Illustrious Government.

I avail myself [etc.]

CARLOS SALAZAR

814.24/102 : Telegram

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

GUATEMALA, November 25, 1940—2 p. m.

[Received 9 : 40 p. m.]

115. Department's telegram 88 of November 7, 6 p. m. In a talk which I had today with the Foreign Minister, he made it evident that the President was still kicking at the idea of sending a military mission to Guatemala. He explained that Guatemala had had a military officers' school many years; that consequently it had plenty of military instructors who were able to give adequate training to the Guatemalan Army and that, therefore, Guatemala did not need such a mission. He also intimated that after the staff talks he saw no necessity of sending an officer here to make a survey.

In view of the President's attitude toward this matter (see my despatches Nos. 1390 of July 24, and 1552 of October 30),<sup>66</sup> I feel that we should not press the point of a military mission at the present time but should emphasize that the staff talks did not deal in detail with the Guatemalan needs in arms, equipment and training planes and that this officer would come here to make such a detailed survey. His studies could scarcely help but convince the Guatemalan Government of the need of a military mission, if any arms or planes are to be used for training purposes. Glass and June continue to concur with me in the despatches under reference, the appropriate parts of which I have discreetly and informally urged on Guatemalan officials from time to time. I believe, however, it would be more effective if I were authorized by instruction to speak to the Guatemalan authorities in the general sense suggested above and in those despatches.

CABOT

814.24/104 : Telegram

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

GUATEMALA, November 27, 1940—9 a. m.

[Received 12 : 18 p. m.]

117. My telegram No. 115, November 25, 3 [2] p. m. The Foreign Minister has just sent me memorandum referring to our

<sup>66</sup> Neither printed.

conversation of the 25th and saying that the Guatemalan Government would be pleased to have a United States Army officer sent to Guatemala to make a survey of Guatemalan military needs.

CABOT

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814.24/104: Telegram

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

WASHINGTON, December 6, 1940—9 p. m.

103. Your 117, November 27, 9 a. m. The War Department has informed this Department that the Commanding General Panama Canal Zone has been directed to send an officer to Guatemala City to survey the requirements and to submit recommendations to the War Department. This Department is to be informed when the report has been received.

HULL

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814.24/106

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

No. 1628

GUATEMALA, December 21, 1940.

[Received December 26.]

SIR: With reference to the Department's telegram No. 103 of December 6, 9 p. m., I have the honor to report that Colonels O'Leary and Montesinos arrived in Guatemala City on the afternoon of December 12 and left on the morning of December 19.

Inasmuch as these officers had received no specific instructions regarding their mission, I gave them the pertinent correspondence in the Legation to read immediately upon their arrival, and discussed the general situation briefly with them. On December 13, I took them to call on the Minister for Foreign Affairs, the Minister of War, and the Chief of the General Staff. The latter informed them that he was not as yet ready to talk to them and made an appointment, first for the 16th, later postponed to the 17th. I was, however, able to arrange to have Lt. Col. Glass come in from some picayune maneuvers which he was supervising to confer with them, and they also talked with Captain June.

The two Colonels did not avail themselves of any further offers of assistance and I was therefore disturbed when, on the afternoon of December 18, I had another conference with them and found that they still did not exactly understand what the purpose of their mission was, and appeared to have done little of value in fulfilling it. I arranged for them to have another conference that evening with Lieu-

tenant Colonel Glass, but I fear that their recommendations will be based on a rather sketchy survey.

In view of this fact I have felt it advisable to obtain recommendations from Lt. Col. Glass and Captain June, who are familiar with this problem, and have been able to study it over a period of some months. I hope that the Department will not consider me presumptuous in having done this and in submitting herewith their written recommendations<sup>67</sup> in this connection. The Department will note that these officers' recommendations are generally similar. Both officers appear to believe that rather a large military mission is necessary. In this connection I feel that I should point out that the Guatemalan Government will probably not be willing to go to any considerable expense in connection with a military mission, particularly if its inflated request for arms is answered by sending such dribbles as the two officers in question have—very wisely—proposed. I believe therefore that whereas such a large mission would presumably be desirable from the military standpoint, it might be wise to propose a smaller one, even if it is possible for the United States to furnish the recommended personnel, and particularly if the Guatemalan Government were asked to pay any considerable sum in connection with the sending of such a mission.

Respectfully yours,

JOHN M. CABOT

#### HAITI

810.20 Defense/37 ½r : Telegram

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

PORT-AU-PRINCE, May 30, 1940—6 p. m.  
[Received 10:20 p. m.]

76. Department's 77, May 29, 3 p. m.<sup>68</sup> I have made arrangements to convey the Department's views to President Vincent tomorrow, Friday, at noon. Meanwhile, I hope that the extreme gravity of the times permits the following comment.

Knowing President Vincent so well, I am convinced that while in all likelihood he will give his agreement, at the same time he will draw most unhappy conclusions; namely, that the Department's proposal does not seem to appreciate the urgency of the time element involved; that, as has been the case with the British and French, we fail to understand the lightning like rapidity and audacity with which Hitler acts; that American democracy is as lacking in this respect as European democracy; that by the time the proposed con-

<sup>67</sup> Not printed.

<sup>68</sup> See footnote 29, p. 16.

sultations are over German forces may already be en route to the Americas; and finally that there is secrecy in the [implementation] of the Department's proposed procedure.

In order to reassure President Vincent of our appreciation of the realities of the moment and that we are prepared to deal immediately with the problems peculiar to the Antillean area, I earnestly request the Department to authorize me by telephone before noon tomorrow, Friday, to accept President Vincent's repeated recommendations for the establishment of United States air bases in Haiti<sup>69</sup> and to solicit immediate technical conversations. I am hopeful that President Vincent is still so inclined in view of a series of inspired articles appearing in the current local press.

These articles, in discussing closer cooperation between the American Republics, emphasize that President Vincent desires a special arrangement between the United States and the three Antillean republics "since in case of danger and because of their geographical position they constitute the principal bases of defense of our continent". The articles then express the belief that within the framework of continental Pan-Americanism there is also room for a Caribbean Pan-Americanism which is especially interesting to the peoples and countries of this region. The articles continue that "this is obviously a special section of the continent which, without destroying the necessary Pan-American unity, presents, by its very position in the hemisphere, by its more immediate proximity to the United States, problems which should be considered and decided as soon as possible precisely because of that proximity."

MAYER

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810.20 Defense/37 $\frac{1}{17}$  : Telegram

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

PORT-AU-PRINCE, May 31, 1940—1 p. m.

[Received 4: 50 p. m.]

79. I have just conveyed to President Vincent the substance of the Department's telegram No. 77, May 29, 3 p. m. His comment was as follows:

"Naturally, I fall in with your Government's proposal but all this has already been accepted in principle. The situation is now so grave that we are way beyond the consultation stage. It is now time for action, not for words. I would much prefer proposal for concrete action for hemisphere defense in line with my frequently expressed

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<sup>69</sup> For previous correspondence, see section entitled "Attitude of the Department of State regarding certain defense proposals of the Haitian Government," *Foreign Relations*, 1939, vol. v, pp. 637 ff.

recommendations for defensive establishments in the Antillean zone. Please tell your Government this and say that I greatly hope that they will not delay with consultation, but get right on to definite defense activities in this region and wherever else it is necessary."

MAYER

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810.20 Defense/37 $\frac{1}{2}$ 17a : Telegram

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

WASHINGTON, June 1, 1940—1 p. m.

78. From the Under Secretary. Department's No. 77, May 29, 3 p. m. Lt. Col. N. Randolph, U. S. Army, and Colonel P. A. del Valle, U.S.M.C., have been designated respectively by the War and Navy Departments to undertake the proposed conversations in Port-au-Prince with the Haitian authorities. The date of their arrival in Port-au-Prince is not yet fixed, as they will go first to Habana, arriving June 7, there to undertake similar conversations with the appropriate Cuban authorities. They will advise you through the Embassy in Habana of the date and hour of their arrival in Port-au-Prince. Following the termination of their conversations in Port-au-Prince they will proceed to Ciudad Trujillo. [Welles.]

HULL

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810.20 Defense/37 $\frac{1}{2}$ 17 : Telegram

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

WASHINGTON, June 1, 1940—2 p. m.

79. Your 76, May 30, 6 p. m. The desirability of rapid action at this juncture is fully appreciated by all executive agencies of the Government, and I believe that you will find from your conversations with the officers who will proceed shortly to Port-au-Prince that every contingency of possible interest to Haiti has been fully considered. These officers have been instructed to take up the question of air fields and installations in Haiti which will be paid for at the expense of this Government under our national defense authorizations. It would seem preferable to await the arrival of these officers before undertaking any discussions with the appropriate Haitian officials in view of the full knowledge of the details which only the officers have.

HULL



810.20 Defense/37  $\frac{3}{17}$  : Telegram

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

PORT-AU-PRINCE, June 1, 1940—2 p. m.

[Received 4:05 p. m.]

81. My No. 79, May 31, 3 [1] p. m. President Vincent called me over this morning and requested that I telegraph the Department that the more he had reflected on the suggested procedure, the more he felt that it did not meet the urgency of the present grave situation.

President Vincent reiterated his great preference for immediate action envisaging concrete defense works here which would be a physical manifestation to the Haitian people of American support.

MAYER

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810.20 Defense/37  $\frac{4}{17}$  : Telegram

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

PORT-AU-PRINCE, June 10, 1940—1 p. m.

[Received 2:55 p. m.]

87. With reference to Department's telegram No. 78, June 1, 1 p. m. Showing himself very emphatically in favor of immediate action President Vincent has just asked most solicitously when Colonels Randolph and Del Valle will arrive.

MAYER

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810.20 Defense/37  $\frac{5}{17}$  : Telegram

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

PORT-AU-PRINCE, June 13, 1940—1 p. m.

[Received 4:32 p. m.]

91. With reference to our telegram No. 76, May 30, 7 [6] p. m. Despite every effort to impress upon President Vincent the necessity for absolute secrecy concerning the visit here of Colonels Del Valle and Randolph, President Vincent revealed the purpose of the visit to numerous Haitian officials as well as to the Archbishop of Port-au-Prince who apparently have been most indiscreet. Vague rumors have been circulating for some time but yesterday afternoon they were more specific. This morning *La Phalange* carries on the front page a double column article signed by the editor declaring that it has been public knowledge for several days that American military officers will shortly arrive here to study with the Haitian Government the best means of assuring the defense of this part of the hemisphere. Then follows a discussion of the problem. It is interesting and helpful to note that the immensely powerful Catholic clergy in Haiti thus places

itself squarely on record in favor of the closest Haitian-American relations.

In view of my repeated injunctions to President Vincent to keep this matter secret, I am convinced that he has revealed it intentionally believing that he must prepare the people for military cooperation between Haiti and the United States for hemispheric defense and especially for the establishment of his long-sought air bases in this country.

MAYER

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810.20 Defense/37 6/17 : Telegram

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

PORT-AU-PRINCE, June 13, 1940—2 p. m.

[Received 3:09 p. m.]

92. For the Under Secretary and for transmission to Chief of Naval Operations and Chief of War Plans Division from Colonels Del Valle and Randolph.

“Mission successfully concluded. Proceeding next place Sunday. Full report follows by air mail pouch. Pending departure propose discuss airport preliminaries.”

MAYER

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838.00N/32 : Telegram

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

PORT-AU-PRINCE, June 21, 1940—1 p. m.

[Received 2:45 p. m.]

98. There are indications that Nazi influence on the Haitian Government is rapidly increasing. For example, one of the principal local Nazi leaders arrested on customs fraud charges was recently released largely through German pressure. Second, the KLM<sup>70</sup> contract has not been canceled although repeatedly promised by President Vincent. Third, the chief of police of Port-au-Prince who despite President Vincent, Laleau and others had been striving to investigate and break up Fifth Column organization and activities was suddenly transferred yesterday to an insignificant provincial post.

The crux of the matter lies in the need for harsher evidence of what we will do. Despite inherent anti-Americanism Vincent really wants to play ball but he has seen the fate of other small countries and he is taking no chances. His pleas for immediate construction and manning of air bases here means just that. He is principally trying to

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<sup>70</sup> Koninklijke Luchtvaart Maatschappij, Royal Dutch Airline.

tell us of his own weakness and how to prevent a catastrophe when he begs for action and says repeatedly that the moment work is begun on air bases and American secret agents are established here the Fifth Column will be immediately attenuated.

The same applies to taking over the French and Dutch possessions in the Caribbean area.<sup>71</sup>

Therefore I believe we must anticipate that in the absence of unmistakable signs of a leadership of action on our part Haiti will respond increasingly to Nazi influence and pressure. . . .

MAYER

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838.00N/32 : Telegram

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

WASHINGTON, June 26, 1940—7 p. m.

98. Your 98, June 21, 1 p. m. The Department is continuing to give the most careful attention to your reports on "fifth column" and foreign activities in Haiti. It will be very glad when you come up on leave to go over the whole situation but meanwhile feels sure that with Americans in key positions in Haiti, with the Fiscal Representative's office in close touch with the situation, with a military mission associated with the Guard, any facts will be promptly brought to the Legation's notice.

For this reason, it seems doubtful to the Department whether any further measures on our part to uncover activities of this kind will be of great value. Lescot<sup>72</sup> has requested the aid of this Government in organizing a special police force, modernizing the arms of the Guard and increasing the numbers of the Guard. After consideration, the Department doubts whether the organization of a special police force would be practicable. With regard to an improvement in the Guard, the economic situation of the country will in itself hardly permit of increased expenditures for this purpose.

With further reference to "fifth column" and foreign activities, the Department deduces that the regular German residents of Haiti can be watched satisfactorily. Most of the rumors and suspicion which you report have to do, if not with local political intrigue, with the activities of Germans who have purchased Haitian citizenship or who are alleged refugees. Your opinion is requested whether this may be an opportune time to suggest to President Vincent the enactment of

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<sup>71</sup> For correspondence regarding the concern of the United States over the fate of the French and Netherland possessions in the Western Hemisphere, see vol. II, pp. 493 ff. and 729 ff., respectively.

<sup>72</sup> Elie Lescot, Haitian Minister in the United States.

legislation which would permit the canceling of the Haitian citizenship of any person who, within 5 years of his having acquired it, conducts himself in a manner inimical to the best interests of the Haitian state and the deportation of that person. Possibly the existing laws should be strengthened with reference to the deportation of aliens who engage in subversive activities. Perhaps without new legislation, the Executive possesses adequate power to ensure that those who are now subject to deportation proceedings, and who find it impossible to return to their original homes, might be requested to reside in certain rural areas of the Republic rather than in the principal towns and villages. Thus such an area as the Forêt des Pins, relatively uninhabited, might be designated for the residence of these persons pending their leaving the country.

Please report at your earliest convenience whether such suggestions would be timely, and describe any plan of procedure which you think might be practicable.

HULL

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838.00N/40 : Telegram

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

PORT-AU-PRINCE, July 10, 1940—2 p. m.

[Received 4:27 p. m.]

111. Department's cable 98, June 26, 7 p. m. I shall be glad to go over the whole situation when I come up at the end of this month. However, in view of the authorized statement by Minister Wilson at Montevideo<sup>73</sup> that it is our policy to cooperate fully with all the other American Governments in crushing all activities that arise from non-American sources, I feel strongly that I should be authorized immediately to give positive answers to the requests which President Vincent made to Colonels Del Valle and Randolph, my despatch No. 887, June 13.<sup>74</sup> As indicated in my telegram No. 16 [106], July 5, 2 p. m.,<sup>75</sup> our silence is at least partly responsible for the present attitude of President Vincent and his apparent indisposition to cooperate fully.

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<sup>73</sup> Delivered at an official luncheon in honor of Captain Wickham of the U. S. S. *Quincy*, June 23, 1940. See Department of State *Bulletin*, July 20, 1940, p. 35.

<sup>74</sup> Not printed. President Vincent had requested material aid to strengthen Haitian armed forces, the establishment of American air bases and/or naval bases in Haiti, and the immediate despatch to Haiti of American counter-espionage agents (810.20 Defense/30%<sub>4</sub>).

<sup>75</sup> Not printed.

With regard to attitude of suggested enactment of new legislation with respect to citizenship and aliens I feel that it is inopportune to make these suggestions. Once we have dealt affirmatively with the requests of President Vincent, I believe that these and other measures would follow as a matter of course.

MAYER

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810.20 Defense/37 $\frac{3}{4}$ <sub>17a</sub>: Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

126. Department's circular telegram July 11, 4 p. m.<sup>76</sup> Lieutenant Colonel A. R. Harris, United States Army, and Commander Rufus King, United States Navy, retired, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Haitian officials. It is expected that they will arrive in Port au Prince in time for the conversations to begin August 24. They will inform you through the Legation at Ciudad Trujillo of precise date and means of their arrival in Port au Prince. Following the conclusion of their conversations in Port au Prince they will proceed to Habana.

A separate telegram<sup>77</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Haitian authorities.

HULL

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810.20 Defense/37 $\frac{3}{4}$ <sub>17</sub>: Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, August 24, 1940—10 p. m. [*a. m.?*]  
[Received 12:11 p. m.]

134. From Colonel Harris to Colonel Ridgway. Haitian Government authorizes army plane to photograph airfields, ports, and harbors. May arrive any time. Will be based at Port-au-Prince.<sup>78</sup>

SPARKS

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<sup>76</sup> *Ante*, p. 19.

<sup>77</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>78</sup> Despatches No. 971, August 26, 1940, No. 972, August 27, 1940, and No. 973, August 27, 1940, report the successful conclusion of the army and navy staff talks with the Government of Haiti (810.20 Defense/37 $\frac{1}{4}$ <sub>17</sub>, 37 $\frac{1}{2}$ <sub>17</sub>, and 37 $\frac{3}{4}$ <sub>17</sub>).

## HONDURAS

810.20 Defense/52½<sub>16</sub>: Telegram*The Minister in Honduras (Erwin) to the Secretary of State*

TEGUCIGALPA, June 4, 1940—5 p. m.

[Received 6:50 p. m.]

30. Referring to Department's telegrams of June 3, 3 p. m.<sup>79</sup> and 5 p. m.<sup>80</sup> 1940, I have conferred with President of Honduras<sup>81</sup> who heartily approves proposal and pledges fullest cooperation of Honduran Government. In order to safeguard secrecy his present plan is to limit his representation to two persons namely his Secretary of War, Navy and Aviation, Juan Galvez and his Minister for Foreign Affairs, Salvador Aguirre.

ERWIN

810.20 Defense/52½<sub>16</sub>: Telegram*The Secretary of State to the Minister in Honduras (Erwin)*

WASHINGTON, June 5, 1940—6 p. m.

19. Department's 18, June 3, 3 p. m.<sup>79</sup> Captain Maxwell D. Taylor, U. S. Army, and Major Clayton C. Jerome, U. S. Marine Corps, have been designated by the War and Navy Departments respectively to undertake the confidential conversations with the Honduran authorities.

They expect to arrive in San José June 10 and after terminating their conversations there will proceed to Managua, Tegucigalpa, San Salvador and Guatemala in the order named to undertake similar conversations.

You will be advised through the Legation in Managua of the date and hour of their proposed arrival in Tegucigalpa.

HULL

810.20 Defense/52¾<sub>18</sub>: Telegram*The Chargé in Honduras (Cousins) to the Secretary of State*

TEGUCIGALPA, July 15, 1940—11 a. m.

[Received 1:45 p. m.]

44. Referring to the Department's strictly confidential circular telegram of July 11, 4 p. m.,<sup>82</sup> I informed President Carías of the contents thereof and he will be very pleased to have the proposed

<sup>79</sup> See footnote 29, p. 16.<sup>80</sup> Telegram of June 3, 5 p. m., not found in Department files.<sup>81</sup> Tiburcio Carías Andino.<sup>82</sup> *Ante*, p. 19.

staff conversations take place at the pleasure of the United States Government. His attitude is one of complete cooperation.

COUSINS

810.20 Defense/52 $\frac{1}{16}$ a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

[Received 3 p. m.]

35. Department's circular telegram July 11, 4 p. m. Major L. Mathewson, U. S. Army, and Major C. C. Jerome, U. S. Marine Corps, have been designated respectively to represent the War and Navy Departments in the proposed conversations with Honduran officials. It is expected that they will arrive in Tegucigalpa in time for the conversations to begin September 2. You will be informed through the Legation at Managua of the proposed date and means of their arrival in Tegucigalpa. Following the conclusion of their conversations in Tegucigalpa they will proceed to San Salvador.

A separate telegram<sup>83</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Honduran authorities.

HULL

810.20 Defense/52 $\frac{1}{16}$ b : Telegram

*The Chargé in Honduras (Cousins) to the Secretary of State*

TEGUCIGALPA, September 3, 1940—3 p. m.

[Received 5:42 p. m.]

58. For General Strong. Permission granted for photographic airplane to operate in Honduras based on Tegucigalpa. Signed Mathewson.

COUSINS

815.20/38 : Telegram

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

TEGUCIGALPA, November 18, 1940—noon.

[Received 2:38 p. m.]

76. The Honduran Government has requested me to inform the Government of the United States its desire to obtain, as promptly as possible, the services of an American Army officer thoroughly trained in infantry matters who is capable of: (1) inspecting the arms, equip-

<sup>83</sup> Circular telegram of August 4, 4 p. m., p. 20.

ment, and apparatus pertaining the Honduran infantry; (2) submitting recommendations, based on the above survey, to the Government for the improvement of this branch of the army. This Government also suggests that an officer from the Canal Zone, having a perfect command of Spanish, would be most appropriate for this purpose. His salary and transportation expenses will be borne by Honduras.

Since this matter has received the personal attention of the President, it is respectfully recommended that the War Department be encouraged to take immediate action on this request, in accordance with paragraph 1C of the agenda for staff conversations set forth in the Department's telegram of August 4, 4 p. m.<sup>84</sup>

ERWIN

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815.20/38 : Telegram

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

WASHINGTON, December 3, 1940—7 p. m.

52. Your telegram no. 76, November 18, noon. War Department states the Commanding General, Panama Canal Department,<sup>85</sup> has sent Colonel Serafin M. Montesinos to Tegucigalpa to make a survey of the requirements of the Honduran Government and to submit a report to the War Department.

HULL

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815.20/40

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

No. 1210

TEGUCIGALPA, December 21, 1940.

[Received December 28.]

SIR: Referring to my telegram of November 18, 1940, 12 noon, and to my despatch no. 1174, of November 19, 1940,<sup>86</sup> transmitting a Note from the Honduran Foreign Office, I have the honor to transmit as an enclosure to this despatch another Note from the Honduran Foreign Office, No. 910, dated December 19, 1940, on this subject, with a free translation of the same.<sup>87</sup>

It will be noted that the Honduran Government expresses its gratefulness for the cooperation extended by my Government, given through General Van Voorhis, Commander of the Canal Zone, in sending to Tegucigalpa Colonels S. M. Montesinos and Herbert O'Leary and two enlisted men, on the mission under reference.

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<sup>84</sup> *Ante*, p. 20.

<sup>85</sup> Gen. Daniel Van Voorhis.

<sup>86</sup> Latter not printed.

<sup>87</sup> Not printed.



Colonel Montesinos first arrived in Tegucigalpa on November 28, 1940, to offer his services to the Honduran Government, under instructions from General Van Voorhis, in pursuance of the request transmitted through this Legation. After the arrival of Colonel Montesinos and after he had had opportunity to confer with the Sub-Secretary of War, Navy and Aviation, General Leónidas Pineda, it was found that not only an infantry officer's temporary services were desired, but that it was necessary to have an additional officer trained and expert in ordnance matters, to inspect certain arms on hand, including trench mortars, and pass judgment and give technical advice as to use. Colonel Montesinos returned to the Canal Zone base by plane, presented the situation to General Van Voorhis, as to the necessity for an ordnance officer and two enlisted men to help with the heavy arms. General Van Voorhis authorized the detail of Colonel O'Leary, an ordnance expert, and the two officers and two enlisted men returned to Tegucigalpa on December 8, and remained until December 12, when their mission was completely and satisfactorily discharged.

The expeditious action by the Department and the Commanding Officer of the Canal Zone on this request obviously impressed the Honduran authorities very favorably. Colonel Montesinos, who speaks very fluent Spanish, was of especial assistance in collaborating with the Honduran military authorities to ascertain their exact wants. The officers called on President Carías, who expressed to them his personal appreciation.

This being the first time the Honduran Government has availed itself of the offer of the United States Government of technical assistance under the Hemispheric Defense plan, the speedy action and thorough spirit of cooperation manifested on behalf of my Government created a very desirable impression, which is manifest here in the verbal statements of the Honduran military authorities as well as in the formal Note from the Foreign Office transmitted herewith.

Respectfully yours,

JOHN D. ERWIN

MEXICO <sup>88</sup>

812.00N/143

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

[WASHINGTON,] May 24, 1940.

The Ambassador of Mexico <sup>89</sup> called to see me this morning to say goodby before leaving for Mexico tomorrow. The Ambassador

<sup>88</sup> See also *The Framework of Hemisphere Defense*, pp. 332-337.

<sup>89</sup> Francisco Castillo Nájera.

told me that he did not know what he was called back for, but that he believed it might have to do with the question of continental defense in view of the European situation. He said he was given to understand that his stay in Mexico City would be short and that he would be able to come back to Washington within a few days.

I asked the Ambassador what he might have in the way of information from his own country with regard to the alleged German activities in Mexico and with regard to the alleged arrival in Mexico recently of considerable numbers of Germans.

The Ambassador said that he thought that a disquieting factor was the fact that, unlike the last war when all the Germans left Mexico, during this war not only are the Germans formerly resident not leaving, but the number had even increased. He said, however, that he was given to understand that only 60 German "tourists" had arrived in Mexico during the past 60 days and that the number of new arrivals was nowhere near as great as alleged by newspaper correspondents. He said he believed that the objective of Germans in Mexico would be to try and create local internal disturbances, operating with the connivance of certain left wing groups. . . .

The Ambassador expressed the view very strongly that those American governments, including Mexico, who had received protests from the German Government with regard to their adherence to the continental declaration of protest against the invasion of Holland and Belgium<sup>90</sup> should communicate the protest received to the Inter-American Neutrality Committee at Rio with the request that the Neutrality Committee formulate recommendations to all the American Republics as to the attitude which the 21 republics should take. The Ambassador expressed finally the very urgent belief that confidential conversations should be had between the military and naval authorities of all of the American republics so that continental defense might be coordinated in the event of an emergency.

S[UMNER] W[ELLES]

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711.12/1467 : Telegram

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

MEXICO CITY, June 1, 1940—1 p. m.  
[Received 3:30 p. m.]

177. With reference to my telephone conversation yesterday with Mr. Duggan,<sup>91</sup> yesterday President Cárdenas asked me to call and

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<sup>90</sup> For further correspondence on this subject, see vol. I, pp. 727 ff.

<sup>91</sup> Laurence Duggan, Chief of the Division of the American Republics.

gave me a letter for Ambassador Daniels which I am transmitting to him by pouch. This letter states that the President expected to discuss with me recent newspaper publicity in the United States regarding Mexico. This he did, and I took the occasion to show him clippings from Mexican newspapers attacking the United States, circulating inexact stories regarding the United States and indicating in particular an effort evidenced in several magazines and newspapers to capitalize *New York Times* and United Press articles with the possible object of causing them difficulties with the Mexican Government.

I said that the American Government is anxious that such local efforts here should not be successful in causing any difficulties between Mexican Government and American newspapers.

We discussed at some length the various methods of dealing with unfavorable stories in the press and the President seemed to concur in my personal view that to take means to present the Mexican Government's own stories in the American press is more effective than measures which might be interpreted as in the nature of censorship or coercion towards correspondents of American newspapers. . . .

He then asked me to convey to the American Government his most definite assurance emanating from his personal feeling and his feeling for Mexico that his Government would not permit any activities in Mexico inimical to the United States or designed to create trouble between Mexico and the United States. He added that it was a primary object of his last months in office to maintain and improve the good relations of Mexico with the United States. I assured him that this message would be transmitted immediately.

BOAL

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812.00/310724

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

[WASHINGTON,] June 4, 1940.

The Mexican Ambassador called to see me today upon his return from Mexico. He told me that President Cárdenas had summoned him to Mexico City in order to talk over in general terms the world situation as it affected Mexico.

The Ambassador first said that President Cárdenas was entirely favorable to the suggestion of this Government that secret conversations between appropriate military and naval officials of the two governments should be undertaken in order to determine what precise

measures of cooperation both governments could take in the event of emergency. The President had stated, however, that in order to avoid any publicity during the political campaign, he thought the conversations should take place in Washington rather than in Mexico City and that he would consequently send to Washington immediately as military attaché to the Mexican Embassy an officer who would carry full instructions. Subsequently the President had said the Mexican Government would be very glad to have American officers come to Mexico City if our military and naval authorities thought it necessary. The Ambassador stated very emphatically that President Cárdenas had charged him to say that in the event of any controversy resulting from any act of aggression against the American continent which brought the United States into the war, the United States could count on full military and naval cooperation from Mexico in addition to the use of Mexican territory and Mexican naval bases for American forces. The President of Mexico had likewise said that Mexico was willing to enter into a military alliance with the United States.

I told the Ambassador that this Government was naturally deeply gratified by the statements he was charged to communicate and that I fully agreed with the opinion expressed by President Cárdenas that the best procedure would be for the suggested conversations to take place in Washington. I said that I thought the matter was somewhat urgent and that I consequently hoped that for purposes of clarification the Mexican officer designated to visit Washington would arrive here in the near future.

The Ambassador said that President Cárdenas had been approached by the Italian Government within the last two weeks with an offer on the part of Italy to send to Mexico an aviation mission and a number of experts in chemical science, likewise to act as instructors. President Cárdenas had refused the offer. The President of Mexico desired to know whether this Government, after its own aviation training facilities had been sufficiently expanded, would permit a considerable number of Mexican aviation pilots to obtain training in American airfields, the figure mentioned being up to one hundred. I told the Ambassador that he might assure President Cárdenas that this request would receive most favorable consideration here but that I was sure that a good many months must elapse before our training facilities would be sufficiently expanded to make it possible for us to take so large a number of foreign pilots as students. The Ambassador said he understood this fully.

S[UMNER] W[ELLES]

812.20/222½

*Memorandum of Conversation, by the Liaison Officer (Chapin)*

[WASHINGTON,] June 11, 1940.

Participants: His Excellency Dr. Francisco Castillo Nájera, Ambassador of Mexico.  
Colonel Frank S. Clark, War Department.  
Captain C. J. Moore, Navy Department.  
Mr. Selden Chapin, Department of State.

In accordance with arrangements made between the Under Secretary of State and the Mexican Ambassador, Colonel Clark, Captain Moore, and Mr. Chapin called at the Mexican Embassy on June 11, 1940 to discuss with the Ambassador cooperation between the Governments of Mexico and of the United States for hemisphere security and defense.

The Mexican Ambassador first outlined his talks with Mr. Welles and with President Cárdenas and emphasized the interest of the Mexican Government and specifically of President Cárdenas in cooperating with the United States and with other American republics for the defense of the hemisphere. He said that President Cárdenas was fully aware of the real threat to the security of the American continent, both from Europe and from "the other side". He said that under the President's directions the Secretariat of National Defense was working feverishly on plans both for the defense of Mexico against foreign aggression and for the participation of Mexico in Pan American defense. An army officer, probably a brigadier general, and a naval officer, probably a commodore, now engaged in this important work would be sent to Washington as soon as the Mexican plans had crystallized. The Ambassador expected that this would certainly not be longer than three weeks.

The Ambassador said that he himself was, of course, not competent to discuss technical problems and that he had already conferred and planned to continue to confer on the more purely political phases of defense cooperation with Mr. Welles. Specifically he felt that a general political agreement between the American missions was a necessary basis for concerted and coordinated military and naval action when the emergency arose.

The Ambassador indicated that while he did not feel there was any great menace of physical intervention on the part of totalitarian powers in this continent in the near future, such a possibility could not be entirely discounted and might even be classified as a probability in years to come if the American republics were not prepared to defend themselves adequately. In this he said he reflected the views of

President Cárdenas. He added, however, that he hoped that any active aggression was a question of years rather than of months.

It was apparently on this basis that the Ambassador developed the ensuing part of his conversation. He said that the Mexican Government was actively considering compulsory military service, although the only reference to this in the Mexican constitution was to the maintenance of a "National Guard". The Mexican Government had various plans under consideration in this regard. One great difficulty was the lack of uniformity of the Mexican people with respect to education and physical qualifications, and furthermore a complete levy of all eligibles would result in conscript classes which were too big and too costly for the Mexican Government to keep on foot. The present standing army of approximately fifty thousand men might be expanded to an army training contingent of two hundred thousand men, which would roughly give Mexico one million effectives, active and first line reserve.

The Ambassador said that of course the greatest need of Mexico is for matériel: the infantry is equipped with obsolete Mausers, the other branches of the service are equally poorly equipped, and the artillery is practically non-existent. The officers who are coming to Washington will undoubtedly bring a list of equipment which is needed for the Mexican Army. He noted in this connection that previously Mexico had always obtained its arms and munitions from Europe but that the Mexican Government now realized that it was far better to obtain them from the United States. He further stated that such a course would result in obvious advantages from the point of view of repair, replacement, and uniformity with the other American armies. He said that the Mexican Government, while it had one or two small munitions plants, was convinced that manufacture in Mexico was impracticable and expensive.

In response to a specific question the Ambassador appeared to discount the possibility that foreign totalitarian activities in Mexico presented any serious threat to continental security. He said that the total number of Germans in Mexico amounted to only some six thousand, so that disregarding women and children the German colony was reduced to a very small number indeed. Two thousand Germans were in the State of Chiapas on the Guatemalan border and could perhaps, in concert with the German colony in Guatemala, create some disturbance. The Ambassador said, however, that the Mexican Government had already taken measures to control this element. . . .

The conversation then turned to the question of active collaboration, and the Ambassador intimated that the Mexican Government was prepared to develop air fields and naval bases in Mexican territory at

places to be chosen strategically, not only from the purely national point of view but from the broader point of view of hemisphere defense.

The three officers expressed their appreciation of the Ambassador's kindness in outlining the situation to them and asked whether there were any specific questions which could usefully be discussed in advance of the arrival of the two Mexican officers. The Ambassador replied that he did not think that that was the case but that he had wanted to talk to the American officers to explain to them personally the deep interest of President Cárdenas in cooperation for hemisphere security and to stress that the Mexican Government was prepared unreservedly to collaborate with the United States in the development of plans for the common defense.

[Note: The text of this memorandum has been approved in draft by Colonel Clark and Captain Moore.] <sup>92</sup>

SELDEN CHAPIN

711.12/1473 : Telegram

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

MEXICO CITY, June 11, 1940—1 p. m.

[Received June 12—4:48 a. m.]

192. (a) Confidential talks between President Cárdenas and Ambassador Castillo Nájera reported my telegram 178, June 1st.<sup>93</sup>

(b) Confidential talk with Cárdenas reported my telegram 177, June 1st.

(c) Some information regarding a truck load of propaganda or other material being sent to Sarabia Airlines by Dietrich which I conveyed to Cárdenas confidentially on June 9.

(d) General Hay's <sup>94</sup> conversation with me in which he deplored American publicity on Mexican Fifth Column activities as preparing ground for alarmists in Mexico to spread rumors that the United States might intervene in Mexico. In this talk Dietrich, Press Attaché of the German Legation, was mentioned as possibly engaged in activities harmful to Mexican-American friendship; this conversation was guardedly reported to Duggan by telephone. The foregoing sequence of events culminated today in the following:

1. Telegram from President Cárdenas to President Lebrun of which following is significant part:

"I communicate to Your Excellency the painful impression caused my Government by the Italian declaration of war against

<sup>92</sup> Brackets appear in the original.

<sup>93</sup> Not printed.

<sup>94</sup> Eduardo Hay, Mexican Minister for Foreign Affairs.

the great French people which traditionally has been the mouth-piece of human liberty, the rights of man and international morality. I renew my wishes for the happiness of the French people.”

2. Minister of Gobernacion called Mexican newspaper publishers and managers tonight and told them that the foreign policy of Mexico is one of sympathy toward the Allies, especially France, and is also sympathetic toward the United States and ask their cooperation in support of this policy. Talking with publisher Laredo, Texas, newspaper he said Mexico considers her relations with the United States the best she has ever had. The Government is determined that the Communist and Nazi elements which might exist in Mexico shall not succeed in dissipating this friendly feeling.

3. . . . He said that Mexican policy is one of close cooperation with the United States.

4. General Hay told me in strict confidence that tonight he had informed the German Minister without giving any reason, that Dietrich is not welcome here. The German Minister expressed fear Dietrich might not be allowed to pass through the United States and this might delay his departure. General Hay asked me to ascertain from the Department whether there will be any objection to his transit through the United States. Please telegraph or telephone on this point as General Hay desires to know immediately.

The attitude of the Mexican Government as evidenced by all of the foregoing may seem to warrant some comment at the Department press conference or elsewhere in connection with the news summarized in paragraphs 1 and 2 of this telegram. Such comment would be gratifying to President Cárdenas and General Hay and might be constructive for the future.

BOAL

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711.12/1474: Telegram

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

MEXICO CITY, June 13, 1940—8 p. m.

[Received June 14—6:37 a. m.]

198. Referring to my telegram No. 192 of June 11, 1 a. m. [*p. m.*], Secretary of State Hull's statements in press conference<sup>95</sup> given first page coverage in all Mexico City morning newspapers June 13 as well as in last edition of *Ultimas Noticias* of June 12.

The Minister of National Defense in a press interview on June 12 made the statement that there are no concentration of troops along

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<sup>95</sup> At press conference on June 12, Secretary Hull stated that he thought it had been Mexican policy right along to support the Allies and favor cooperation with the United States.



the southern border on the United States, nor are there any works of a military nature being carried out there. There have been public statements regarding such concentration, one having been made by General Juan Barragan.

Licenciada Vicente Lombardo Toledano, Secretary General of the CIN [*CTM*],<sup>96</sup> in an address before Confederation of Latin American Workers on June 12, 1940 stated: "We will not permit the territory of any country of Latin America to serve for the incubation of Fascist forces of the Italian or German type to attack the democratic regime of Latin America or incubate forces for the purpose of attacking the United States of North America."

He also said: "We are not and will not be directly or indirectly allied to the dark forces which Fascism represents".

He indignantly denied the stories published in the American newspapers that the *CTM* were playing the Nazi game. The speech as a whole constituted a pro-American, anti-totalitarian statement of policy by Lombardo Toledano which should be of particular significance when taken in conjunction with President Cárdenas' telegram to the President of France, the attitude of the Minister of Gobernacion and the expulsion of Dietrich.

General Hay today expressed to me his sincere gratification at the statement of Secretary of State yesterday dealing with Mexico.

BOAL

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810.20 Defense/83

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley)*<sup>97</sup>

[WASHINGTON,] June 13, 1940

Mr. Boal telephoned today that General Hay had expressed concern over reports he was receiving from a number of the American republics to the effect that there are some fears that if we are granted bases in those countries we may never be willing to get out. It is General Hay's thought that the Secretary might issue a statement, perhaps referring to some of the moves to have us acquire Lower California and to say that as to Lower California in particular and the American republics in general, we have no desire to acquire any further territories. Mr. Boal suggests that we might refer to our treaty obligations, say that we are not interested in Lower California, and I think

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<sup>96</sup> Confederación de Trabajadores Mexicanos.

<sup>97</sup> Addressed to Mr. Duggan and Mr. Welles.

that we might go so far as to quote from President Wilson's Mobile speech <sup>98</sup> in the same sense.

If we issued such a statement General Hay would issue one on behalf of the Mexican Government to the effect that that Government has never had any doubts as to our intentions regarding Baja California or other territory—that Mexico is 100 per cent trustful of our motives. He would also say that Mexico wants to cooperate with the United States in defense.

I think we could find the occasion for such a statement and that it could be worked up with careful study in such a way as to contain no dangerous references or promises. In the drafting of such a statement thought would have to be given, of course, to the possibility that we may acquire some small islands by entirely peaceable and proper means.

In this instance again, the Mexican Foreign Minister is probably governed by mixed motives. Nevertheless, I can see that it could be very useful to the United States were a statement to be issued by General Hay more or less establishing his belief in our good faith, and, more importantly, from a practical view point, publicly promising a greater measure of cooperation with the United States.

There is attached a copy of H. J. Res. 389 <sup>99</sup> on which the Department made an unfavorable report. It might be desirable to arrange for a correspondent to inquire at the Secretary's press conference what the Department's views are on this matter in the light of present conditions; this would afford a basis for considerable reply by the Secretary.

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810.20 Defense/287

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

No. 11632

MEXICO, October 17, 1940.

[Received October 23.]

SIR: I have the honor to transmit herewith the Spanish text of a news article published in *Excelsior* of today's date. The article states that the Minister of National Defense, General Augustin Castro, declared yesterday that, in the event of a foreign war, Mexico would use all its resources not only in defense of its own country but also to

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<sup>98</sup> President Wilson in an address before the Southern Commercial Congress at Mobile, Alabama, October 27, 1913, stated that "the United States will never again seek one additional foot of territory by conquest." For text, see Ray Stannard Baker and William E. Dodd (eds.), *The Public Papers of Woodrow Wilson: The New Democracy*, vol. I, p. 64.

<sup>99</sup> Joint Resolution authorizing negotiations for the acquisition of Lower California was introduced October 9, 1939, and referred to the Committee on Foreign Affairs.

guarantee the "collective defense of the Continent". In this article he officially denied reports that there was an agreement with the United States for the establishment of air and naval bases in Mexico for use by the American army. General Castro is stated to have added that as far as he knew, nothing whatever had been mentioned between the two governments regarding these bases; he added, however, that the Mexican Government was studying the possibility of establishing such military bases in strategic points, but that this was on the initiative and for the use of the army of Mexico. It is said that the Minister of National Defense also officially declared that the so-called rebel movement was but the activities of small groups of armed men, and since these had surrendered the country is now entirely calm.

Respectfully yours,

JOSEPHUS DANIELS

810.20 Defense/394a : Telegram

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

WASHINGTON, November 26, 1940—9 p. m.

367. From the Under Secretary. During our recent conversations with the Mexican Ambassador I informed him that the President had approved for this Government the creation of a joint Mexican-American defense commission which the Ambassador had advised me the Mexican Government would be glad to see constituted. I further informed the Ambassador that as soon as the President had determined upon the names of the American representatives I would inform the Ambassador in order that he might advise me of the names of the Mexican representatives.

The President has now selected as the American members the following officers:

As representatives of the War Department:

Brigadier General J. N. Greely  
Lieutenant Colonel Donald Wilson, Air Corps  
Lieutenant Colonel M. B. Ridgway, Infantry

As representatives of the Navy Department:

Captain W. O. Spears, U. S. N. (Retired)  
Commander K. B. Bragg, (C. E. C.) U. S. N.  
Commander C. T. Durgin, U. S. N.

Since Ambassador Castillo Nájera is now in Mexico City, I shall be grateful if you will inform him to this effect and advise me of the names of the Mexican members to be designated as soon as possible and also the desires of the Mexican Government as to the date and the

nature of the joint announcement that might be made by the two Governments.

The President desires to send a personal letter with regard to this question addressed to General Avila Camacho <sup>1</sup> after his inauguration. This letter will be dispatched to you for delivery to him as soon as you send me the information above requested. [Welles.]

HULL

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810.20 Defense/422 : Telegram

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

MEXICO CITY, December 6, 1940—noon.

[Received 5 p. m.]

406. For the Under Secretary. Your 367, November 26, 9 p. m. Ambassador Castillo Nájera, who has undertaken to discuss the question of the date and nature of the joint announcement regarding the Joint Mexican-American Defense Commission with President Avila Camacho says that he hopes to have something to tell us in a day or two.

The Ambassador has inquired whether you have any views regarding the place where the commission might first meet and whether this should be included in the announcement. Would you kindly telegraph me anything on this point which you might wish me to tell him.

DANIELS

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810.20 Defense/422 : Telegram

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

WASHINGTON, December 9, 1940—9 p. m.

380. From the Under Secretary. Your 406, December 6, noon. We shall be very much interested to learn of the decisions of the Mexican Government in this matter.

This Government would have no objection to mention in the announcement of the place of first meeting. As to what that place might be, we are entirely willing to give immediate and sympathetic consideration to any views the Mexican Government may have on the subject. The first meeting of the Canadian-American Commission was held in Ottawa, the second in Washington, and subsequent meetings were in several places in the east and west of the two countries; the next meeting will be in New York City. [Welles.]

HULL

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<sup>1</sup> Manuel Avila Camacho, President-elect of Mexico. He assumed office December 1, 1940.

810.20 Defense/480

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

[WASHINGTON,] December 14, 1940.

The Mexican Ambassador came to see me today, having returned from Mexico City last night. The Ambassador suffered from a heavy cold and the conversation consequently was very brief.

The Ambassador said that President Manuel Avila Camacho believed it preferable that no announcement of the appointment of the Joint Mexican-American Defense Commission be made until after the first of the new year.<sup>2</sup> The President of Mexico stated in this message that there had been so much propaganda in the past few days in Mexico to the effect that the new administration in Mexico had made territorial concessions to the United States in return for American recognition of the new Mexican regime that he feared the announcement of the appointment of the Joint Defense Commission would give increasing rise to these rumors. He believed that after the first of the year the propaganda would have died out and only beneficial results could then be obtained.

He stated, however, that he would like to have as soon as possible the agenda which our military and naval authorities suggested for the consideration of the Joint Defense Commission, and he added that he was appointing immediately appropriate new military and naval attachés in the Mexican Embassy in Washington who would undertake preliminary conversations and who would later be appointed as the Mexican members of the Joint Defense Commission.

S[UMNER] W[ELLES]

NICARAGUA

810.20 Defense/114½<sub>12</sub>: Telegram

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

MANAGUA, June 5, 1940—3 p. m.

[Received 5:15 p. m.]

51. Department's strictly confidential telegram No. 39, June 3, 3 p. m.<sup>3</sup> President Somoza is in full agreement with the principles expressed in the telegram under reference and cordially offers the complete cooperation of the Nicaraguan Government.

NICHOLSON

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<sup>2</sup> For announcement made on March 5, 1941, see Department of State *Bulletin*, March 8, 1941, p. 264.

<sup>3</sup> See footnote 29, p. 16.

810.20 Defense/114a : Telegram

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

WASHINGTON, June 5, 1940—6 p. m.

40. Department's 39, June 3, 3 p. m. Captain Maxwell D. Taylor, U. S. Army, and Major Clayton C. Jerome, U. S. Marine Corps, have been designated by the War and Navy Departments respectively to undertake the confidential conversations with the Nicaraguan authorities.

They expect to arrive in San José June 10 and after terminating their conversations there will proceed to Managua, Tegucigalpa, San Salvador and Guatemala in the order named to undertake similar conversations.

You will be advised through the Legation in San José of the date and hour of their proposed arrival in Managua.

HULL

810.20 Defense/30411

*The Minister in Nicaragua (Nicholson) to the Secretary of State*<sup>4</sup>

No. 1115

MANAGUA, June 6, 1940.

SIR: I have the honor to refer to the Department's strictly confidential telegraphic instruction No. 39 of June 3, 3:00 p. m. and my telegraphic reply thereto No. 51 of June 5, 3:00 p. m.

Immediately upon receipt of the Department's telegram I took steps to arrange an interview with President Somoza. There was a slight delay as President Somoza is now in his country place, Montelimar, on the Pacific ocean, about two and half hours from Managua by car, and the only means of communication is by telegraph. An appointment was obtained for 9:30 on the morning of June 5th. I drove to Montelimar accompanied by Mr. Flournoy and was most cordially received by President Somoza. After conversing on various topics the telegram under acknowledgement was brought up. When the proposals set forth in the telegram and the visit of Army Officers were explained, the President quickly and without qualification said that he was in full agreement and offered his whole-hearted support to the Department's policy. He took the opportunity to declare his friendship for the United States, explaining, as he put it, that he did not wish to throw himself at the feet of the United States but that he was convinced that a small country such as Nicaragua needed the protection and assistance of the United States and could not progress without it.

<sup>4</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

In closing this phase of the conversation, I emphasized the secrecy of the telegram.

In discussing the practical aspects of the visit of American officers the President repeated what he had said before on public occasions, that is, that Nicaragua could and would contribute an army of 40,000 men to the armed forces of the United States should it become necessary. He pointed out however, that even with the recent purchase of 5,000 Enfield rifles from the United States he did not have sufficient rifles to arm 40,000 men. He suggested that it might be advisable to construct a small arsenal on the Gulf of Fonseca to store enough arms for his proposed army. He was quick to add that naturally such an arsenal would be under the protection of American troops. He also said that the arsenal being near the population center of Central America could be used also to store arms for other Central American Republics. The President's only other concrete suggestion was that the United States furnish sufficient funds to complete the inter-American Highway as far as Panamá in order to facilitate mobilization and defense.

The President volunteered the suggestion that the Nicaraguan delegation that takes part in the conversations should include himself, two Guardia Nacional officers, and Major Charles L. Mullins, U. S. A., Director of the Military Academy. Civilian members of the government will not be included.

Respectfully yours,

MEREDITH NICHOLSON

810.20 Defense/114+

*The Chargé in Nicaragua (Muccio) to the Secretary of State*

No. 1125

MANAGUA, June 15, 1940.

[Received June 20.]

SIR: I have the honor to refer to the Department's telegraphic instruction No. 40, dated June 5, 6:00 p. m. and to report that Major Clayton C. Jerome, U. S. M. C. and Captain Maxwell D. Taylor, U. S. A. arrived in Managua on Wednesday, June 12th at noon and, having accomplished their mission, left for Tegucigalpa, Honduras at noon June 14.

The confidential conversations envisaged in the Department's instruction No. 39, dated June 3, 3:00 p. m. were held at the Presidential Palace at 6:00 p. m. on June 12, 1940. President Somoza was alone during the course of the entire conference which lasted for almost two hours. In addition to Major Jerome and Captain Taylor, I was accompanied by the Military Attaché who happened to be in Managua at the time. I should like to record that Major Jerome, Captain Taylor and I were each impressed by President Somoza's apparent frankness and eagerness to convince us that he really wants to effectively co-

operate with the United States, and to a lesser extent with other American Republics, in all matters affecting continental security and defense.

A brief memorandum of the conversations, in the preparation of which Major Jerome, Captain Taylor and I collaborated, is enclosed.<sup>5</sup> A great deal of the long discourses injected by President Somoza were not recorded as they were not pertinent to the immediate object of the visit of Messrs. Jerome and Taylor.

Of particular interest was the information given by the President,—as recorded commencing on page five of the memorandum—in reply to questions regarding subversive activities and measures for counteracting them. General Somoza explained that all foreigners in Nicaragua are registered and photographed but that the Guardia Nacional does not have their fingerprints. He appreciates that there are some Nazi sympathizers in his Government and quite a few active Nazis in the country, but he pointed out that there were more anti-Nazis than pro-Nazis. He expressed absolute confidence that he could handle any Fifth Column activities that may be taken in his country, but realized that he has no facilities to effectively patrol his coast off shore.

. . . Dr. Octavio Pasos Montiel created quite a stir in the National Assembly on June 12 by accusing several of his fellow deputies of being active “Fifth Columnists” and by further accusing sections of the Managua press of being subsidized by German interests. The local representative of the United Press has just informed me that President Somoza summoned him yesterday and expressed his displeasure at having a report to this effect sent out of the country. The President then told the United Press representative to visit the National Assembly where he found that a “Pro-Democracy” resolution had just been rushed through. The text of this resolution as published in all papers this morning is being forwarded to the Department in a separate despatch. The Legation is now endeavoring to appraise the extent and effectiveness of Nazi influences in Nicaragua and will report thereon as soon as practical.

Respectfully yours,

JOHN J. MUCCIO

810.20 Defense/114 $\frac{1}{2}$ a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

53. Department's circular telegram July 11, 4 p. m.<sup>6</sup> The War Department has designated Major L. Mathewson, U. S. Army, and the Navy Department has designated Major C. C. Jerome, U. S. Marine Corps, and Captain F. L. Riefkohl, U. S. Navy, to conduct

<sup>5</sup> Not printed.

<sup>6</sup> *Ante*, p. 19.



the proposed staff conversations with the Nicaraguan officials. It is expected that they will arrive in Managua in time for the conversations to begin August 26. You will be informed through the Legation at San José of the proposed date and means of their arrival in Managua. Following the conclusion of their conversations in Managua Majors Mathewson and Jerome will proceed to Honduras and Captain Riefkohl will return to the Canal Zone.

A separate telegram <sup>7</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Nicaraguan authorities.

HULL

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810.20 Defense/114★

*The Chargé in Nicaragua (Flournoy) to the Secretary of State*

No. 1178

MANAGUA, August 7, 1940.

[Received August 12.]

SIR: I have the honor to refer to the Department's strictly confidential telegram No. 53 of August 4, 3 p. m., stating that certain officers have been designated to conduct staff conversations with Nicaraguan officials, and to the Department's circular telegram of August 4, 4 p. m. transmitting the agenda for the proposed conversations.

I handed the agenda to President Somoza personally on August 6. He expressed his pleasure of the proposed visit and his willingness to cooperate in every manner possible with the officers upon their arrival. The President stated that up until now he had not brought the proposed visit to the attention of any Nicaraguan officials but that he planned to include certain officers of the Guardia in the conversations. He said that he planned to have present at the meeting General Reyes, Chief of Staff, Captain Rivas Cuadra, Chief of Aviation, and possibly Major Prado and Captain Gaitan.

Respectfully yours,

WILLIAM E. FLOURNOY, JR.

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810.20 Defense/171‡

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

No. 443

WASHINGTON, September 26, 1940.

SIR: The Department has received your despatch no. 1196 of August 30, 1940 transmitting an autographed letter <sup>8</sup> from the President of Nicaragua requesting the assistance of the Government of the United States in regard to certain matters which he believes will contribute substantially to the defense of Nicaragua.

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<sup>7</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>8</sup> Neither printed.

You are requested, in acknowledging receipt of this letter directly to President Somoza, to inform him that copies of his letter have been transmitted to the appropriate authorities of this Government for their consideration, but that this Government will be unable to make any definite reply to his requests until it has had an opportunity to examine and consider the requests for assistance along similar lines now being received from the governments of the other American republics.

You should assure the President, however, that full and sympathetic consideration will be given at the earliest practicable date to all of his requests.<sup>9</sup>

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

817.248/82: Telegram

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

WASHINGTON, November 29, 1940—4 p. m.

91. Your despatch 1196, August 30.<sup>10</sup> President Somoza has requested the War Department to send an Army officer to Managua to make recommendations for constructing a new large air field.

The Department has informed the War Department that it perceives no objection to this request. It is understood that the Commanding General at Panama has been authorized to send an aviator to Managua to make necessary photographic flights. The Commanding General will be informed that this officer should make his recommendations to President Somoza through the intermediary of your Legation.

HULL

PARAGUAY

810.20 Defense/111: Telegram

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

ASUNCIÓN, July 19, 1940—8 p. m.

[Received July 20—9:25 a. m.]

36. This morning Acting Minister for Foreign Affairs, Benitez, informed me that the President<sup>11</sup> desired my Government to know without delay and in strict confidence the following:

<sup>9</sup> On September 5, 1941, the Minister in Nicaragua and the Nicaraguan Legation were notified that as a result of President Somoza's request the Navy Department was prepared to sell to Nicaragua one one-pounder gun and sixty rounds of ammunition.

<sup>10</sup> Not printed.

<sup>11</sup> Gen. José Félix Estigarribia.

The victory of Great Britain would alter very little the *status quo* of this Continent while should its blockade be broken a problem for all the American countries would be created because of the probable conduct of the totalitarian powers.

In Brazil there exist dense groups of German and Italian population, in addition to the Japanese, which might immediately raise a minority issue similar to the Sudeten. Brazil alone would be powerless to resist such demands and autonomy of these groups would destroy Brazilian unity and constitute an aggressive force in the vicinity of the River Plata countries.

The British blockade being broken the power of the United States would be the only barrier to expansion these forces inspired and aided under cover from overseas but for the moment that power is more potential than real so that if the United States does not prepare in time a base of operations in South America, it might run the risk of finding important sections of South America under firm German-Italian influence.

In case this should occur such alien forces would immediately desire to bring Paraguay within their orbit as also zones in Uruguay and Argentina, all of which would isolate Paraguay and render its resistance very difficult in view of the lack of adequate means of defense; on the other hand a well-prepared Paraguay could seriously combat any such attacks. There are common interests between the United States and Paraguay in this connection the defense of which can only be made in common.

Domination of the Atlantic Coast by hostile armed forces would create much uncertainty for Paraguay to which the maintenance of the Monroe Doctrine is of great importance.

Any disturbance could be combated advantageously were there to be organized in Paraguay a substantial air force and a strong motorized corps. Action could then be taken from the interior of the Continent while the American fleet was acting at sea, a quite different situation from that in which the fleet had to act alone.

Should the United States share the views expressed Paraguay would be disposed to converse concretely regarding the matter. However in order that Paraguay may announce a policy of close cooperation it should be able to count on the aid of the United States in a definite manner.

The matter of the organizing of propaganda and public sentiment should be taken up and undoubtedly little progress could be made without cooperation of the United States already decided upon. Paraguay's economy is weak but the nation has an energetic spirit which its neighbors lack.

In explanation of the foregoing I believe that certain prominent Uruguayan friends of the President and the Paraguayan Minister in Brazil while visiting here have brought him alarming reports. The Acting Minister of Foreign Affairs stated that this matter had arisen since the departure for Habana of the Minister for Foreign Affairs who is consequently unaware thereof as is the Minister in Washington due to lack of sufficiently confidential code. He emphasized the desire for strict confidence stating that only himself and the President had

knowledge of this matter and requested that any further conversation be held between the latter and myself.

He represented the President as determined to go as far as he possibly could in an open pro-American policy and desirous of knowing the views of my Government.

Within a few days I hope to obtain from the President personally further information concerning what he has in mind. I would welcome any indications which the Department may deem convenient be conveyed.

HOWARD

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810.20 Defense/149½

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

[WASHINGTON,] August 5, 1940.

The Minister of Foreign Affairs of Paraguay, accompanied by the Minister of Paraguay, called to see me this morning.

Dr. Salomoni commenced the conversation by stating how deeply appreciative he was of the many attentions and courtesies shown him by Secretary Hull in Habana, and by the Government of the United States, and particularly the President, since his arrival in this country. He stated that he had received instructions before leaving Asunción from President Estigarribia that he was to cooperate in the closest possible manner with the Secretary of State at Habana and that it had afforded him great satisfaction to be able to do so. I interjected the remark that Secretary Hull had told me of the valuable and effective cooperation which Dr. Salomoni had afforded him throughout the Conference.

The Minister then went on to say that he brought me a special message of greeting from President Estigarribia and I told the Minister that I always remembered with the utmost satisfaction my association with President Estigarribia during the short time he was Minister here, and that my hope was that that personal association might be renewed some time in the future. The Minister said that President Estigarribia wished me to know that the Argentine Government had brought very great pressure to bear upon the Government of Paraguay to refrain from sending its Minister of Foreign Affairs to Habana but that General Estigarribia had refused to pay any attention whatever and had insisted that the Minister of Foreign Affairs go in person as an indication of the importance which Paraguay attributed to the meeting at Habana and of its whole-hearted desire to support the position of the United States. I said that I was

deeply gratified by this new proof of the identity of views on the part of our two Governments.

The Minister then went on to say that he had a further message to communicate to me from the President of Paraguay, namely, that the Government of Paraguay desired to cooperate to the fullest extent with the United States in all matters, whether they related to political or economic questions or to the question of military defense of the Western Hemisphere. I replied that I welcomed this message and that the views expressed were reciprocated *in toto* by the Government of the United States. I went on to say that in this connection, as the Paraguayan Minister in Washington knew, this Government believed it desirable and helpful to the cause of inter-American defense that secret conversations take place in the immediate future between high ranking officers of the United States Army and Navy and appropriate officials of the Government of Paraguay. I said that it was our belief that these conversations should appropriately take place in Asunción, and that, as the Minister knew, similar conversations would take place in the capitals of the overwhelming majority of the other American Republics. I stated that I had had prepared a memorandum, which I handed the Paraguayan Minister in Washington, which indicated the exact topics which we believed might helpfully be discussed in these conversations, and likewise suggested a date early in September for the holding of these conversations.<sup>12</sup> The Minister of Foreign Affairs said that his Government was entirely in accord with the procedure indicated, as well as the objective sought, but that he and the Paraguayan Minister in Washington would like to have the opportunity of studying the specific suggestions made in order to ascertain whether their Government had any particular comments to make. Dr. Fernández said that he would inform me as soon as he had heard from his Government.

Dr. Salomoni then continued to express, in quite a long and eloquent address, the earnest hope with which the Government of Paraguay was looking to the Government of the United States for assistance in its actual economic distress. He stated that the assistance already tendered had been of the utmost value but that the economic situation on account of the World War was constantly deteriorating and that they hoped the Government of the United States would be able to extend further cooperation. I said in reply that this Government, of course, desired, within the limits of its capacity, to cooperate in every practical way with its American neighbors and with the Government of Paraguay, for which it had so high a regard, and that if the Minister would present to me any concrete or detailed suggestions, he and

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<sup>12</sup> Agenda quoted in telegram No. 26, August 15, 4 p. m., to the Minister in Paraguay. See circular telegram of August 4, 4 p. m., and footnote 33, p. 20.

the President of Paraguay might rest assured that these suggestions would receive the immediate and most favorable possible consideration by this Government. The Minister expressed deep gratification and added that Dr. Fernández would, within a relatively short time, present to me for our consideration such plans.

Dr. Salomoni then left, expressing again his tremendous appreciation of the many kindnesses shown him here in Washington.

S[UMNER] W[ELLES]

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810.20 Defense/8-1540: Telegram

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

WASHINGTON, August 15, 1940—3 p. m.

25. As a result of certain conversations held in Washington during the visit of the Minister for Foreign Affairs of Paraguay, between him, the Paraguayan Minister at Washington and the Under Secretary of State, it has been agreed by the two Governments to hold staff conversations between officers of the United States Army and Navy and officers of the Paraguayan Army in connection with plans for hemisphere defense and supplementing similar conversations which will be held between representatives of this Government and of all of the other American republics.

Lieutenant Colonel R. L. Christian, U. S. Army and Captain W. D. Brereton, U. S. Navy, have been designated respectively to represent the War and Navy Departments in these proposed conversations. It is expected that they will leave Buenos Aires August 23 for Asunción in time for the conversations to begin in that capital on August 26. Following the termination of their conversations in Asunción, Colonel Christian and Captain Brereton will proceed to Montevideo to undertake similar conversations. A separate telegram<sup>13</sup> is being sent you outlining the agenda for the proposed conversations, a copy of which was handed to the Paraguayan Minister for Foreign Affairs. It is understood that the text of this agenda was telegraphed to the Paraguayan Government by the Minister here. However, you are authorized to communicate the copy in confirmation to the appropriate authorities of the Paraguayan Government in confidence.

WELLES

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810.20 Defense/8-2040: Telegram

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

WASHINGTON, August 20, 1940—6 p. m.

27. Department's 25, August 15, 3 p. m. Since the presence of Captain Brereton at Montevideo and at Buenos Aires during the visit

<sup>13</sup> Circular telegram of August 4, 4 p. m., p. 20.

of the two cruisers *Wichita* and *Quincy* the last part of August is urgently desired, the Department prefers to postpone the date for the inauguration of the staff conversations in Asunción, provided that the Paraguayan authorities perceive no objection, to September 9. Colonel Christian and Captain Brereton would arrive in Asunción on September 6.

You are requested to inform the Department and the Embassy in Buenos Aires if the later date for the beginning of the conversations is acceptable to the Paraguayan Government.

WELLES

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810.20 Defense/8-2240

*The Minister in Paraguay (Howard) to the Secretary of State*<sup>14</sup>

No. 1257

ASUNCIÓN, August 22, 1940.

SIR: I have the honor to refer to my confidential despatch No. 1253, August 21, 1940,<sup>15</sup> particularly points 6, 7 and 8 thereof, and to inform the Department that upon receipt of the Department's telegram No. 27, August 20, 1940, I called upon President Estigarribia to convey the Department's request for the postponement of the conversations of our Army and Navy officers with those of Paraguay.

He acceded to the request, saying that the date suggested, September 9, would be entirely satisfactory, but he stated that time was important.

He then went on to state that the fifth column was attempting to spread propaganda in the army. He added that he was aware of these activities and did not fear them but that he did not intend to permit them to continue. He further added that he intended to take energetic measures but that before so doing he desired a complete accord with our Government.

In strict confidence he then told me that as a preliminary measure he would shortly call in the German and Italian ministers and admonish them regarding their activities in Paraguay.

I thanked the President for acceding to the Department's request and for the information given me and attempted to take my departure. However, he detained me saying that another matter which greatly preoccupied him was the finances of the Government. He stated that they were working on a plan to relieve the situation and desired my opinion thereon. He stated that next week Mr. Pablo Max Insfran, the Minister of Public Works, would call on me to discuss the matter. I replied that I should be glad to render any assistance properly

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<sup>14</sup> Printed from a carbon copy. Original not found in Department files. No receipt date indicated.

<sup>15</sup> Not printed.

within my power and departed without receiving further information on the matter.

For several days past, unconfirmed rumors have reached me to the effect that the Paraguayan Government intended to present to our Government a plan for further financial assistance.<sup>16</sup> I presume this is the matter to which the President had reference. If such should prove to be the case it would seem likely that it is the desire and probably the intention that the matter of hemisphere defense and financial stability of the Paraguayan Government be considered as more or less related.

Respectfully yours,

FINDLEY HOWARD

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810.20 Defense/9-1140 : Telegram

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

ASUNCIÓN, September 11, 1940—6 p. m.

[Received 10:30 p. m.]

48. For General Strong. The Government of Paraguay is in full agreement in connection with the despatch of a special photographic airplane from United States Territory. Details regarding a base for the expedition and laboratory facilities now available in Paraguay will be furnished later. Christian.

HOWARD

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810.20 Defense/9-2540 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 25, 1940—2 p. m.

223. Please ascertain from Colonel Christian and Captain Brereton whether any mention was made during the staff conversations at Asunción of the possibility of Paraguay according aviation bases to the United States. If such mention was made please report fully by rush telegram.

HULL

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810.20 Defense/9-2540 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 25, 1940—8 p. m.

[Received 9:39 p. m.]

443. Department's 223, September 25, 3 [2] p. m. Colonel Christian and Captain Brereton inform me that the high command of the

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<sup>16</sup> For further correspondence on this subject, see pp. 1124 ff.



military and naval forces of Paraguay agreed to cooperate to the fullest extent in every way possible with United States forces. Aviation bases and airports were particularly mentioned.

These officers desire to emphasize that although many suitable sites are available, they are undeveloped and unprotected, and the Paraguayan Government is without funds necessary for effecting either development or protection.

TUCK

PERU

810.20 Defense/347 : Telegram

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

LIMA, May 24, 1940—5 p. m.

[Received May 25—1:25 a. m.]

56. Department's 47, May 23, noon.<sup>17</sup> I saw the Minister for Foreign Affairs<sup>18</sup> this afternoon. His immediate reaction was definitely favorable. He said that the suggestion was a step of transcendental importance and one which could not have been taken were it not for the results achieved at the Montevideo, Buenos Aires, Lima and Panama conferences. He then mentioned the rumor that the British Government might be transferred to Canada and asked if this would not affect the situation with respect to concerted action by the American Republics under the suggestion. I said that such an event would present special problem whereas the suggestion contemplates coordination of effort for the general security and defense of the republics of this continent. The Minister said that the matter is of such importance that he will place it before the President this afternoon and will arrange for me to see President Prado tomorrow.

The question of the maintenance of secrecy is of concern to me. . . . For this reason I requested that for the present the matter be kept strictly confidential between the President, the Minister for Foreign Affairs and myself.

NORWEB

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810.20 Defense/347 : Telegram

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

LIMA, May 25, 1940—1 p. m.

[Received 4:55 p. m.]

58. Embassy's telegram 56, May 24, 5 p. m. I saw the President late last evening. He assured me that the Peruvian Government was un-

<sup>17</sup> See footnote 29, p. 16.

<sup>18</sup> Alfredo Solf y Muro.

reservedly prepared to cooperate to the best of its ability in the suggested conversations. He referred to Peru's vital interest in the security of the Panama Canal and in the general problem of continental defence against any aggression and welcomed the farsightedness of the initiative taken by the United States. He understood thoroughly the necessary secrecy and said that he would treat the matter with the utmost care pending arrival of our representatives. In conclusion, he stated that if an emergency arose the people of the American Republics would be greatly encouraged by the fact that their governments had considered the danger and had taken cooperative steps in advance to meet it.

NORWEB

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810.20 Defense/34 $\frac{1}{2}$  : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

54. From the Under Secretary. Your 58, May 25, 1 p. m. Captain B. L. Canaga, U. S. Navy, and Lieutenant Colonel A. R. Harris, U. S. Army, have been designated by their respective Departments to undertake the proposed conversations in Lima with the Peruvian authorities. They will travel on special passports and carry credentials as diplomatic couriers.

They are proceeding direct by Panagra plane to Santiago and following the termination of their conversations there will proceed to Lima and Quito. You will be advised in advance through the Embassy in Santiago of their exact date of arrival in Lima. [Welles.]

HULL

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810.20 Defense/34 $\frac{1}{2}$  : Telegram

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

LIMA, June 14, 1940—10 p. m.

[Received 11:50 p. m.]

78. A conference was held this afternoon with the Minister of Foreign Affairs, Minister of War,<sup>19</sup> Minister of Marine and Aviation<sup>20</sup> and the Minister of Hacienda.<sup>21</sup> The reaction of the Peruvian officials was definitely favorable. They are meeting with the President this evening and another conference is promised for tomorrow to report the President's attitude, and further observations.

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<sup>19</sup> Col. Teófilo Iglesias.

<sup>20</sup> Federico Diaz Dulanto.

<sup>21</sup> Oscar Ramos Cabieses.

The Foreign Minister mentioned the necessity of unanimity among the American Republics if the plan is to be effective. This was the only suggestion of a reservation that arose during the conversations.

NORWEB

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810.20 Defense/34 $\frac{1}{2}$ : Telegram

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

LIMA, June 16, 1940—11 p. m.  
[Received June 17—3:10 a. m.]

79. My telegram No. 78, June 14, 10 p. m. A final meeting was held this evening with the Minister for Foreign Affairs, Minister of Marine and Aviation, and the Minister of War. They had consulted with the President who was in complete accord with the program approved June 14. It seemed to me that after their talk with him their favorable attitude was even more positive.

All three Ministers, evidently reflecting the President's views, again expressed the primary concern of Peru with respect to Japan. They also urged that two Marine Corps officers be sent immediately to arrange for an aviation mission; all members of the Italian mission having left Peru. The Minister for Foreign Affairs stated that his Government accepts the plan for naval patrol and search in case of actual or/and imminent danger but wishes to be consulted in all other cases. The Peruvian Government is studying the question of the exclusion of submarines. The Foreign Minister asked about the possibility of inter-American consultation in addition to the proposed general staff conferences, and I said that I had no information.

Our two representatives leave for Quito by plane Monday morning.

NORWEB

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810.20 Defense/34 $\frac{1}{2}$ : Telegram

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

LIMA, June 29, 1940—11 a. m.  
[Received 2:35 p. m.]

89. My telegram No. 79, June 16, 10 [11] p. m. Will the Department please inform me as early as possible the method and date preferred for further consultations with Peru? I make this request in order to be able to put the Peruvian officials on notice well in advance. Otherwise I fear they may not be properly prepared.

NORWEB

810.20 Defense/347 $\frac{1}{2}$  : Telegram

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

LIMA, July 13, 1940—10 a. m.

[Received 11:30 a. m.]

100. Department's circular telegram of July 11, 4 p. m.<sup>22</sup> The Minister for Foreign Affairs stated that he was in accord with holding staff talks immediately after the Habana Conference and expressed the hope that the conversations might be held at Lima.

NORWEB

810.20 Defense/347 $\frac{1}{2}$ a : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

87. Department's circular telegram July 11, 4 p. m. Major M. D. Taylor, U. S. Army, and Captain W. M. Quigley, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Peruvian officials. Since Captain Quigley has also been designated as the Chief of the United States naval mission to Peru you should ascertain from the Peruvian authorities whether it is agreeable to them that he act in this capacity for the United States Government. It is expected that they will arrive in Lima in time for the conversations to begin September 6. You will be informed of the proposed date and means of arrival in Lima of Major Taylor through the Legation in La Paz and of Captain Quigley by the Department. Following the conclusion of their conversations in Lima, Major Taylor will return to the United States.

A separate telegram<sup>23</sup> is being sent you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Peruvian authorities.

HULL

810.20 Defense/347 $\frac{1}{2}$  : Telegram

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

LIMA, September 10, 1940—7 p. m.

[Received 7:55 p. m.]

138. Staff conversations were begun this afternoon with the Minister of Foreign Relations and myself present. General views were

<sup>22</sup> *Ante*, p. 19.

<sup>23</sup> Circular telegram of August 4, 4 p. m., p. 20.

exchanged and an analysis of the agenda of both services was presented orally and in writing for the information of the Ministers of War and Marine. The next meeting will take place Friday when the Peruvians will have their data prepared for discussion of specific subjects.

NORWEB

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810.20 Defense/236½ : Telegram

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

LIMA, September 19, 1940—7 p. m.

[Received 9:15 p. m.]

142. Please communicate substance of the following to General Strong, War Plans Division, War Department, from Major Taylor.

Peru will permit the taking of aerial photographs in connection with plans for hemisphere defense preferably using Peruvian personnel and American equipment under direction of American aviation mission. The Peruvian Government has authorized army medical mission under agenda. The results of the conference to date are entirely satisfactory. Taylor will leave for La Paz on the 21st.

NORWEB

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810.20 Defense/344½ : Telegram

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

LIMA, September 20, 1940—11 a. m.

[Received 1:10 p. m.]

143. Reference Department's strictly confidential circular telegram August 4, 4 p. m., and my telegram no. 138, September 10. The conversations were concluded last night and Captain Quigley will leave by plane tomorrow morning arriving in Washington Monday. Major Taylor will proceed to La Paz Saturday.

All phases of the agenda in the Department's telegram referred to above were covered and an entirely satisfactory understanding reached on all points. The Peruvians displayed throughout a friendly attitude and willingness to cooperate to the fullest extent. Among their requirements for defense they stressed priority for airplanes and servicing equipment.

The complete record will go forward by airmail pouch leaving tomorrow in covers addressed to the War and Navy Departments. One copy is being retained in the Embassy files.

NORWEB

## URUGUAY

810.20 Defense/19 $\frac{1}{4}$ : Telegram*The Minister in Uruguay (Wilson) to the Secretary of State*

MONTEVIDEO, May 24, 1940—11 a. m.

[Received May 24—9:50 a. m.]

78. Your 39, May 23.<sup>25</sup> I saw Guani<sup>26</sup> last night about this. He said that personally he favored the suggestion but of course, would have to consult the President.<sup>27</sup> The President is dining with me tonight and I hope to have an opportunity to discuss it with him.

WILSON

833.51/899: Telegram

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

MONTEVIDEO, May 25, 1940—10 a. m.

[Received 1:55 p. m.]

80. My telegram No. 78, May 24, 11 a. m. The President authorized me last night to inform you that he shares the opinions expressed in your telegram 39, May 23, and agrees to the suggested procedure. Please telegraph me when our officers may be expected here.

The President, the Minister of Finance,<sup>28</sup> and the Minister of Foreign Affairs also discussed with me the plan to acquire war material,<sup>29</sup> principally airplanes, in order to strengthen its defenses. This matter has been considered at the last two Cabinet meetings, and the Government has announced to the press that it intends to devote 10,000,000 pesos to this purpose. The President said that he wished to consult the United States Government regarding the possibilities of assistance in financing at long term in the United States the purchase of such war material to the value of about \$6,500,000. He assumed that in the present world situation the United States Government was giving consideration to the matter of assisting the Latin American Republics in a program of rearmament, and that before drafting a bill to submit to his Congress, he would like to have the views of the United States Government. The Minister for Foreign Affairs will give me a memorandum on this question, perhaps today, which I will at once telegraph.

WILSON

<sup>25</sup> See footnote 29, p. 16.

<sup>26</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>27</sup> Gen. Alfredo Baldomir.

<sup>28</sup> César Charlone.

<sup>29</sup> For general policy of the United States on this subject, see pp. 1 ff.

810.20 Defense/19 $\frac{1}{4}$ A : Telegram*The Secretary of State to the Minister in Uruguay (Wilson)*

WASHINGTON, May 29, 1940—3 p. m.

44. From the Under Secretary. Your 81, May 25, 1 p. m.<sup>30</sup> Captain W. O. Spears, U. S. Navy, and Major M. B. Ridgway, U. S. Army, have been designated by their respective Departments to undertake the proposed conversations in Montevideo with the Uruguayan authorities. Captain Spears will proceed direct by Pan American plane to Buenos Aires, arriving June 7, and following termination of his conversations there will proceed to Montevideo, advising you in advance of the date of his arrival. Major Ridgway will not reach Montevideo until some time later, as he is first undertaking similar conversations in Bogotá and Caracas. The officers concerned will travel on special passports and carry credentials as diplomatic couriers. [Welles.]

HULL

810.20 Defense/19 $\frac{1}{4}$ A : Telegram*The Minister in Uruguay (Wilson) to the Secretary of State*

MONTEVIDEO, June 22, 1940—2 p. m.

[Received 3:35 p. m.]

122. Reference my 115, June 18, 5 p. m.<sup>30</sup> The conversations have gone very well. Reports by air mail today.<sup>31</sup>

Colonel Wooten left for Santiago June 20 and Captain Spears left for Buenos Aires yesterday.

WILSON

810.20 Defense/19 $\frac{1}{4}$ A : Telegram*The Minister in Uruguay (Wilson) to the Secretary of State*

MONTEVIDEO, July 15, 1940—6 p. m.

[Received 6:55 p. m.]

162. For Under Secretary. I hope that the Uruguayan request for information and advice regarding aviation material transmitted with my despatch 398 of July 1, 1940<sup>32</sup> may be acted upon sympathetically and promptly.

<sup>30</sup> Not printed.<sup>31</sup> Despatch No. 374, June 22, not printed.<sup>32</sup> Not printed; it transmitted a request by the Uruguayan Government for certain war material, especially airplanes, to be obtained in the United States (810.20 Defense/19 $\frac{1}{4}$ A).

I know that the President, the Minister for Defense<sup>34</sup> and others in the Government have been deeply disappointed and discouraged by the fact that the United States Government was unable to assist them in the slightest way when in the existing emergency they requested assistance in financing the rearmament program. (Brazil gave them arms without discussing terms even, and they are now approaching the Spanish Government in an effort to obtain military equipment.) They are unable to understand why the United States Government cannot implement in some practical way its frequent assurances of cooperation. The failure of the United States to do so obviously may have its effect on the policies adopted by the Uruguayan Government.

Because of the foregoing I believe it is important that we do everything possible to be of assistance to them without delay in connection with their present request concerning aviation material.

WILSON

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810.20 Defense/19<sup>1</sup>/<sub>4</sub>: Telegram

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

WASHINGTON, July 23, 1940—5 p. m.

88. Your 162, July 15, 6 p. m. The Army and Navy Munitions Board is at present examining the Uruguayan request for information and advice with respect to the purchase of airplanes, enclosed with your despatch no. 398 of July 1, 1940.<sup>35</sup> Private manufacturers are being consulted in an effort to discover what companies could make deliveries within a reasonable period and how the most advantageous prices could be obtained for the Uruguayan Government. It is hoped that specific data can be forwarded to the Uruguayan Government through the Legation not later than July 30.

For your own confidential information, Congress is being asked to authorize the Export-Import Bank to grant credit for the purchase of munitions by governments of the other American republics in this country. While the funds which will be available for such purposes will necessarily be limited, an effort will be made to use them as advantageously as possible in the broad interest of hemisphere defense.

WELLES

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<sup>34</sup> Alfredo R. Campos.

<sup>35</sup> Not printed.



810.20 Defense/19%<sub>4a</sub>: Telegram*The Secretary of State to the Minister in Uruguay (Wilson)*

WASHINGTON, August 4, 1940—3 p. m.

93. Department's circular telegram July 11, 4 p. m.<sup>36</sup> Lieutenant Colonel R. L. Christian, U. S. Army, and Captain W. D. Brereton, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations. It is expected that they will arrive in Montevideo in time for the conversations to begin August 29. Although final arrangements have not been made for similar staff conversations in Buenos Aires, it is anticipated that such conversations will be held first in that city and upon their termination the officers will proceed to Montevideo, informing you through the Embassy at Buenos Aires of the proposed date and method of their arrival in Montevideo.

A separate telegram<sup>37</sup> is being sent you outlining the agenda for the proposed conversations, which you may communicate in strictest confidence to the appropriate Uruguayan authorities.

HULL

810.20 Defense/19%<sub>4a</sub>: Telegram*The Minister in Uruguay (Wilson) to the Secretary of State*

MONTEVIDEO, August 7, 1940—5 p. m.

[Received 6:10 p. m.]

178. Department's 93, August 4, 3 p. m., and circular August 4, 4 p. m. I communicated this information to Guani this morning. He said that Uruguayan officers will be prepared to begin the conversations on the date indicated. He added that certain members of the Uruguayan Senate "will make a row" if they hear of the conversations, but that the Government shares our views that such conversations are advisable.

In connection with this question please see third paragraph of memorandum enclosed with my strictly confidential despatch 394, June 28.<sup>38</sup> The conversations here, particularly those on naval matters, will be influenced by what is accomplished in Buenos Aires.

WILSON

<sup>36</sup> *Ante*, p. 19.<sup>37</sup> Circular telegram of August 4, 4 p. m., p. 20.<sup>38</sup> Not printed.

833.34/77: Telegram

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

MONTEVIDEO, August 16, 1940—noon.

[Received 12:31 p. m.]

183. Your air mail despatch 119 of August 6<sup>40</sup> made no mention of the Uruguayan request concerning possibility of buying destroyers (see my despatch No. 398, July 1<sup>40</sup>). Please telegraph what I can reply to the Uruguayan Government.

WILSON

833.34/78: Telegram

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

WASHINGTON, August 17, 1940—4 p. m.

100. Your 183, August 16, noon. The Navy Department states that the request of the Uruguayan Government for three destroyers is under consideration but that due to the present strategical situation in the North Atlantic there is small chance for early delivery. The Navy Department states, however, that it is giving the matter further study.

WELLES

833.34/79: Telegram

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

MONTEVIDEO, September 6, 1940—2 p. m.

[Received 4:44 p. m.]

198. Your 100, August 17, 4 p. m. Recently the Inspector General of the Navy<sup>41</sup> and the Minister of National Defense have talked with me at length of their desire to purchase these three destroyers from the United States. The Minister said that Uruguay had absolutely no effective naval units for patrol or defense purposes and that if expected to cooperate in the system of continental defense it was essential for Uruguay to acquire these vessels. I mentioned this conversation yesterday to Manini Rios, interim Minister of Foreign Affairs. He said that he wished to support this plea wholeheartedly, adding that it was difficult to understand why, if the United States could furnish Britain 50 destroyers, it could not make three available to Uruguay.

I, of course, appreciate the difficulties in the way of complying with the Uruguayan Government's request. Nevertheless I feel that I must

<sup>40</sup> Not printed.<sup>41</sup> Rear Adm. Gustavo A. Schroder.

point out that few things could be calculated to create more good will with the Uruguayan Government and its armed forces than our finding a way to make available to Uruguay, at nominal cost, at least one or two destroyers.

WILSON

833.34/79 : Telegram

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

WASHINGTON, September 13, 1940—4 p. m.

112. Your 198, September 6, 2 p. m. When the next suitable opportunity occurs to discuss with appropriate Uruguayan officials the proposed purchase of three destroyers from this Government, you are requested to say that the Navy Department regrets that it is unable to make any destroyers available for sale at the present time, but is withholding final action awaiting the result of the staff conversations shortly to take place. It is barely possible that other types of vessels, such as gun boats or patrol boats would be more suitable for Uruguayan immediate needs than destroyers.

For your confidential information the Navy Department states that it believes that the strategic situation in the North Atlantic does not permit the disposal of any destroyers to Uruguay at the present time, the more so as this would inevitably lead to similar requests from other American republics for purchase of destroyers.

HULL

833.34/83

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

No. 595

MONTEVIDEO, October 2, 1940.

[Received October 9.]

SIR: I fear that our inability to comply with the request of the Government of Uruguay to sell to it at least one destroyer (Department's telegram No. 112, September 13—4 p. m.) has produced an unfortunate impression here. I am reliably informed that not only the Minister of National Defense and high officers of the Navy, but other members of the Government and members of the Parliament are greatly disappointed and even, in certain cases, resentful, because of this.

A circumstance which has contributed to enhance the disappointment of the Uruguayans is the following:

When our cruisers *Wichita* and *Quincy*<sup>42</sup> were in Montevideo from August 23 to 28, a ranking officer of the Uruguayan Navy had a con-

<sup>42</sup> For correspondence regarding the visits of United States naval vessels to the eastern coast of South America, see pp. 1147 ff.

versation with one of our officers urging that the United States sell destroyers to Uruguay. The United States officer, who reported the conversation to me, said that he had replied that he of course had no authority to discuss the question, but that personally he hoped that the Uruguayan request might be complied with. The Uruguayan officer, with limited knowledge of English, evidently entirely misunderstood these remarks and interpreted them as signifying that the United States Government had in fact determined to make these destroyers available to Uruguay. A few days after the cruisers left Montevideo, the Under Secretary of National Defense called upon me at the request of the Minister, to tell me of the conversation as reported by the Uruguayan officer, and to say that the Minister of National Defense was delighted that the United States Government would sell these destroyers, and that he assumed that confirmation thereof would shortly be forthcoming through the Legation. I explained to the Under Secretary, and begged him to make clear to the Minister, exactly what the situation was: I stated that there had evidently been a complete misunderstanding of what the United States officer had said. I then recalled that at the time that the Uruguayan Government had sought information from the United States Government regarding various types of airplanes, I had telegraphed to the State Department at the request of the Minister of Foreign Affairs and the Minister of National Defense to inquire whether the United States Government would sell three destroyers to Uruguay. On August 18, I informed Dr. Guani of the reply of my Government to the effect that the strategic situation in the North Atlantic would make it very difficult to effect the delivery of any destroyers, but that the matter continued under consideration of our Navy Department. I was awaiting a final reply from my Government, and that was where the matter stood.

A few days later, I took occasion to call on the Minister of National Defense and explained personally the foregoing to him in an effort to clear up any misunderstanding.

Meanwhile, articles were published in the press to the effect that it had been learned "that the United States Government had offered" destroyers at extremely reasonable figures to the Uruguayan Government, and that it was only a question of a short time before the sale would be definitely completed.

In view of the expectation by Uruguayan Naval officers that the destroyers would in fact be made available to them, the news that the United States Government had found it impossible at present to sell these vessels, which, in accordance with the Department's telegram No. 112, September 13—4 p. m., I communicated to Dr. Guani and General Roletti, caused deep disappointment.

The Uruguayan Navy, as the Department is aware, is practically non-existent insofar as naval vessels are concerned. There is one old gunboat and a few despatch boats and tugs. The Navy personnel includes, however, at least three Rear Admirals and a number of other high-ranking officers. Furthermore, the ranks of the Navy have been enlarged recently by a number of volunteers. In the present atmosphere of patriotic fervor which exists in Uruguay, and with the knowledge that steps are being taken to acquire airplanes and artillery for the Army, it is natural that Naval Officers should wish to place the Uruguayan Navy in condition to exercise effective patrol along the coast and to cooperate in measures of continental defense.

A further reason, I am informed, which has moved many patriotic Uruguayans to wish to build up the Navy is the following: One of the arguments which Argentina has used in the conflict between the two countries over the question of jurisdiction in the waters of the River Plate, is that Uruguay, lacking a Navy, is in fact unable to exercise jurisdiction. Uruguayans would like to remove this disability.

A leading Uruguayan, member of one of the liberal opposition groups, and a staunch friend of the United States has recently spoken to me about as follows:

“You do not realize how difficult your country is making it for friends of the United States in Uruguay to explain the attitude of your country towards Uruguay. You abound in exhortations to do this or that, and in pronouncements of general principles, but when it comes to implementing your assurances, and to giving us practical assistance, you always find some excuse for not doing so. Take commercial matters: You preach the gospel of liberal commercial principles, and you urge us to abandon the narrow, bilateral balancing arrangements which have been forced upon us by European countries, but you are unwilling to open more generously your markets to us. We agreed to negotiate a commercial arrangement with you, but you dropped the matter in the middle of the negotiations because your negotiations with Argentina broke down. Then, take the matter of continental defense: When the Nazi menace appeared greatest a few months ago, we asked for immediate financial assistance to enable us to improve our defenses. You, the richest country in the world, were unable to loan us three or four million dollars. Brazil, however, sent us arms immediately without even stopping to discuss the cost. Now, having been exhorted to cooperate in continental defense, we want to build up our pitifully non-existent Navy, and we ask you to let us have two or three old destroyers that have been lying useless in your ports since the last war. You handed over fifty of these destroyers to Great Britain, and we see pictures reproduced in the papers of quantities of these ships tied up in your ports, looking like so many toy vessels in a shop window. Yet, you tell us that you find it impossible to let us have even a single one of these.”

The gentleman in question went on to say :

“Uruguay is cooperating 100 per cent with the United States and with the other American countries in the matter of repressing Nazi activities and desires nothing more than to cooperate fully in questions of continental defense. It is surprising that the United States Government does not appreciate that an effort to translate into something tangible its general professions of desire to assist Uruguay is called for in the present circumstances. I fear that the results of this attitude regarding the destroyers will provoke considerable resentment on the part of Uruguayan Navy officers and cause discouragement to Uruguayan friends of the United States.”

There are of course obvious answers and explanations with reference to the foregoing statements, and I of course made use of them in this conversation. The views expressed, however, coming, as I have said, from a steadfast friend of the United States, and doubtless shared by many people here, seem worth bearing in mind.

Respectfully yours,

EDWIN C. WILSON

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810.20 Defense/191 $\frac{1}{4}$ : Telegram

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

MONTEVIDEO, October 22, 1940—2 p. m.

[Received October 22—1 : 24 p. m.]

241. Your 93, August 4, 3 p. m. Lieutenant Colonel Christian and Captain Brereton arrived this morning and we had a satisfactory preliminary meeting with the Minister for Foreign Affairs, the Minister of National Defense and the Inspector General of the Navy.

The conversations with officers of the Uruguayan Army and Navy will begin tomorrow morning.

Please advise General Strong.

WILSON

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810.20 Defense/191 $\frac{1}{4}$ : Telegram

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

MONTEVIDEO, October 29, 1940—6 p. m.

[Received October 29—5 : 37 p. m.]

248. My 241, October 22, 2 p. m. Lieutenant Colonel Christian and Captain Brereton leave today for Buenos Aires, the former proceeding tomorrow by air for the United States.

The conversations here have been highly satisfactory. Future developments, however, and the maintenance of the existing cordial attitude on the part of Uruguay as regards cooperation with the

United States in questions of continental defense will depend in large measure upon our willingness and ability to make available to Uruguay certain essential military and naval material.

WILSON

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810.20 Defense/357 : Telegram

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

MONTEVIDEO, November 22, 1940—11 a. m.

[Received 1 : 05 p. m.]

267. Following the interpellation of the Minister for Foreign Affairs the Senate early this morning voted the following two motions: First, (by 25 to 1) "the explanations of the Minister of Foreign Affairs having been heard, the Senate proceeds to the order of the day, making it clear that in no case will it lend its approval to treaties or conventions which authorize the creation in our territory of air or naval bases<sup>43</sup> which imply a servitude of any kind for the nation or a diminution of the national sovereignty"; and second (by 20 to 6) "furthermore, and especially aside from the question which gave rise to the request for information, the Senate is constrained to declare, likewise, the extreme displeasure caused by the final remarks of Dr. Guani's explanation, in attributing to this constitutional organ, and with manifest injustice, motives foreign to the purpose of serving honorably the supreme national interests."

The result of the debate was a complete surprise. Yesterday afternoon it was confidently predicted in political circles that there would be no vote of censure and that a formula would be found which would save every one's face and postpone for the time being any political crisis. In fact I am informed that during an intermission in the debate the President of the Senate suggested a formula which was generally acceptable and which would have avoided a vote of censure declaring that it would be left to public opinion to judge the acts of the Government in this matter.

In the later stages of the debate Guani appears to have lost his temper, to have charged that the Nationalist Senators were acting from personal political motives, and to have declared in effect that the Government would not admit such obstructive tactics from a part of the Senate. This infuriated not only the Nationalist Senators but also the Colorados. The Nationalists took advantage of this opportunity to introduce the motions given above and carried

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<sup>43</sup> For denials by Acting Secretary of State Welles of reports regarding American air and naval bases in Uruguay, see Department of State *Bulletin*, November 16, 1940, p. 432, and *ibid.*, November 22, 1940, p. 452.

their Colorado colleagues with them on the plea that such action was necessary to uphold the independence of the Senate.

In the course of his explanations Guani read practically the complete text of the memorandum submitted to him on June 19, last (see my despatch No. 379 [369] of June 19th.<sup>44</sup>)

The political situation is extremely confused and it is impossible at the present moment to foresee what the developments may be.

WILSON

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810.20 Defense/359 : Telegram

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

MONTEVIDEO, November 22, 1940—4 p. m.

[Received 6:45 p. m.]

269. My 267, November 22, 11 a. m. I saw Guani at noon. He said that he had spoken deliberately and with the approval of the President in attacking the attitude of the Nationalists and the obstruction of the Senate. He said that his attack had been taken by the Senate as a warning that the President might dissolve the legislature, and that this accounted for the fact that the Colorado Senators, who want to hold their jobs, voted with the Nationalists.

He said that this morning some of the Nationalist leaders had come to him to propose a solution, but that he had refused to discuss the matter telling them to go to the President.

Guani said that he did not know how the situation would develop. The President returns from the country tonight and the decision will be up to him. He said that there was still a possibility that some compromise might be found and the whole matter blow over. On the other hand, the situation might become extremely serious and the Government find it necessary to take energetic measures.

He said that he regretted having made use of the memorandum of June 19 without having obtained my prior consent, but that it had seemed important to make "general use" of it as the debate developed.

I can see no easy solution to the present political situation. On the one hand, the Foreign Minister and the Senate have openly declared war on each other and it is difficult to see how they can re-establish any basis for future collaboration. On the other hand, if the President should throw Guani over, this would be a triumph for the Nationalists and strengthen vastly their position.

There are people who believe that the President is prepared to take strong measures, dissolving the legislature and proceeding thereafter as the necessities of the situation may indicate.

WILSON

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<sup>44</sup> Not printed.



810.20 Defense/362 : Telegram

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

MONTEVIDEO, November 23, 1940—4 p. m.

[Received 4:36 p. m.]

273. My 269, November 22, 4 p. m. It looks now as if any immediate political crisis would be avoided. The two Nationalist members of the Cabinet are reported to have received orders from their party not to resign, and Guani is expected to remain as Minister for Foreign Affairs.

The President on returning to Montevideo last night let it be known that he regarded the first motion voted by the Senate as approval of the Government's action, and that the Government intends to continue to cooperate wholeheartedly with the United States and the other American countries in the question of continental defense.

The statement issued by the Argentine Foreign Office last night regarding exchanges of views with Uruguay on questions of continental defense has been well received here and has strengthened the Government's (and Guani's) position.

WILSON

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810.20 Defense/368 : Telegram

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

MONTEVIDEO, November 25, 1940—11 a. m.

[Received 1:40 p. m.]

274. It would be a mistake, in my judgment, to interpret the recent Senate debate as a check to the Government's policy of cooperation in continental defense.

That policy was not at issue during the debate. For the Nationalists it was merely a question of domestic politics, another brush before the inevitable battle that some day must take place over constitutional reform. It also became, to some extent, through inept handling by the Government, a debate on the unreal question of whether Uruguay should expend vast sums of money on the construction of naval bases. Opinion has been allowed to become needlessly concerned on this point.

The first motion voted by the Senate will be found on analysis to be without practical significance: no one in good faith ever believed, and the Nationalists so admitted in the debate, that the Government intended to make a treaty alienating territory or affecting sovereignty. The second motion related solely to a personal question between the Senate and Guani.

The Nazis and Falangistas may seek to derive some temporary comfort from the superficial aspects of this debate. I believe, however, that the Government's policy of cooperation with the United States and other American countries in every appropriate way in questions of continental defense has not been affected by the debate, and moreover that this policy continues to have widespread popular support.

WILSON

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810.20 Defense/410 : Telegram

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

MONTEVIDEO, December 4, 1940—5 p. m.

[Received 8:50 p. m.]

289. Guani tells me that his talk with Roca<sup>45</sup> will take place probably Monday next, December 9. He said that he has known Roca for years and that the talk will be of an informal nature "without documents".

He said that he would seek at the outset to place the conversation on a "national basis" (his conception is that Uruguay is entering upon this conversation with Argentina because of the friendly, good neighborly relations existing between the two countries, and not because of recognition of any right on the part of another state to be consulted regarding Uruguayan action in matters within Uruguayan competence and sovereignty). With this in mind he would explain what Uruguay considers it desirable and possible to do as regards developments of facilities in certain Uruguayan ports, would discuss Uruguayan practice as regards use of her ports by belligerent vessels, such as cases in which Uruguay has allowed British war vessels to stay longer in port than is permissible under the Hague Convention, et cetera.

Having laid the basis for the talks, he would then proceed to discuss the conversations with United States officers on continental defense, and the obligations in this field which Uruguay has assumed as a result of inter-American agreements.

With further reference to "national basis" he remarked that he was glad that the conversation would take place on Uruguayan territory.

He added that he had various other questions to discuss with Roca, such as Argentina's delay in replying to the Uruguayan draft proposal for a commercial agreement.

Guani again said that he wanted to express his regrets for the publicity given to confidential documents in the Senate and Chamber debates. He said "There will be no more publicity so far as I am concerned."

Copy to Buenos Aires.

WILSON

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<sup>45</sup> Julio Roca, Argentine Minister for Foreign Affairs.

## VENEZUELA

810.20 Defense/5-2440 : Telegram

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

CARACAS, May 24, 1940—4 p. m.

[Received 7 : 45 p. m.]

69. Department's 50, May 23, noon.<sup>46</sup> After a secret consultation with the President, the Minister of Foreign Affairs<sup>47</sup> informs me that the Venezuelan Government is in complete accord with the proposal. He requests me transmit for the confidential information of the American Government the following personal suggestions from President Lopez Contreras.

The President understands the dangerous turn which the European war has taken and the threats to American peace and security and agrees that conversations should begin with a view to considering co-ordination of efforts to meet possible aggression and for defensive cooperation. He suggests, in order that the officers before starting may have a true picture of the situation and of the main points of study and vital threads of cooperation, that a questionnaire might be drawn up covering every question on which information is needed, on military effectiveness, military matériel, horses, equipment, organization of different arms, military routes, strategic points which should be guarded, resources in aviation, in men and in machines, and any other information which gives an exact idea of the military effectives. He suggests that C. A. Willoughby, former Military Attaché in Caracas, and a close personal friend of the President, might be included in any mission sent. Willoughby knows the country from a military point of view and may be of great help as liaison officer with the Venezuelan Government.

The Minister for Foreign Affairs explained that the questionnaire referred to above would be drawn up in Venezuela but that suggestions from the United States would be very welcome. In closing he emphasized that both the President and himself were very worried about developments in Europe and the possibility of some form of aggression against Venezuela.

SCOTT

810.20 Defense/5-2440 : Telegram

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

WASHINGTON, May 29, 1940—3 p. m.

52. From the Under Secretary. Your 69, May 24, 4 p. m. Captain B. L. Canaga, U. S. Navy, and Major M. B. Ridgway, U. S. Army,

<sup>46</sup> See footnote 29, p. 16.

<sup>47</sup> Estebán Gil Borges.

have been designated by their respective Departments to undertake the proposed conversations in Caracas with the Venezuelan authorities. They will travel on special passports . . .

Major Ridgway, who will arrive in Bogotá June 7, will advise you through the Embassy there of the date of his arrival in Venezuela. Captain Canaga will not arrive until some time later, as he is proceeding directly to Santiago, thence to Lima, Quito, Bogotá, and to Caracas. [Welles.]

HULL

810.20 Defense/6-1340

*The Chargé in Venezuela (Scott) to the Secretary of State*<sup>48</sup>

No. 352

CARACAS, June 13, 1940.

SIR: I have the honor to inform the Department that the Minister for Foreign Affairs yesterday discussed with me the question of the forthcoming consultations with respect to coordination of efforts in the event aggressions should occur in the Western Hemisphere. (Reference to the Department's Strictly Confidential telegram No. 50, May 23, noon.)

The Foreign Minister stated that he talked this matter over at length with the President and that they were agreed as to the necessity of working out a sound defense policy. The time element, however, was now becoming of paramount importance and it might be fatal to use too much time in long preliminary conversations on details when it was of the greatest urgency to determine questions of general policy.

"The initiative in this respect should come clearly from the United States," he said. "We are not in a position to determine policy but must be ready to follow the suggestions which the United States makes concerning our contribution to the defense of the continent."

The Minister then voiced the fear that the officers who are to discuss military matters would have no authority to elucidate American policy but would confine their efforts chiefly to obtaining data on Venezuela. Such data would then be analyzed at length by our General Staff and in the meantime much time would be lost. He expressed the opinion that Germany . . . would shortly undertake some form of aggression in the Western Hemisphere. Such aggression he felt would commence with a drive on South American countries either in the form of fifth column activities, sabotage or attempts of pro-German elements to control the country politically. He stated that Venezuela was sound and strong up to the elections in April 1941 but that an uncertain situation would arise at that time. He again stressed

<sup>48</sup> Printed from carbon copy. Original not found in Department files. No receipt date indicated.

the great urgency for the help and cooperation of the United States in working out a plan of defense as soon as possible.

I informed the Minister that I felt certain that the officers who would visit Venezuela had a mission much broader than merely that of gathering information; that they were being sent to help and cooperate in every way; that a start had to be made on the problem, and that this seemed an appropriate way to begin. I assured him that the United States was very much alive to the dangerous trend of world events as they might affect South American countries but that I would be glad to transmit faithfully to the Department the observations which he had just made.

Respectfully yours,

WINTHROP R. SCOTT

810.20 Defense/6-1940: Telegram

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

CARACAS, June 19, 1940—noon.

[Received 2: 09 p. m.]

85. For the Under Secretary of State. Department's confidential telegram No. 50, May 23, 6 p. m. [noon]. Mission completely successful. Venezuelan Government has pledged wholeheartedly in a memorandum the assistance which may be requested by the United States from the Venezuelan Government as explained by Major Ridgway. This memorandum also sets forth the assistance it expects from the United States. Memorandum follows tomorrow's air mail.<sup>49</sup>

To implement the understanding reached the Venezuelan Government desires consultations at the earliest possible moment between officers and technicians of the general staffs of the two countries.

In view of the major political objective of retaining the magnificent cooperative spirit which Venezuela now has toward the United States I strongly urge the advisability of giving prompt and sympathetic consideration to the various ways in which Venezuela desires assistance even if they involve points which may seem militarily or otherwise impracticable. . . .

SCOTT

810.20 Defense/6-2840: Telegram

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

CARACAS, June 28, 1940—noon.

[Received 12: 45 p. m.]

94. After successful completion his mission Captain Canaga left by plane today, due to arrive Washington June 30 morning.

SCOTT

<sup>49</sup> Not printed.

810.20 Defense/8-440 : Telegram

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

WASHINGTON, August 4, 1940—3 p. m.

85. Department's circular telegram July 11, 4 p. m.<sup>50</sup> Lieutenant Colonel N. Randolph, U. S. Army and Lieutenant Commander W. S. Campbell, U. S. Navy, have been designated respectively to represent the War and Navy Departments in the proposed staff conversations with Venezuelan officials. It is expected that they will arrive in Caracas in time for the conversations to begin August 19. You will be informed later of precise date and means of their arrival in Caracas. Following the conclusion of their conversations in Caracas, Colonel Randolph will proceed to Bogotá and to Quito. Lieutenant Commander Campbell who is, for your very confidential information, the officer tentatively designated as chief of any naval mission which might be sent to Venezuela should it be requested by the Venezuelan authorities, will return to the United States upon the termination of the conversations at Caracas.

A separate telegram<sup>51</sup> is being sent to you outlining the agenda for the proposed conversations which you may communicate in strictest confidence to the appropriate Venezuelan authorities.

HULL

810.20 Defense/8-2740 : Telegram

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

CARACAS, August 27, 1940—6 p. m.

[Received 9 : 05 p. m.]

126. Colonel Randolph's conversations with the staff of the Venezuelan Army, begun on August 16, were completed August 24.<sup>52</sup> Satisfactory agreements covering Agenda of State and War Departments were signed by conferees at 6 p. m., August 26, after approval by Minister of War and Marine and by the President of Venezuela. Staff conversations proceeded slowly, primarily because Venezuelan representatives are apprehensive of the employment in Venezuela of our land forces and because of the failure to date of Venezuelan authorities to receive timely and definite replies to their inquiries relating to purchase in the United States of certain categories of war materials which the Venezuelan Government believes to be absolutely essential

<sup>50</sup> *Ante*, p. 19.

<sup>51</sup> Circular telegram of August 4, 4 p. m., p. 20.

<sup>52</sup> In telegram No. 177, August 22, 4 p. m., the Ambassador in Venezuela reported the conclusion of the naval staff conversations (810.20 Defense/8-2240).

to permit the preparation of the Venezuelan Army to perform its part in providing adequate defense of its own territory in cooperation with our naval and air forces which are looked upon as vital to the defense of Venezuela and of the entire hemisphere and which forces are accepted without reservation.

The first difficulty was overcome partially at least by Colonel Randolph's explanation first to the Ministry of Marine and War, and later to the President in private interviews that the effective and continuous operation of air and naval forces can be assured only when the land bases and establishments of those forces are adequately protected by properly organized, trained, and equipped ground forces. It was further explained by Colonel Randolph that limitations of time factors and manufacturing facilities made extremely problematical preparation of the Venezuelan ground forces to meet these requirements in entirety in which case the use of our ground forces to supplement or reinforce Venezuelan forces might be not only necessary but vital to the defense of Venezuela. While these officials agreed with these views and withdrew their objection to the use of our ground troops there still exists a general antipathy towards the use of foreign ground troops in this country which should not be overlooked in future negotiations.

The second difficulty was counteracted by Colonel Randolph's explanation of our requirement and production problems and of the efforts our Government is making to solve these problems and to facilitate the purchase in the United States by the American Republics of war material insofar as we are able to do so. General Medina who has recently returned from the United States, promptly recognized and accepted the situation but urged that the Venezuelan Government be given the necessary information upon which to base their estimates, budgets and requests, which he assured would be held to an absolute minimum not only to cooperate with us in this respect but also to conform to the budgetary policies of the President which are based primarily on the economic improvement and development of Venezuela.

Permit me to suggest that a personal letter from General Marshall<sup>53</sup> to General Medina confirming Colonel Randolph's explanations in these respects would be timely and would tend to reassure this Government of our sincerity and determination.

CORRIGAN

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<sup>53</sup> Gen. George C. Marshall, Chief of Staff, U. S. Army.

SECOND MEETING OF THE FOREIGN MINISTERS OF THE  
AMERICAN REPUBLICS, HELD AT HABANA JULY 21-30,  
1940<sup>1</sup>

710.Consultation(2)/1 : Circular telegram

*The Secretary of State to the Chiefs of Diplomatic Missions in the  
American Republics*<sup>2</sup>

WASHINGTON, June 17, 1940—10 a. m.

You are instructed to obtain an immediate interview with the Minister for Foreign Affairs and lay before him in the name of your Government the following considerations:

The French Government finds itself in the necessity of asking an armistice from Germany.<sup>3</sup> Under these circumstances it is possible that there may come up for discussion in the negotiation of the terms of such armistice or in any subsequent peace terms the disposition of the colonies and the possessions of France in the Western Hemisphere.

As the Governments of the American Republics well realize it is the policy of the United States not to recognize as valid, nor to acquiesce in the transfer of, any territory within the Western Hemisphere now held by European powers to any other non-American power.<sup>4</sup>

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<sup>1</sup> See also *Diario de Sesiones de la Segunda Reunión de Consulta entre los Ministros de Relaciones Exteriores de las Repúblicas Americanas* (La Habana); *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Havana, Cuba, July, 1940, Special Handbook prepared by the Pan American Union* (Washington, 1940); "Habana Meeting of the Ministers of Foreign Affairs, Final Act and Convention," Department of State *Bulletin*, August 24, 1940, p. 127; *Report on the Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Submitted to the Governing Board of the Pan American Union by the Director General, Congress and Conference Series No. 32* (Pan American Union, Washington, 1940); *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941); Department of State Executive Agreement Series No. 199: *Provisional Administration of European Colonies and Possessions in the Americas, Act of Habana Contained in the Final Act of the Second Meeting of Ministers of Foreign Affairs of the American Republics Signed at Habana July 30, 1940* (Washington, Government Printing Office, 1941); *Second Inter-American Consultative Conference, Havana, 1940, List of the Projects Delivered to the Office of the Secretary General* (mimeographed; copy deposited in Library of the Pan American Union). The files of the delegation are in the Department of State.

<sup>2</sup> The only replies printed are those raising some special point of interest.

<sup>3</sup> On June 17, 1940, France asked armistice terms of Germany; on June 22, 1940, the Franco-German armistice was signed at Compiègne.

<sup>4</sup> For correspondence regarding the concern of the United States over the fate of the possessions of the Netherlands and France in the Western Hemisphere following the invasion of the home countries, see vol. II, pp. 729 ff. and pp. 493 ff., respectively.



In a resolution unanimously adopted at the meeting of the Foreign Ministers of the American Republics, at Panama, on October 3, 1939, the American Republics declared:

"That in case any geographic region of America subject to the jurisdiction of any non-American state should be obliged to change its sovereignty and there should result therefrom a danger to the security of the American Continent, a consultative meeting such as the one now being held will be convoked with the urgency that the case may require."<sup>5</sup>

In the opinion of the Government of the United States the possibilities envisaged in the resolution adopted at Panama and above quoted demand urgent consultation on the part of all of the American Republics. The Government of the United States therefore inquires whether the Government of . . . . . coincides in its opinion that an immediate consultation on the part of the Foreign Ministers of the American Republics or of their representatives should now be held at the first possible moment.

In a further resolution<sup>5a</sup> adopted at the consultative meeting at Panama it was agreed that, should the American Republics then think it desirable, a further consultative meeting of the Foreign Ministers or of their representatives would be held in Habana on October 1 next. Since Habana was then selected as the seat of this further meeting for consultation, the Government of the United States inquires whether the Government of . . . . . shares its view that Habana should be selected as the seat for the urgent consultative meeting now suggested.

Please make it clear that should the Government of . . . . . consider that some capital other than Habana be selected for reasons of convenience and should the majority of the other American Republics so believe, the Government of the United States will be happy to have the meeting held in any capital which the majority of the American Republics believe the most appropriate.

In conclusion, please request an indication from the Government of . . . . . as to the earliest possible date upon which, in its judgment, such a meeting might be held.

HULL

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710.Consultation (2)/7 : Telegram

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

PORT-AU-PRINCE, June 18, 1940—noon.

[Received 2:26 p. m.]

97. With reference to Department's circular telegram dated June 17, 10 a. m. President Vincent fully agrees with the policy indicated

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<sup>5</sup> *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics Held at Panamá, September 23–October 3, 1939, p. 66.*

<sup>5a</sup> *Ibid.*, p. 62.

in paragraph 3 and is prepared to participate at once in the Habana consultation. In fact he told me he had just been discussing this extremely serious situation with the Minister for Foreign Affairs<sup>5b</sup> preliminary to suggesting action. The Minister for Foreign Affairs is ready to leave Port-au-Prince when notified of date of assembling.

However President Vincent feels in the present case exactly as quoted in my No. 79, May 31, 1 p. m., and my telegram 81, June 1, 2 p. m.,<sup>6</sup> to the effect that the procedure suggested does not meet the urgency of present grave situation. President Vincent would greatly prefer to have the United States either alone or accompanied by symbolic military representation from several of the Caribbean states take immediate possession of the French and Dutch possessions in this hemisphere in a sort of trust or escrow leaving their exclusive jurisdiction to be determined at Habana.

In other words President Vincent strongly recommends action first and consultation afterwards. He feels that the procedure suggested by our Government might easily confront the American Republics with a *fait accompli* of a declaration of title by Germany the contravention of which would create a *casus belli* which immediate action would avoid.

Furthermore, President Vincent believes that positive action will greatly impress Germany and Italy and create a favorable atmosphere for any future problems we may have with them.

MAYER

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710.Consultation (2) / 8 : Telegram

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

LIMA, June 18, 1940—noon.

[Received 2:35 p. m.]

81. Department's circular telegram of June 17, 10 a. m. As a preliminary reply the Foreign Minister<sup>6a</sup> stated Peru was in favor of a consultation. In the urgent circumstances he personally favors consultation by telegraph, but if the majority desires a personal meeting his Government would conform. He suggests Panama as being more convenient for such meeting. He must however consult with the President before making a definite answer to the Department's inquiry. Reply from the Foreign Office expected this evening.

NORWEB

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<sup>5b</sup> Léon Laleau.

<sup>6</sup> *Ante*, pp. 123 and 125, respectively.

<sup>6a</sup> Alfredo Solf y Muro.

710. Consultation (2) / 16 : Telegram

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

MEXICO, June 18, 1940—5 p. m.

[Received 8:26 p. m.]

210. Department's circular June 17, 10 a. m. General Hay<sup>7</sup> has given me the following oral replies.

1. The Mexican Government is agreeable to an immediate consultation on the part of the Foreign Ministers of the American Republics or their representatives.

2. The Mexican Government agrees that Habana should be selected as the seat of the urgent consultation meeting.

3. General Hay states that the Mexican Government will be prepared to go at the earliest date convenient to the other republics. He assumes that as others are much farther away than Mexico the meeting can hardly take place before 8 days from now. However, all that the Mexican Government would require is a reasonable time in which to get a representative to Habana. General Hay has asked me to inquire whether Secretary of State Hull will attend the meeting and would appreciate early information on this point.

BOAL

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710. Consultation (2) / 13 : Telegram

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

RIO DE JANEIRO, June 18, 1940—5 p. m.

[Received June 18—4:30 p. m.]

291. My 289, June 18, 3 p. m.<sup>8</sup> Aranha<sup>9</sup> has talked to President Vargas: They would very much like to have the conference held in Rio de Janeiro.

It would afford them an opportunity to demonstrate their fervent support of Pan-Americanism and friendship with the United States and the other American countries.

CAFFERY

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710. Consultation (2) / 22

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

No. 428

HABANA, June 18, 1940.

[Received June 19.]

SIR: I have the honor to acknowledge the receipt of the Department's circular telegram of June 17, 1940, 10 a. m. addressed to the

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<sup>7</sup> Eduardo Hay, Mexican Minister for Foreign Affairs.

<sup>8</sup> Not printed.

<sup>9</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

Governments of the American Republics and suggesting the desirability of holding a conference at the earliest moment possible to discuss questions which may arise in connection with the possessions and colonies of non-American States in the Western Hemisphere in view of developing conditions in Europe. The substance of this telegram had been communicated to me by telephone by the Department on the morning of June 17 and I immediately sought an interview with Dr. Campa, the Secretary of State. He informed me that the Cuban Government was entirely in accord that such a meeting should be held at the earliest possible date and I so informed the Department by telephone on the afternoon of June 17.

The Department's circular telegram of June 17, 10 a. m. did not reach this Embassy until late that evening and after it was decoded I called on the Secretary of State, accompanied by Mr. Beaulac, the First Secretary of the Embassy. I communicated to him the substance of the Department's telegram and in my telegram of June 18, 10 a. m. [*noon*]<sup>10</sup> to the Department I have been able to give the following reactions of the Cuban Government.

The Cuban Government agrees as to the urgency of a second consultation of the Ministers for Foreign Affairs following that of Panama and is of the opinion that this meeting should be held at the earliest possible moment.

The Cuban Government is prepared to have this meeting in Habana at the earliest date which may be agreeable to the other Governments. The Secretary of State expressed the hope that it would be possible to give sufficient time for the Foreign Ministers of the more distant countries to reach Habana, but at the same time he expressed his complete understanding of the urgency of the meeting.

The Secretary of State further informed me that he would transmit his memorandum on a proposed preliminary agenda for the October meeting which he had already prepared and which I have already forwarded to the Department, to the other American Governments today, but he made it clear that he would arrange to have omitted from the proposed agenda that part relating to ships. He further said that in transmitting his memorandum to the other American States he would make it clear that his suggestions for the October meeting were entirely preliminary and without prejudice to the earlier immediate meeting which our Government has proposed and which he believes may usefully be confined to the questions of possessions of non-American States in this Hemisphere.

At the request of the Secretary of State I called on him this morning and he handed me the appended confidential memorandum for transmission to my Government which memorandum the Depart-

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<sup>10</sup> Not printed.

ment will note is practically textually the same as the copy of the memorandum I transmitted some days ago. When I saw the Secretary of State last evening I suggested to him the desirability of leaving out of this memorandum the reference to ships and he agreed that he would do so. This morning when he handed me the appended memorandum he said that the reference to ships remained in the memorandum but he was making the necessary arrangements through the Cuban Embassy in Washington to have this part of the memorandum eliminated by the Pan-American Union when any agenda for the October meeting was prepared.

It was my hope that I might be able to persuade the Secretary of State not to send this memorandum at this time and immediately following our initiative in suggesting an immediate meeting, but for various reasons I did not deem it advisable to press this point, particularly as he was prepared on our suggestion to eliminate the reference in the preliminary agenda to ships. The Secretary of State feels a very definite responsibility with respect to the October meeting in view of the resolution of the Panama conference and that it is the duty of the Cuban Government to take some preliminary steps with respect to the Habana meeting.

It will be of interest to the Department to know that the Secretary of State was very definitely of the opinion that it would be desirable to hold a meeting such as the one we suggest at Habana at the earliest possible date to discuss the questions arising out of the possessions and colonies of non-American States in the Western Hemisphere. He indicated that the Cuban Government would be prepared to have this conference take place in Habana at any moment that our Government and the other American States may deem it advisable. He has already taken steps to make available the necessary personnel for such a meeting if it should be held within the next six or seven days. Just before I saw him he had called in Senator Verdeja, the President of the Senate, in order to make the arrangements with him for making available the facilities of the Senate Chamber and offices.

In view of the urgency of the discussion by the American States of the question raised by our Government he believes that this conference should take place at the earliest possible moment and as time would not be available for the preparation of a full agenda of other subjects which could usefully be discussed it is his thought that the meeting contemplated by our Government at Habana be confined to the consideration of the question which we have raised and that in the meantime the Pan-American Union proceed with the elaboration of the agenda for a meeting to follow which would also be held at Habana.

The question arose as to whether it would be possible for the Ministers of Foreign Affairs of the more distant countries to reach

Habana for this urgent meeting. The Secretary of State strongly expressed the hope that it would be possible for the Foreign Ministers of the more distant countries to participate in this first as well as in the following meeting. In case it were not possible for the Foreign Ministers of any American States to attend the urgent meeting I suggested that certain Governments might find it desirable to give proper powers to their diplomatic representatives in Cuba, Washington, or contiguous States to represent them at this first meeting in order that there may be no delay in its taking place. The Secretary of State expressed himself as believing that this was a solution which some of the States might have to find for this immediate meeting in view of its great urgency. I brought out, however, that in case the meeting is held five or six days hence there would be time for the Foreign Ministers to arrive here by air.

I think I should take this opportunity to inform the Department that Dr. Campa placed great stress on the importance of the Ministers for Foreign Affairs of all the American States to be present at the October meeting, the actual holding of which he said he thought could also be advanced if this seems desirable in the opinion of the American States. He indicated that in his opinion the experience at the first consultation in Panama showed clearly the desirability of having persons with proper authority and adequate responsibility attend these meetings.

The Secretary of State showed not only a full comprehension of the importance of the meeting which our Government has proposed, but a very real desire on the part of the Cuban Government and on his part to cooperate to the fullest possible extent in this meeting.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure—Translation <sup>11</sup>]

*Memorandum of the Government of Cuba to the Nations of America  
Concerning the Second Meeting of Ministers of Foreign Affairs*

The First Meeting of Ministers of Foreign Affairs, held in Panamá, agreed, in its Resolution XIII, that the Second Consultative Meeting would be held in the city of Habana, capital of the Republic of Cuba, in the month of October next, or earlier if necessary.

In accordance with that Resolution, and conscious of the high honor conferred upon it, the Cuban Government is taking all the steps necessary in order that this conference may have the solemnity and importance which characterized the meeting at Panamá.

During recent months the world perspective has been fundamentally changed. The problems outlined in the First Meeting have taken

<sup>11</sup> File translation revised by the editors.

on a clearer and more disquieting form, and the dangers so wisely pointed out then by American statesmen are now clearly seen to constitute a direct menace to the institutions and to the security of our continent.

The space of time separating the two meetings reveals a curve of increasing gravity in the development of affairs in Europe. These developments are gradually disclosing a tragic and imminent reality which cannot be met with simple precautionary measures of isolation or of respectful reserve in the face of the enormity of the sufferings of others, but which constitute a terrible situation of justified alarm which America must contemplate with prudence and without nervousness, with the firm decision to foresee and protect its responsibilities and its legitimate interests.

This means, in the opinion of the Cuban Government, that from precautionary measures we should proceed to methods of a practical nature, to ensure the efficiency of the collective defense of America.

The Panamá Agenda contained three Chapters, within which the Government of Cuba believes that the steps to be discussed at the Habana meeting might continue to be placed.

(1) Under the heading of neutrality may be included the adjustment of the work performed by the permanent Commission at Rio de Janeiro<sup>12</sup> in order to give uniform character to that work with a view to its being placed in effect immediately in the American Republics.

Furthermore, it is desirable that all the American countries be represented on that Commission, either directly or through the delegation of a third American country, in order to bring about rapidly and unanimously the execution of its agreements.

In this Commission there might be prepared for immediate execution not only measures to cause American neutrality to be respected, but also the interchange of intergovernmental information and help to prevent individual or collective activities of belligerents within the territory (of any American nation).

(2) Among the economic measures, and taking advantage of the work of the economic commission at Washington,<sup>13</sup> it would be desirable to carry out certain urgent measures to

(a) Substitute provisionally for the duration of the war those products of European industry which can be replaced by American articles, maintaining in that interchange a level of equality in the volume of what is purchased and what is sold.

(b) Utilize tonnage interned in American ports exclusively for the purposes of inter-American commerce, through a legal formula—such as embargo or requisition—establishing a uniform rental charge for its use during the war. These sums would be paid after the peace,

<sup>12</sup> See section entitled "The Inter-American Neutrality Committee," pp. 257 ff.

<sup>13</sup> See bracketed note, p. 345.

in such manner that the rental would not increase the economic capacity of any of the belligerents.

(3) Maintenance of peace.

(a) Creation of a commission of American defense to study from a general point of view continental defense, military and naval necessities and the strategic possibilities in the eventuality of an attack by non-American powers, including also the measures of cooperation of each American power.

(b) Reaffirmation of the principle of American solidarity set forth in Panama, through a legal formula—for example, that presented by the Dominican Republic and Colombia—for the purpose of giving it a more perceptible expression, a kind of provisional or permanent League of Nations, of which the Pan American Union, which has proved its utility during the last 50 years, would be the Secretariat General, and whose governing body (*órgano resolutivo*) might be constituted by the periodic meeting of the Ministers of Foreign Affairs of America.

(c) A definite declaration, without euphonism of America's purpose—an amplification of Resolution XVII voted in Panama—not to permit the occupation or transfer, in any form, of American regions belonging to non-American powers as a result of agreements or acts from the present conflict.

The Cuban Government does not attempt in this memorandum to exhaust the materials which the Habana meeting may study—and it hopes that the illustrious governments to which this document is addressed will so interpret it —, but simply to establish a pre-arranged base in order to prepare, after having heard the respected opinion of each of the interested nations, in accordance with the Pan American Union, a definite agenda for the Second Meeting, inspired by the humane, peaceful and foresighted sentiments which are characteristic of the ideals of America.

HABANA, June 20, 1940. [*sic*]

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710.Consultation (2) /20 : Telegram

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

LIMA, June 19, 1940—10 a. m.

[Received 1:15 p. m.]

82. Referring to my telegram No. 81, June 18, noon. After discussion with the President, the Minister for Foreign Affairs called on me last evening and reiterated his statements of yesterday. In addition he suggested that the process of consultation by telegraph would be speeded up if Panama or the United States would circularize a



concrete proposal to which the various countries could give consideration with a view to formulating a unanimous declaration.

The Minister also read to me a telegram from the Peruvian Minister in Habana regarding a memorandum prepared by the Government of Cuba, urging Peruvian participation in a meeting at Habana on June 26 to discuss additional questions such as neutrality and subversive activities.

Aside from the Minister's insistence on immediate action, questioning did not disclose any other reasons for preference for telegraphic consultation instead of the proposed conference.

While I do not wish to imply that there is a suggestion of reservation, there is, however, some hesitancy both in this instance and on the question of the exclusion of submarines,<sup>14</sup> which may be due to either the desire to ascertain the attitude of neighboring countries first or to avoid the appearance of being in the vanguard.

Regardless of the above, we believe that Peru will follow the majority decision.

NORWEB

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710.Consultation (2)/20 : Telegram

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

WASHINGTON, June 20, 1940—10 p. m.

75. Your 82, June 19, 10 a. m. Please inform the Minister for Foreign Affairs that while I am in complete agreement with him to the effect that the close and cordial relations now prevailing between the American republics would permit the rapid formulation by means of telegraphic consultation of a declaration on an important matter of common policy, I am of the opinion that the problems now confronting or about to confront the continent are of a sufficiently grave nature to warrant the immediate holding of a meeting similar to that held at Panama last October. It is not my opinion that the projected meeting at Habana should confine itself to declarations of a general character; it is my hope that it will lay the basis for constructive collective action in several directions.

Fifteen of the other American republics have already expressed agreement in principle with the Department's proposal for a meeting.

WELLES

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<sup>14</sup> See section entitled "Efforts of the United States to secure among certain other American Republics legislation providing for the exclusion of belligerent submarines from their ports and territorial waters," vol. 1, pp. 776 ff.

710.Consultation (2)/24 : Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, June 21, 1940—4 p. m.

26. Your 47, June 19, 3 p. m.<sup>15</sup> The Bolivian Minister <sup>15a</sup> in conversation here yesterday indicated that his Government had offered the thought that the seat of the forthcoming conference might be in one of the South American capitals as a suggestion to facilitate the expeditious convening of the meeting, but that Bolivian attendance at the meeting was in no way to be considered conditional upon the selection of a South American capital as the seat of the meeting.

Would you please take an opportune moment to inform the Foreign Minister <sup>16</sup> that while his feeling that the meeting should be held in one of the South American capitals is deeply appreciated, it has become evident from the replies already received that the other American governments have generally interpreted the twelfth resolution adopted at Panama last October to mean a commitment to hold the next meeting at Habana. It is therefore the sincere hope of the Department that in view of these circumstances Habana will likewise prove acceptable to the Bolivian Government.

HULL

710.Consultation (2)/41 : Telegram

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

RIO DE JANEIRO, June 21, 1940—4 p. m.

[Received June 21—3:44 p. m.]

297. For the Under Secretary. My 291, June 18, 5 p. m. Aranha showed me a telegram this morning from his Ambassador at Buenos Aires reporting that Cantilo <sup>17</sup> told him that Espil <sup>18</sup> reports that a 5-point program (which he described) is under discussion for the agenda of the conference which will be called for June 26. Aranha expressed surprise at the breadth of the program and remarked that the 26th would allow very little time for study of so many important subjects.

CAFFERY

<sup>15</sup> Not printed.<sup>15a</sup> Luis Fernando Guachalla.<sup>16</sup> Alberto Ostría Gutiérrez.<sup>17</sup> José María Cantilo, Argentine Minister for Foreign Affairs.<sup>18</sup> Felipe A. Espil, Argentine Ambassador in the United States.

710.Consultation (2) /13 : Telegram

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

WASHINGTON, June 21, 1940—6 p. m.

177. From the Under Secretary. Your 291, June 18, 5 p. m. Please inform Aranha that while the purpose which has moved the President and him to suggest that the forthcoming consultation be held in Rio de Janeiro is fully understood and appreciated, there are one or two considerations to which I wish they would give full weight in order in no way to jeopardize the magnificent spirit of cooperation and solidarity which is now manifest in every country. Although our telegram indicated the willingness of this Government to attend a consultation in whatever capital was the preference of the other American countries, the twelfth resolution adopted at Panama has been generally interpreted as a commitment to hold the next meeting at Habana. Sixteen of the American republics have already definitely indicated their willingness to hold the meeting at Habana. Messersmith states that the Cuban Government is proceeding on the assumption that Habana will be the *locus* of the conference and expresses his belief that the Cuban Government will be very keenly disappointed if the conference were held elsewhere even though that possibility has been present since the beginning.

In view of the urgency of holding the meeting at the earliest possible moment and of the favorable response on the part of other governments to Habana as the seat of the meeting, I am hopeful that President Vargas and Aranha with these considerations before them will agree that a change to Rio might result in bad feeling not only in Cuba but in the other countries that have already agreed to Habana, some of whom, I am quite sure, for the sake of rapid hemisphere action and solidarity shelved their own ambitions. Perhaps what the President and Aranha have in mind might, to a certain extent, be realized by the selection of Rio as the seat of the following consultation. We would be very glad to support a suggestion to that effect. [Welles.]

HULL

710.Consultation (2) /42 : Telegram

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

LIMA, June 21, 1940—10 p.m.

[Received June 22—12:10 a. m.]

83. Your telegram 75, June 20. The Foreign Minister was pleased to receive your message and stated that Peru would participate in the projected meeting when and wherever held.

Dr. Solf said that from reports received, July 15 would be a generally acceptable date. He particularly mentioned a report from Rio de Janeiro asking Peruvian support that the meeting be convened there. Among the reasons advanced was that a conference in Brazil would "counteract the bad impression made by the recent speech of President Vargas".<sup>19</sup>

The Minister for Foreign Affairs said he would personally attend the conference if other Foreign Ministers did.

NORWEB

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710.Consultation/43 : Telegram

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

BUENOS AIRES, June 21, 1940—11 p. m.

[Received June 22—12:05 a. m.]

244. Referring to Department's circular telegram of June 17, 10 a. m., the following is a translation of the note just received from the Foreign Office in reply to my note reported in the Embassy's telegram No. 240, June 19, 9 p. m.<sup>20</sup>

I have the honor to acknowledge the receipt of Note No. 227 of the 18th instant by which Your Excellency in the name of your Government points out the prospects the war between France and Germany presents and the consequences that the peace now in consideration may hold with respect to the disposition of French colonies and possessions in this continent. Your Excellency in referring to the policy of the United States not to recognize as valid nor consent to the transfer of American territories from a European state to another that is not American cites the resolution to this effect adopted by the Panama Conference which contemplated the consultation of the American countries in the event that a situation of this sort should endanger the security of the continent and asks accordingly in the name of the Government of the United States if the Argentine Government does not consider that the time for such consultation has arisen.

In reply I have the honor to inform Your Excellency that the Argentine Government, in accordance with its often repeated willingness to keep within the framework of continental solidarity, so happily affirmed at the Conferences at Buenos Aires, Lima and Panama, agrees in principle to the new meeting which is proposed and does not have any objection to the place suggested, the city of Habana.

Nevertheless, in view of the special interests which the Republic must take into consideration, because of its own policy necessitated by its geographical position, this Government desires to consider beforehand the program of the conference, the work of which it is desirable to see in advance in a definite and delimited form.

As to questions of sovereignty expressly contemplated in the proposal in question, it may be pointed out that the Argentine Govern-

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<sup>19</sup> For correspondence concerning the speech by President Vargas, see pp. 615 ff.

<sup>20</sup> Not printed.

ment, which maintains as inalienable the rights of this country over the Falkland Islands,<sup>21</sup> cannot but continue in this definite position, without admitting that that part of the territory, of essential interest to the national defense, be the object of any deliberation within the plan contemplated by the proposal.

Likewise, I must inform Your Excellency that, because of distance and attention to the previous study which the program necessitates, this Government would only be in a position to attend the conference after the 15th of next July.

I take this opportunity, et cetera.

End translation.

ARMOUR

710.Consultation (2)/22

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

No. 125

WASHINGTON, June 21, 1940.

SIR: With reference to your despatch no. 428<sup>22</sup> and confirming telephone conversations which you have had with officers of the Department relative to the proposed consultative meeting of foreign ministers at Habana, you are requested to bring to the attention of the Cuban Secretary of State at such time as in your discretion it may appear appropriate the following points as expressing the views of the Department on this subject:

1. The proposed meeting to be held at Habana in the near future should not be restricted to a consideration of the question of the possessions of non-American nations in the western hemisphere. It is assumed that an agenda for the meeting will, as in the case of the Panama meeting, be approved by the Governing Board of the Pan American Union, and that this agenda will be sufficiently broad in scope so as to permit the presentation of projects in relation to all phases of the problems currently confronting the American republics. The Department considers that this meeting will be the "future meeting" provided for in the pertinent resolution adopted at Panama and consequently that the delegations present thereat will have complete liberty of action in regard to the details of any subsequent meetings for which it may be desired to make provision.

2. When final agreement is reached by all the American republics as to the date of the Habana meeting, it is hoped that Dr. Campa will extend the necessary formal invitations to the foreign ministers of the other republics.

3. The Department is deeply appreciative of the splendidly cooperative attitude demonstrated by Dr. Campa in relation to the preparations for the meeting and feels confident that the arrangements he is making will insure a successful gathering.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

<sup>21</sup> For correspondence regarding the Falkland Islands, see pp. 505 ff.

<sup>22</sup> Dated June 18, p. 183.

710.Consultation (2)/76

*Memorandum by Mr. Philip W. Bonsal of the Division of the American Republics*<sup>23</sup>

[WASHINGTON,] June 22, 1940.

At ten a. m. today replies had been received from all twenty of the other American republics expressing agreement with the principle of a consultative meeting; only Brazil and Bolivia have not yet accepted Habana as the meeting place.

Sentiment regarding the opening date of the meeting appears to be crystallizing around the week beginning July 15.

710.Consultation (2)/41 : Telegram

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

WASHINGTON, June 22, 1940—noon.

178. From the Under Secretary. Your 297, June 21, 4 p. m. Please tell Aranha from me that this Government has never had any idea that the consultative meeting could be held on June 26. That date was suggested by the Cuban Secretary of State without consulting with anyone so far as I know. In our opinion the date could not possibly be before the 17th of July which is the earliest date upon which the Chilean, Argentine and Uruguayan delegates could arrive in Habana unless they proceeded by airplane which some of them are unwilling to do.

Please tell Aranha further that the only 5-point program of which I know is one likewise suggested by the Cuban Secretary of State.<sup>24</sup> I have not discussed any program with Espil other than to indicate that undoubtedly subjects in addition to the question of European possessions in the Western Hemisphere would have to be taken into consideration. I mentioned that in my own judgment economic cooperation was of outstanding importance. Finally please tell Aranha, as I said to the Brazilian Ambassador yesterday, that as soon as this Government has reached its own ideas as to the subjects which should be discussed, I will immediately communicate our proposals to Aranha as I did before the Panama meeting in order to obtain the benefit of his advice and suggestions and to know whether the Brazilian Government has any additional plans in mind.

I think it is likely that Secretary Hull will attend the meeting. [Welles.]

HULL

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<sup>23</sup> Addressed to the Chief of the Division of the American Republics (Duggan) and to the Under Secretary of State (Welles).

<sup>24</sup> See memorandum on p. 186.

710.Consultation(2)/55 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, June 22, 1940—noon.

[Received 4 : 35 p. m.]

49. Reference to the Department's telegram Number 26, June 21, 4 p. m. Minister for External Affairs last night informed the Legation and this morning reiterated that he had received suggestion from Brazilian Government that meeting be held at Rio de Janeiro and that he had strong intimations from representatives of several other South American Governments that for geographic and climatic reasons Habana would not be considered satisfactory. He thought that meeting place in a South American capital would assure attendance of Foreign Ministers instead of hastily appointed delegates and that delay until July 15, in the absence of dangerous emergency, would vouchsafe greater success. He says he has cabled his views to the Bolivian Minister at Washington. The Foreign Minister added, confidentially that he was convinced from his conversations with Latin American diplomats here that Cantilo and Aranha would not go to Habana and that it was in any event practically impossible to reach Habana before July 1st. The Foreign Minister failed to say definitely whether or not the Bolivian Government would send a representative to Habana. In the course of conversation the Foreign Minister again expressed the hope that Secretary Hull himself will attend conference as he regards his presence as of utmost importance.

JENKINS

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710.Consultation(2)/54 : Telegram

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

SANTIAGO, June 22, 1940—1 p. m.

[Received 3 : 16 p. m.]

139. I saw the Foreign Minister<sup>25</sup> this morning at his request. He wanted a more definite idea of the agenda for Habana and particularly whether it is to be confined to possible transfer of territory or will include as well economic questions. This he implied important in selecting representatives. I suspect the action of the Minister is due to report of Ambassador at Washington of interview with the Department at which he was told the conference may or will deal with continental defence, armament and economic matters as well. Please give us the earliest practical reply for transmission to this Government. Feeling here that inclusion of economic questions would result

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<sup>25</sup> Abraham Ortega.

in liquidation of the conference called by Bolivia for Montevideo for August 15<sup>26</sup> which is disturbing the Government here.

BOWERS

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710.Consultation (2) /55a : Telegram

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

WASHINGTON, June 22, 1940—4 p. m.

120. Please endeavor to see Dr. Cantilo over the weekend and inform him of the pleasure with which the President and myself learned of the possibility that he personally might attend the forthcoming meeting. His presence would add great prestige to a meeting which may well be the most important inter-American conference held in recent years. It is my own expectation to be present if conditions make it possible, and it would be a very great pleasure for me once again to collaborate with Dr. Cantilo in the important work ahead of all of us. Please inform Dr. Cantilo further that in as much as all of the American countries have now agreed regarding the desirability of holding another consultation of Foreign Ministers, it would seem desirable to fix at the earliest possible moment the date of that meeting; and in as much as the American governments have generally interpreted the 12th Resolution adopted at Panama last October to mean a commitment to hold the next meeting at Habana, the views of the most distant countries become all important in the fixing of the date.

[Here follows paragraph on transportation schedules from Buenos Aires to Habana.]

Would you kindly endeavor to secure an indication of Dr. Cantilo's views as soon as possible. The invitation to the meeting will of course be extended by the Government of Cuba.

Would you also kindly tell Dr. Cantilo that it would be the great pleasure of this Government to have him and the other member of the Argentine Delegation as its guests following the termination of the conference. It would be our idea that Dr. Cantilo return to Washington for conferences with the President and with other high government officials with regard to matters of special and urgent interest to the United States and the Argentine. Not only would this be the first time an Argentine Foreign Minister has ever visited the

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<sup>26</sup> The reference is to the Regional Conference of the River Plate Countries (Conferencia Regional de los Países del Plata), held at Montevideo, January 27–February 6, 1941. Countries represented were Uruguay, Argentina, Paraguay, Brazil, and Bolivia. The United States had an observer.



United States, but at this particular juncture it would obviously be a further proof of our determination to work with one another for the welfare of the hemisphere.

HULL

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710.Consultation(2)/52 : Telegram

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

RIO DE JANEIRO, June 23, 1940—11 a. m.

[Received 2:05 p. m.]

301. For the Under Secretary. My telegram no. 299, June 22, 2 p. m.<sup>27</sup> Aranha showed me telegrams from his missions in Chile, Bolivia, Uruguay, Ecuador and Colombia expressing willingness to have conference in Rio.

He showed me also a telegram from his Legation at Habana received here the same day that I received your circular telegram June 17, 10 a. m. conveying the invitation of the Government of Cuba to the conference to be held at Habana. He did not like that.

CAFFERY

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710.Consultation(2)/51 : Telegram

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

WASHINGTON, June 23, 1940—2 p. m.

181. From the Under Secretary. Your 299, June 22, 2 p. m.<sup>27</sup> Please make it very clear to Aranha how deeply I appreciate his message and how fully I understand the difficulties he mentioned to you. I am confident, however, that if this Government had adopted any vigorous attitude in favor of having the meeting held in Rio de Janeiro, no matter how appropriate it might have felt such a plan to be, it would have resulted in definite opposition on the part of the Caribbean countries, the northern South American countries, probably the Central American countries and most definitely Mexico, which, as you know, sponsored the resolution calling for the holding of the next consultative meeting in Habana. At this time it is more than ever important in my judgment that every effort be made to avoid disagreement on any questions affecting inter-American relationships.

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<sup>27</sup> Not printed.

Please make it clear to Aranha, as I did to Ambassador Martins yesterday, that this Government has not as yet prepared any suggestions for the agenda but that the minute they are prepared, they will be submitted first of all to Aranha for his consideration and advice. I do not know upon what Espil's telegram to Cantilo may have been based. I have never discussed the agenda with Espil other than to indicate that undoubtedly many of the republics would desire to bring up problems, particularly economic problems, for discussion in addition to the question of European-held possessions in the Western Hemisphere. I have never discussed Fifth Column activities with Espil as a topic to be taken up at the conference.

Please state that the United States delegation will as always cooperate to the utmost extent with the Brazilian delegation in order that nothing may occur at the conference which would be in the slightest degree embarrassing or detrimental to Brazil.

Please give him my own warm personal regards and say that I hope at this time the two governments can work together as effectively as they did before and during the Panama meeting. [Welles.]

HULL

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710.Consultation (2)/54: Telegram

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

WASHINGTON, June 23, 1940—2 p. m.

106. From the Under Secretary. Your 139, June 22, 1 p. m. I have not discussed these questions with the Chilean Ambassador whom I have not seen for some two weeks. The agenda for the Habana meeting will be determined by the Governing Board of the Pan American Union after all of the participating governments have been afforded the opportunity of presenting their views. The suggestions of this Government will be communicated to you by telegraph in the near future for the information of the Foreign Minister. In my judgment economic questions must of course come up for discussion and, if possible, determination, but it would be preferable to avoid any detailed consideration of questions of continental defense or of armament, leaving decision on these matters to the Governments after study by experts. I see no reason why the consideration by the Habana conference of economic problems should interfere in the slightest degree with the regional conference to meet in Montevideo in August. [Welles.]

HULL

710.Consultation (2)/56 : Telegram

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

BUENOS AIRES, June 23, 1940—2 p. m.

[Received 2:17 p. m.]

248. Department's telegram No. 120, June 22, 4 p. m. I have just seen Dr. Cantilo and read him the telegram. I stressed most earnestly the importance of his presence at the conference and the real advantages, aside from the gesture, that would be afforded by his later visit to the United States referring to the matters discussed in the Department's telegrams Nos. 121, June 22, 5 p. m., and 122, June 22, 6 p. m.,<sup>29</sup> as evidencing the recognition on the part of our Government of the difficulty of the situation in Argentina and the desire of our Government to do everything possible to be of assistance.

Dr. Cantilo asked me to tell you that nothing would give him personally greater pleasure than to attend the conference and collaborate with you in the important work ahead of us. He particularly appreciated the invitation to visit the United States later and realized the opportunity personal talks with the President and officials of our Government would offer. He told me President Ortiz has thus far been reluctant for him to leave the country at this critical juncture, but he will take up the matter again in the light of your very generous telegram and hopes to have a reply for me as soon as possible.

ARMOUR

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710.Consultation (2)/53 : Telegram

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

RIO DE JANEIRO, June 23, 1940—4 p.m.

[Received 6:11 p.m.]

302. My telegram No. 301, June 23, 11 a. m. For the Under Secretary. Aranha now says he has received a number of telegrams from his missions in other countries reporting that those governments declared that they would have been glad to hold conference in Rio de Janeiro but that the American representatives had "already proposed Habana".

CAFFERY

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<sup>29</sup> *Post*, pp. 466 and 467, respectively.

710.Consultation(2)/66a : Circular telegram

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

WASHINGTON, June 24, 1940—1 p. m.

Inasmuch as there appears to have arisen a misunderstanding with regard to the date of the forthcoming meeting of foreign ministers, you are requested immediately to recall to the attention of the Foreign Minister of the country to which you are accredited that this Government, far from specifying any date, requested to be informed of the earliest date at which the delegates of the country to which you are accredited could attend, and that it was and continues to be the clear understanding of this Government that the fixing of the date for the meeting would depend upon the time necessary for the countries most distant from the seat of the conference to attend.

You should add that inasmuch as several of the countries of South America have indicated the impossibility of their delegates arriving at the place of the meeting prior to July 15, it is clear that the meeting cannot take place before that date.

If any inquiries are made regarding the agenda of the conference, you may state that, as in the case of the Panama meeting it is suggested that the same procedure be followed and that the agenda be agreed upon by the Governing Board of the Pan American Union. You may add that this Government hopes to lay certain suggestions before the Government to which you are accredited for its consideration.

HULL

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710.Consultation(2)/64 : Telegram

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

RIO DE JANEIRO, June 24, 1940—2 p. m.

[Received 2:28 p. m.]

304. For the Under Secretary. Department's 181, June 23, 2 p. m. Aranha said this morning, "All right we will cooperate."

CAFFERY

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710.Consultation(2)/65 : Telegram

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

BOGOTÁ, June 24, 1940—2 p. m.

[Received 7:35 p. m.]

168. My telegram No. 162, June 17, 11 p. m.<sup>31</sup> Minister for Foreign Affairs<sup>32</sup> summoned me this morning to say he and Presi-

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<sup>31</sup> Not printed.

<sup>32</sup> Luis López de Mesa.

dent<sup>33</sup> last night had discussed their preoccupation with forthcoming conference of Foreign Ministers at Habana which would be far more important, and perhaps difficult, than the one held at Panama. He trusted his frankness would be understood as that of a friend and in no way as critical. He made the following points:

1. As a result of feelers by Colombian Government, it seemed in all other Foreign Offices large measure of uncertainty and in many cases even nervousness respecting what should be done at Habana. If meeting were held under these circumstances, it might be a failure. Therefore, it was essential to define exactly the topics for discussion and scope thereof and to approach the meeting on the understanding that it would now become necessary to put into execution much of what hitherto had been more or less theoretical declarations respecting continental solidarity, neutrality, et cetera.

2. In this connection, it was especially important to define precisely what was contemplated by commodity cartel (*sic*) mentioned by President Roosevelt in June 21 press conference.<sup>34</sup> It would be disastrous if 21 republics at gathering were to have differing view points on this vital matter, to make reservations to such accord as might be reached or even to delay matters by consultation with their respective governments. The Minister was concerned as to what effect on or connection with imports was contemplated in this plan and above all, he wished at Habana to cooperate in getting concrete, effective results.

3. It is imperative Habana meeting give to European nations impression of complete agreement and unity in action as well as in theory. He suggested that prior to the meeting, formulae covering exactly what was to be done be worked out with various American chancelleries.

I would appreciate instructions as to what reply I should make.

Press despatches here have speculated on variety of topics for agenda. This may have contributed to uncertainty in President's and Minister's minds. Therefore, I believe clarification as suggested by the latter certainly would be advantageous here and would assist in lining up Colombia for such program as we desire to present.

The Minister said that, in reply to Brazilian Ambassador's urging meeting be at Rio de Janeiro, he had stated, while locale made no difference to Colombia, approval of Habana had already been given, hence he could not now change.

BRADEN

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<sup>33</sup> Eduardo Santos.

<sup>34</sup> See statement by the President released to the press by the White House, Department of State *Bulletin*, June 22, 1940, p. 675.

710.Consultation(2)/102a

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

WASHINGTON, June 27, 1940.

MY DEAR DR. ROWE: In connection with the meeting of the Governing Board of the Pan American Union, which has been called for Saturday, June 29, in order to determine the agenda of the forthcoming Meeting of the Foreign Ministers of the American Republics to be held at Habana, I enclose for consideration by the drafting committee which I understand has been appointed a suggested agenda prepared in the Department of State.

You will observe that this document follows the headings and the general form used at Panama. It is intentionally broad in scope and general in terms so as to permit the Foreign Ministers to give consideration to the projects which may be presented at the meeting in connection with all the problems of common interest which confront them.

Sincerely yours,

CORDELL HULL

[Enclosure]

*Proposed Agenda for the Second Meeting of the Foreign Ministers of the American Republics*

#### I—NEUTRALITY

Consideration of the rights and duties of the belligerents and of the American republics, including:

(1) The examination of the pertinent recommendations of the Inter-American Neutrality Committee and of the steps which have been taken as a result thereof.<sup>35</sup>

(2) The examination, in the light of present circumstances, of the standards of neutrality set forth in the third article of the "General Declaration of Neutrality of the American Republics", which was adopted at the Panama Meeting on October 3, 1939.

(3) The interchange of information regarding violations of neutrality or subversive activities by nationals of non-American countries or others in the territory and jurisdiction of any or all of the American republics.

(4) Consideration of the humanitarian activities which, in a coordinated manner, can be and should be conducted by the National

<sup>35</sup> See section entitled "The Inter-American Neutrality Committee," pp. 257 ff.; also *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Havana, Cuba, July 1940: Special Handbook Prepared by the Pan American Union* (Washington, 1940).

Red Cross Societies in the American republics for the benefit of the victims of the European war.

## II—PROTECTION OF THE PEACE OF THE WESTERN HEMISPHERE

Consideration of measures to be taken with a view to the preservation of the integral sovereignty and peace of the nations of the western hemisphere:

(1) The study of the problems which will confront the American republics in case the sovereignty, or control, now exercised by non-American states over geographic regions of the Americas is relinquished, lapses, or is materially impaired.

(2) The examination of the measures which have been or may be proposed in order to insure the attainment of the objectives set forth in the Declaration of Panama.

(3) The consideration of the problems of continental defense.

(4) The examination of the machinery of inter-American consultation<sup>36</sup> with a view to determining whether any steps should be taken at this time toward the further development of that machinery in the light of the requirements of the present situation.

## III—ECONOMIC COOPERATION

(1) Consideration of the measures which have already been proposed by the Inter-American Financial and Economic Advisory Committee.

(2) Examination of additional measures the adoption of which may be desirable under present circumstances or which it may be desired to refer to the Inter-American Financial and Economic Advisory Committee for immediate analysis and recommendation.

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710.Consultation (2)/92b : Telegram

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

WASHINGTON, June 27, 1940—2 p. m.

188. From the Under Secretary. Please communicate to Aranha immediately the following text which constitutes the suggestions of this Government as to the agenda for the Habana meeting:

[Here follows text of Proposed Agenda for the Second Meeting of the Foreign Ministers of the American Republics, printed *supra*, including change indicated in footnote 36.]

It is now proposed that the Governing Board of the Pan American Union at a special session on Saturday undertake the formulation of

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<sup>36</sup> In telegram No. 188, of June 27, 2 p. m., to the Ambassador in Brazil, and circular telegram of June 27, 8 p. m., the following addition was made between the words "consultation" and "with": "as created by the Buenos Aires and Montevideo Conferences, as well as by the Panama Meeting,".

recommendations to the respective governments as to the agenda. The suggestions of this Government will be laid before the Governing Board at that session. I should greatly value having some suggestions or amendments as Aranha may care to communicate to us so that we may consider them before the session of the Governing Board.

It is of course understood that the findings of the Governing Board will be in the nature of recommendations to be submitted by telegram to each of the respective governments for their approval or disapproval. [Welles.]

HULL

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710.Consultation (2)/65 : Telegram

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

WASHINGTON, June 27, 1940—7 p. m.

120. Your 168, June 24, 2 p. m. Please assure the Minister of Foreign Affairs on my behalf and on that of the Under Secretary that his constructive interest in the success of the proposed meeting at Habana is sincerely appreciated here.

The status of the agenda for the meeting is described in the Department's circular telegram of June 24, 1 p. m. The Department hopes that it will be possible prior to the meeting to exchange views regarding certain specific proposals along economic lines which are now being worked out. In this connection any expression on the part of the Colombian Government would be highly welcome.

HULL

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710.Consultation (2)/92a : Circular telegram

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

WASHINGTON, June 27, 1940—8 p. m.

Following the procedure which was followed in connection with the Panama Meeting, the Governing Board of the Pan American Union has called a meeting for Saturday, June 29, in order to determine the agenda for the proposed Meeting of Foreign Ministers at Habana. For the information of the Foreign Minister of the Government to which you are accredited, there are transcribed below the suggestions which the Department is placing before the Governing Board for consideration:

[Here follows text of Proposed Agenda for the Second Meeting of the Foreign Ministers of the American Republics, printed on page 202, including change indicated in footnote 36.]



It will be noted that this suggested agenda follows the headings and the general form used at Panama. It is the Department's view that the agenda should be broad in scope and general in terms so as to enable the Foreign Ministers to give consideration to the specific projects which may be presented at the meeting in connection with all the problems of common interest which confront them.

Although the exact date of the meeting remains to be determined on the basis of transportation arrangements being worked out, it is confidently believed, on the basis of the replies received by the Department to its circular of June 17, 10 a. m., that it should be possible to hold the opening session at Habana toward the middle or end of the week beginning July 15. The Secretary of State is planning to attend.

HULL

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710.Consultation (2) /1074

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

[WASHINGTON,] June 28, 1940.

MR. WELLES: Our suggested agenda for the Habana Meeting was handed to Dr. Rowe yesterday afternoon. Dr. Rowe will distribute it to the members of the program committee, which will meet tomorrow morning prior to the meeting of the Governing Board. The program committee consists of the representatives of Cuba (Chairman), Brazil, Colombia, El Salvador and Paraguay.

A Cuban proposal for the agenda has been circulated to the program committee; it would be helpful if you would telephone the Cuban Ambassador and tell him that our proposal was drafted after we had had the benefit of his views in the matter and that our draft can, we hope, be considered as, in a sense, a joint proposal.

Our proposed agenda includes the paragraph relative to the Red Cross which, I understand, you will discuss with Mr. Davis.<sup>37</sup>

At the meeting of the Governing Board tomorrow morning, Dr. Rowe plans to bring up the desirability of extending an invitation to the Inter-American Neutrality Committee and the Financial and Economic Advisory Committee to have a representative each at Habana. We favor this idea.

LAURENCE DUGGAN

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<sup>37</sup> Norman H. Davis, Chairman of the American Red Cross.

710.Consultation(2)/107 : Telegram

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

CIUDAD TRUJILLO, June 28, 1940—4 p. m.

[Received 6:45 p. m.]

109. The Minister for Foreign Affairs<sup>38</sup> informs me that his Government is in entire agreement with the substance of the Department's circular telegram dated June 27, 8 p. m. He added, however, that his Government would like to see section II relating to the protection of the Western Hemisphere amplified to include consideration of the proposal advanced by the Dominican Republic and Colombia at the Buenos Aires and Lima Conferences for the formation of an American League of Nations. He stated that instructions to this effect are being sent to the Dominican Minister at Washington.

SCOTTEN

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710.Consultation(2)/113 : Telegram

*The Cuban Secretary of State (Campa) to the Secretary of State*

[Translation]

HABANA, June 28, 1940—10:13 p. m.

[Received June 29—10:50 a. m.]

Pursuant Resolution XIII Panama I have the honor to invite Your Excellency to the Second Consultative Meeting which was to have taken place October 1 and which has been advanced at the request of several governments owing to the gravity of recent events. In view of the character of the subjects which will constitute the agenda, the Cuban Government takes the liberty of indicating the importance of Your Excellency's personal presence at the Meeting, the inaugural session of which has been set for the 20th of July.

I avail myself [etc.]

MIGUEL ANGEL CAMPA

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710.Consultation(2)/120a : Circular telegram

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

WASHINGTON, June 29, 1940—4 p. m.

In connection with the proposed consultative meeting of Foreign Ministers at Habana, it is desirable to avoid any confusion with regard to the nature of the meeting or of the delegations which may be sent to it. You are therefore requested to approach the Foreign Minis-

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<sup>38</sup> Arturo Despradel.

ter of the country to which you are accredited and ascertain tactfully whether he is aware of the terms of Article I entitled Delegates of the regulations which were adopted at Panama and which will presumably apply in the case of the Habana meeting. The article in question reads as follows:

“The delegates shall be the Foreign Ministers of the respective American republics or such representatives as may be designated, who shall meet for the purpose of consultation under the Inter-American agreements of Buenos Aires and Lima. In order to advise the Minister of Foreign Affairs or their representatives, their respective delegates may attend the meetings of the conference, without voice or vote. The Minister of Foreign Affairs may designate a delegate to substitute for him when he cannot attend a meeting in person, provided the Secretary General receives prior notification thereof.”

It would therefore appear that the delegations should consist of the Foreign Minister or of his specifically designated representative together with such advisers, specifically designated as such, which the Foreign Minister may desire to appoint. The character of the delegations would thus be quite different from those which are appointed for regular Inter-American Conferences. The delegation of the United States at the forthcoming Habana meeting will consist of the Secretary of State together with a number of advisers et cetera.<sup>39</sup>

HULL

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710.Consultation (2)/120b : Circular telegram

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

WASHINGTON, June 29, 1940—6 p. m.

Department's circular, June 27, 8 p. m. (In case of telegram to Brazil, refer to Department's telegram to the Embassy at Rio de Janeiro, June 27, 2 p. m.)

Please inform the Foreign Minister of the country to which you are accredited that the project of agenda transmitted by the Department's circular referred to above was considered by the Governing Board of the Pan American Union at a special meeting held today. The Governing Board requested the Secretary of State, as its Chairman, to transmit the project of agenda, as amended, to the other American governments for their consideration and comment.

At the request of the Governing Board, it is desired that all comments be submitted prior to July 5 so that definitive action may be taken by the Governing Board at a meeting to be held on that date.

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<sup>39</sup> For complete list of persons comprising the delegation, see *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940: Report of the Secretary of State*, p. 38.

The amended agenda, which is the same as that transmitted in the Department's circular of June 27, 8 p. m. with the following changes, should be handed to the Minister of Foreign Affairs of the country to which you are accredited:

Delete under chapter I—Neutrality, Section (3), and replace with the following: "Exchange of information on activities which may develop within the territory and jurisdiction of any American republic that tend to endanger the common American democratic ideal."

Delete chapter II—Protection of the Peace of the Western Hemisphere—, and replace with the following:

"Consideration of measures to be taken with a view to the preservation of the sovereignty and peace of the nations of the Western Hemisphere:

(1) The study, in accordance with Resolution XVI approved by the Meeting of Panama of October 3, 1939, of the problems which may confront the American republics in case the sovereignty now exercised by non-American states over geographic regions of the Americas is relinquished, lapses, or is materially impaired.

(2) The examination of the measures which have been or may be proposed in order to insure the attainment of the objectives set forth in the Joint Declaration of Continental Solidarity, the General Declaration of Neutrality, the Declaration of Panama, and the consideration of the problems of continental security.

(3) The examination of the machinery of inter-American consultation created by the Buenos Aires and Lima Conferences, with a view to determining the steps which may be taken to increase its effectiveness."

Please endeavor discreetly to impress upon the Minister for Foreign Affairs of the country to which you are accredited the desirability of his representative on the Governing Board being furnished with full instructions to permit him to participate in the meeting to be held on July 5.

HULL

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710.Consultation(2)/122: Telegram

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

CARACAS, July 1, 1940—5 p. m.

[Received 8:50 p. m.]

99. Substance of Department's circular telegrams of June 29, 4 p. m. and 6 p. m. given Minister for Foreign Affairs,<sup>40</sup> who states that it is doubtful if he can go to Havana. However, if Secretary Hull goes and attendance of other Ministers of Foreign Affairs seems slight, he will make every effort to go.

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<sup>40</sup> Estebán Gil Borges.

Revised agenda being studied and believed will be accepted by Venezuela without changes. Venezuelan Embassy will be instructed by cable, July 3.

SCOTT

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710.Consultation(2)/195

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

No. 387

CARACAS, July 2, 1940.

[Received July 6.]

SIR: I have the honor to refer to this Embassy's telegram No. 99 of July 1, 1940, 5 p. m., concerning Venezuelan participation in the forthcoming Meeting of Foreign Ministers at Habana. A word of amplification is necessary as to the attitude of Dr. Gil Borges.

In the first place it should be made clear that the Minister desires to work closely with the United States. He will not take any step to impair the success of Pan American unity or of this or any other conference. However, parallel with this cooperative attitude the Minister is in disagreement with the desirability of this conference. He feels that the conference method of handling the delicate and dangerous problems facing the Western hemisphere is wrong. It is his view that these meetings supply a debate in an open forum on problems which should be handled directly between countries in secret conversations. Instead of giving an impressive spectacle of Pan American unity they are more apt to develop marked differences which will be played up by Germany and Italy as evidence that the American countries cannot pull together. He thinks that too many small countries or egotistical Ministers wish to be in the public eye and advance proposals which are unsound, and that far too much time is wasted in sterile speechmaking. "We suffered at Panama," he said. "We had to listen to twenty-one flowery speeches when the conference opened and twenty-one when it closed, not counting those at banquets and receptions in between. The times are too solemn for such a plethora of words; they call for discussions of efficient measures toward facing the dangers which confront all of us."

In addition to the general objection to the "conference method", the Minister is opposed to the Habana conference on the following specific grounds:

(1) He feels that it is premature to discuss the political questions involved. It may be some time before the peace terms in Europe can be finally arrived at. Europe is making no pronouncements about colonies in the Western hemisphere. Why show our hand at this time?

(2) He sees no need to treat economic questions in the conference since a properly organized committee has been set up for this purpose and is soon about to function.

In presenting the above views it should be made clear that I am certain that they are the honestly held opinion of the Minister but do not modify in any way his wholehearted support of the United States. . . .

Respectfully yours,

WINTHROP R. SCOTT

710.Consultation (2) /113 : Telegram

*The Secretary of State to the Cuban Secretary of State (Campa)*

WASHINGTON, July 3, 1940.

I have the honor to acknowledge the receipt of Your Excellency's telegram of June 29 [28], in which you invite me to attend the Consultative Meeting of Foreign Ministers of the American Republics, the inaugural session of which has been set for the 20th of July. I take pleasure in accepting Your Excellency's courteous invitation and fully expect to attend, although, as you are aware, there is always the bare possibility that compelling emergencies might prevent my doing so...

I take this opportunity [etc.]

CORDELL HULL

710.Consultation (2) /337

*The Venezuelan Ambassador (Escalante) to the Secretary of State*

No. 1048

WASHINGTON, July 3, 1940.

SIR: I have the honor to address myself to Your Excellency, in accordance with the urgent instructions of my Government, in order to inform you of the following:

Since the Habana Meeting, which will convene on the 20th of July, is being prepared for, there must already have been formulated certain projects which the Government of Venezuela is greatly interested in being informed of, and especially those which the Government of the United States may have with regard to the second chapter of the Program, particularly with respect to the first item of that chapter.

Through the medium of the Embassy (conversations of the Chargé d'Affaires and of the Ambassador with the Honorable Sumner Welles on May 11 and June 26, respectively) there have already been pointed out to the Department of State the geographic, political and economic considerations which make the fate of Curaçao, Aruba and Bonaire of

a profoundly vital interest for Venezuela.<sup>41</sup> Both the national safety of the country and the prosperity of its principal industry, whose natural complement are the refineries established on the first two of the islands named, do not permit Venezuela to remain indifferent to their destiny and give it, on the contrary, a dominant position and interest which must be taken into account when the problems foreseen in items 1 and 2, 2nd Chapter, of the Program of the Habana Meeting are studied.

In the conversation between Mr. Welles and Doctor Fombona-Pachano<sup>42</sup> on May 11, the latter was informed that if, when the temporary protection exercised by the allies over the islands mentioned ceased, the Netherlands was not capable of defending them, the Department of State was of the opinion that it would then be time to consult neighboring countries in order to arrive at a plan of action. Mr. Welles added that he was awaiting any suggestion which Dr. Gil Borges might wish to make and that Venezuela would always be previously consulted.

That moment has now arrived, since the Government of the United States has convoked the Consultative Meeting at Habana. The Minister for Foreign Relations of Venezuela therefore harbors the hope that the exchange of points of view offered by the Honorable Under Secretary of State will be held prior to the consultation with other countries.

There are other circumstances which make it very urgent to define points of view with regard to this situation. The French defense of Curaçao, Aruba and Bonaire ceased with the armistice. The annexation of the territory or German political protection over the Government which may be organized in the Netherlands is imminent. Either alternative would give the Reich control over the Netherlands possessions. It is necessary to consider this possibility and to think of a rapid solution.

Having carried out the instructions of the Minister of Foreign Relations of Venezuela, I venture to hope that his suggestions will merit prompt consideration on the part of the Department of State; and I seize the opportunity to reiterate to Your Excellency the testimony of my highest consideration.

DIóGENES ESCALANTE

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<sup>41</sup> See vol. II, pp. 729 ff.

<sup>42</sup> Jacinto Fombona-Pachano, Venezuelan Counselor of Embassy and Chargé.

710.Consultation(2)/369

*The Cuban Ambassador (Martínez Fraga) to the Under Secretary of State (Welles)*

[Translation]

WASHINGTON, July 4, 1940.

MY DEAR UNDER SECRETARY AND FRIEND: I take pleasure in advising you that the Cuban Government today despatched the respective telegrams inviting the Inter-American Economic Committee and the Inter-American Neutrality Committee to be represented, if they deem fit, at the coming Consultative Meeting at Habana.

These delegates would collaborate, with technical character, in the work of the said Meeting.

I have also been informed that the President of the Republic<sup>43</sup> has appointed Dr. César Salaya, Professor of Private International Law in the University of Habana, Delegate to the Buenos Aires Conference, et cetera as Secretary-General of the Second Consultative Meeting of American Foreign Secretaries, and Dr. Nicolás Rivero, Minister of Cuba to the Holy See, as Secretary or Chief of the Press Service of the said Second Meeting.

The sessions of this Conference will be held in the Senate wing of the National Capitol and the necessary rooms have already been reserved for the different delegates in the Hotel Nacional.

Dr. Leo S. Rowe, Director General of the Pan American Union duly received the invitation of the Cuban Government last Saturday, June 29.

Believe me [etc.]

MARTÍNEZ FRAGA

710.Consultation(2)/275½

*Memorandum by Mr. Philip W. Bonsal of the Division of the American Republics to the Chief of the Division (Duggan)*

[WASHINGTON,] July 5, 1940.

MR. DUGGAN: The Foreign Ministers of the following six republics have indicated that they will attend the Habana meeting personally: Cuba, Dominican Republic, Haiti, Nicaragua, Panama, and Paraguay.

In the case of the following five countries no final decision has been reached: Bolivia, Colombia, Mexico, Peru, and Venezuela.

The Foreign Ministers of the following seven countries will definitely not attend: Argentina, Brazil, Chile, Costa Rica, El Salvador, Honduras, and Uruguay.

No report has yet been received from Ecuador and Guatemala.

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<sup>43</sup> Federico Laredo Brú.



710.Consultation (2)/234 : Telegram

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

MONTEVIDEO, July 9, 1940—noon.

[Received 2:55 p. m.]

153. A few days ago the French Minister, under instructions from his Government, informed Guani<sup>44</sup> that the French Government saw no reason why the American States should discuss at Habana the question of transfer of territory in the Western Hemisphere from one non-American Power to another, adding that the German Government had never raised this question.

WILSON

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710.Consultation (2)/237b : Telegram

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

WASHINGTON, July 9, 1940—2 p. m.

97. Personal for Messersmith. I am sending you in another telegram the composition of our delegation. This being a consultation of Ministers of Foreign Affairs, we shall have no delegates except myself and we have felt it advisable to keep our delegation as small as possible, confining the other personnel to a small group of advisers selected almost entirely from the Department. While the President and I personally would have been delighted to have had you on the delegation as an adviser, it has been felt better to follow the precedent established at Panama and not include the chief of our diplomatic mission in the country where the meeting is to be held. It will be a great comfort to me personally, however, to have the benefit of your wise counsel and sound judgment on the problems before the meeting and I am looking forward with the greatest pleasure to seeing you there.

HULL

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710.Consultation (2)/232 : Telegram

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

LIMA, July 9, 1940—2 p. m.

[Received 5:45 p. m.]

97. 1. The Peruvian Delegation at Habana, in addition to the Minister of Justice,<sup>45</sup> will consist of Ambassador Freyre if well enough to attend; Juan Chavez; Javier Delgado Irigoyen, Secretary in the Diplomatic Service, Secretary of the Delegation. The Minister will

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<sup>44</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>45</sup> Lino Cornejo, Minister of Justice and Worship.

be accompanied by his son. The former is said to be ill and will probably proceed to the United States for treatment after the meeting.

2. In conversation with the Minister of Justice today he said that the Committee on Foreign Relations had authorized the Peruvian Delegation to support and adhere to the United States position with respect to nonrecognition of the transfer of colonies. He added that Peru, however, did not have the same special interest as for instance Brazil and Venezuela, but that the Peruvian attitude would be based on a policy of solidarity.

3. He stated that the Peruvian Government believed that the conference should not take up the hypothetical question of the future administration of non-American colonial possessions, adding that Peru was not prepared to support any plan of mandate such as by Brazil or Venezuela.

4. The Minister said that Peru was very much interested in the economic features of the meeting and would take an active part therein as well as in the subsequent shipping and economic discussions which he understood would take place shortly afterwards in Washington.

5. On the question of neutrality he was non-committal, but he inquired particularly whether the United States had taken any special position in regard to this question. I explained our suggestion for the exclusion of all types of submarines<sup>46</sup> and our general interest in the maintenance of the neutrality zone.

NORWEB

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710.Consultation (2)/246 : Telegram

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

MONTEVIDEO, July 10, 1940—2 p. m.

[Received 5:25 p. m.]

154. Reaction here to the Habana conference is about as follows: The Liberal opposition (who are not represented in the Congress and have but slight influence) show interest and enthusiasm. They express the hope that measures will be adopted to make continental defense a reality, to crush Nazi and Fascist activities and to support economic independence. They are, however, cautious on the cartel idea.<sup>47</sup>

The Government itself is sitting on the fence, waiting to see what will be proposed at Habana and at the same time determined to avoid offending Germany (there are members of the cabinet who are convinced that Germany will conquer England shortly). Argentine

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<sup>46</sup> See section entitled "Efforts of the United States to secure among certain other American Republics legislation providing for the exclusion of belligerent submarines from their ports and territorial waters," vol. I, pp. 776 ff.

<sup>47</sup> See section entitled "Program proposed by the United States for inter-American economic cooperation", pp. 353 ff.

influence will be an important factor in the decisions of the Uruguayan Government regarding the conference.

The Herrerista Party which has half the seats in the Senate and about one-third of those in the Chamber of Deputies is openly hostile to the conference. The party newspaper *El Debate* has been carrying on an incessant campaign against the United States and the conference. The idea of continental defense is interpreted as a scheme of the United States to obtain military bases in South America and to unload old arms on the South American countries at exorbitant prices. The nonrecognition of transfer of territory in the western hemisphere from one non-American country to another is represented as a cloak for the imperialistic designs of the United States. The cartel plan is derided as an arrangement for the United States to exercise economic domination over Latin America, et cetera. While I know that certain members of the party are not in agreement with this campaign, nevertheless it is evident that the party leaders are working hand in glove with German agents in this country.

WILSON

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715. Consultation (2) / 250 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, July 10, 1940—6 p. m.

[Received 10:10 p. m.]

56. The Minister for Foreign Affairs sent for me this afternoon and much to my surprise told me that he would not personally attend the Habana consultative meeting since he felt it was useless as he had been unsuccessful in his attempt through the Bolivian Minister in Washington to get some sort of commitment from our Government to help Bolivia on the tin situation<sup>48</sup> and the construction of the Cochabamba-Santa Cruz railroad which he considered of continental strategic importance to link Santos with Arica. He expressed dissatisfaction that we should always bring up the question of the Standard Oil<sup>49</sup> as a feign to assistance.

The Minister stated that Finot, Bolivian Ambassador to Mexico, would represent Bolivia at the meeting.

Full details by air-mail.

JENKINS

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<sup>48</sup> See pp. 524 ff.

<sup>49</sup> See pp. 513 ff.

710.Consultation(2)/321

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

No. 3260

RIO DE JANEIRO, July 10, 1940.

[Received July 16.]

SIR: I have the honor to report that several members of the Brazilian delegation to the forthcoming Habana Conference have stated in informal conversations that they "hope for leadership and not words from the United States at Habana, failing which American prestige and influence will suffer immensely and the Germans will gain added ground".

Respectfully yours,

JEFFERSON CAFFERY

710.Consultation(2)/271a : Circular telegram

*The Secretary of State to Diplomatic Missions in Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Uruguay, and Venezuela*

WASHINGTON, July 11, 1940—5 p. m.

You are requested to call at the earliest possible moment upon the Foreign Minister of the country to which you are accredited. You will recall to him that this Government suggested the desirability of a consultative meeting of the Foreign Ministers because of its belief that it was urgent, in accordance with Resolution XVI adopted at the meeting in Panama in 1939, that the American republics study the problems which might confront them in case the sovereignty now exercised by non-American states over geographic regions of the Americas is relinquished, lapses, or is materially impaired. The agenda approved by the Governing Board of the Pan American Union provides for consideration of this question under paragraph (1), Chapter II.

With a view to expediting consideration of this topic at the forthcoming Meeting in Habana, this Government has drawn up a draft convention and draft resolution which follow hereafter. The resolution is drafted to provide for emergency action, should it be necessary, prior to the time that the convention comes into force.

In furnishing these texts to the Foreign Minister please bring out that they are to be considered as first drafts and are therefore to be considered subject to whatever modifications and improvements are deemed necessary and desirable. We would welcome an exchange of views with the Government to which you are accredited prior to the opening of the Habana Meeting in order, as stated above, that action there may be expedited. You should therefore offer to transmit any

comments or suggestions which the Government to which you are accredited may desire to offer.

#### DRAFT CONVENTION

The Governments represented at the Second Meeting of Foreign Ministers,

Convinced that the status of the possessions of non-American states in the Americas is a matter for common concern on the part of the American republics;

Recalling that the Foreign Ministers of the American republics at their meeting held in Panama in 1939 resolved (Resolution XVI) that "in case any geographic region of America subject to the jurisdiction of any non-American state should be obliged to change its sovereignty and there should result therefrom a danger to the security of the American continent, a consultative meeting such as the one now being held will be convoked with the urgency that the case may require";

Having convoked the present Meeting of the Foreign Ministers of the American Republics at Habana in part to study the problems which may confront the American republics in case the sovereignty now exercised by non-American states over geographic regions of the Americas is relinquished, lapses, or is materially impaired;

Recognizing that existing world conditions counsel the rapid collective adoption by the American republics of a common policy with respect to the situation in question; and

Desiring to conclude a convention on this subject, have designated the following plenipotentiaries: who, after having deposited their Full Powers, found to be in good and due form, have agreed as follows:

#### I

That the principles which inspire the policy of the American republics with respect to the regions in question are the following:

(a) The American republics reaffirm as necessary to their preservation and security their policy of non-recognition of and non-acquiescence in the acquisition of territory in this hemisphere by force;

(b) The American republics would regard any transfer, or attempted transfer, of the sovereignty, jurisdiction, possession or any interest in or control over any such region to another non-American state, as inimical to their peace, safety, and political independence;

(c) No such transfer or attempt to transfer or acquire any interest in or right to any such region directly or indirectly will be recognized or acquiesced in by the American republics or any one of them;

(d) The American republics reserve the right to judge whether any change in the political relations of the European possessors on

September 1, 1939 of geographic regions in the Americas has the effect of impairing their political independence or freedom of action, even though no formal transfer or change in the status of such region or regions shall have taken place.

(*e*) That since the status of these geographic regions is a matter of common interest to the American republics, no one of them will take any action or initiate or entertain any proposal in regard thereto except as may be provided in this instrument without prior consultation with the other American republics; it is understood, however, that this paragraph is not applicable to the settlement of territorial questions now pending between non-American states and states of the continent.

(*f*) The American republics declare that in the event they find it necessary to take action with respect to any geographic region in the Americas over which a non-American state had undisputed sovereignty on September 1, 1939 to prevent occurrences in contravention of the principles and policies herein set forth, such action will not imply any intention or purpose of territorial aggrandizement of any one of them. On the contrary, the American republics declare their intention either to restore the territory or territories in question to their original sovereigns, whenever the security of the Americas renders such resumption of sovereignty possible, or, to recognize their independence if it shall appear that they are capable of undertaking the task of self-government.

## II

Should the American republics find it necessary in order to prevent occurrences in contravention of the principles of policy herein set forth to assume measures of control over any of the geographic regions in question, there shall be established a collective trusteeship participated in by all of the American republics which ratify this convention. The trusteeship shall be exercised by a committee consisting of one representative from each of the ratifying countries. The committee shall select its chairman and otherwise perfect its organization. Action by the committee shall be by a two-thirds vote of those present. Two-thirds of the members shall constitute a quorum for the transaction of business. The committee shall convene at the request of the Government of any one of the Republics ratifying the convention.

## III

Should the committee provided for in Article II decide that it is necessary to establish a collective trusteeship in any region, it shall, taking into account the geographic, economic, and strategic considerations, request the Governments of three of the American republics

each to designate from among its nationals a commissioner, one of whom shall be selected by the committee as chairman. The commission so organized shall have authority to function by majority vote pending promulgation by it, with the approval of the committee, of such administrative rules of procedure and organization as may be deemed necessary. The emoluments of the commissioners shall be determined by the committee.

#### IV

The commission shall have the following functions:

(a) To take such steps as may be required for the immediate establishment of the authority of the trusteeship over the region in question;

(b) To administer the region in accordance with its economic, educational, social, and police needs using for this purpose to the extent feasible existing administrative agencies;

(c) To recommend to the committee such military or naval assistance as may be necessary for the proper protection of the region;

(d) To prepare and submit a quarterly report on its administration in which shall be set forth the revenues collected and expenses incurred, as well as an estimate of revenues and expenses for the succeeding quarter and recommendations as to ways and means of raising additional revenue should that appear necessary.

#### V

The authority to be exercised by the American republics through the medium of a collective trusteeship shall in general contemplate as large a control of domestic affairs by the inhabitants of the regions in question as may be consistent with the security of the American republics and with the fullest practicable measure of stable representative government.

#### VI

The revenues derived from any region under trusteeship shall be devoted solely to the needs of that region, including such reasonable administrative expenses of the trusteeship as may be recommended by the commission and approved by the committee. Any deficit incurred in providing for the needs of a region or in maintaining the trusteeship shall be borne in the first instance by the governments whose nationals constitute the commission. Such deficit shall, after approval by the committee, be prorated among the American republics in accordance with the method now followed in computing contributions to the Pan American Union.

## VII

The present convention shall be ratified by the High Contracting Parties in conformity with their respective constitutional procedures. The Secretary of State of the Republic of Cuba shall transmit at the earliest possible date authentic certified copies to the Governments for the aforementioned purpose of ratification. The instrument of ratification shall be deposited in the archives of the Pan American Union in Washington, which shall notify the signatory Governments of said deposit, such notification shall be considered as an exchange of ratifications.

## VIII

The present convention shall enter in force whenever . . . . . countries have deposited their respective ratification.

## DRAFT RESOLUTION

WHEREAS, the representatives of the American republics have signed a convention relating to regions in this hemisphere belonging to or claimed by non-American states;

WHEREAS, situations may develop prior to the coming into force of the said convention necessitating action on the part of the American republics to protect their peace and safety;

The Meeting of the Foreign Ministers of the American Republics RESOLVES:

(1) That should it become necessary to establish a collective trusteeship over any geographic region or regions in this hemisphere prior to the entry into force of the convention signed on this date, authority is hereby given the committee designated hereinafter to assume on behalf of the American republics as a whole the responsibility for observing the situation and for taking action on their behalf should such action be necessary in order to prevent occurrences in contravention of the principles and policies set forth in the convention. The committee shall consist of representatives of the following five countries:

(2) This committee shall be organized in accordance with the following procedure:

(a) Each one of the Governments mentioned above will appoint its commissioner within one week from the adoption of this resolution;

(b) These commissioners shall meet not later than two weeks from the adoption of this resolution in the City of . . . . .

(3) This committee shall exercise all the authority conferred upon the committee and a commission under the convention signed this day. This authority shall include securing and receiving informa-



tion regarding developments affecting the possessions of the non-American states in this hemisphere and the taking of action as may be necessary in the light thereof and of the principles and policies stated herein and in the Convention signed this day.

(4) Should any Government, at the request of the aforementioned committee, take any action, it is clearly understood that such action will be considered of a provisional nature and shall not give to that Government any special rights in connection with any collective trusteeship which may be established following the coming into force of the convention;

(5) The expenses which may be incurred as a result of the decisions and action of the committee shall be borne in the manner provided for in the convention;

(6) The committee shall render a report quarterly of its administration to the Foreign Ministers of the American republics.

(7) The committee shall terminate:

(a) Whenever the American republics, through the procedure of consultation, decide that the situation which called for its creation no longer exists.

(b) When the commission or commissions to be created in accordance with the provisions of the convention signed on this day shall declare themselves ready to assume the performance of the duties stipulated in that instrument.

HULL

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710.Consultation (2) /280 : Telegram

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

MEXICO, July 12, 1940—4 p. m.

[Received 8:25 p. m.]

260. Immediately upon receipt of circular telegram July 11, 5 p. m., I called at the Foreign Office to see General Hay and left with him the proposed plan for consideration at Habana. He said after reading the first two pages, "The spirit of this is exactly in line with the original proposal I made at the Panama conference" adding that he was in cordial sympathy with the general plan as outlined. He thought each separate country's status would have to be considered upon its merits with reference to territory, economics, ethnology, et cetera. He emphasized the fact that in the Pan American Republics there was objection to stressing of the Monroe Doctrine as a doctrine to be enforced by our country alone and said that he was in favor of keeping this republic [*hemisphere?*] free from outside penetration or any annexation of territory but hoped it would be called a continental doctrine so as to prevent any reopening of the old discussions

and differences about the Monroe Doctrine in name. He referred to the statement by Dr. Rowe that the spirit of the Monroe Doctrine had been multilateral and that it ought to be carried out jointly by all the Pan American states and said if all would call it the Continental Doctrine it would secure the united support which was not so easy as when called the Monroe Doctrine.

General Hay added that his doctor would not permit him to go to Habana and that the representative from Mexico would be named shortly.

DANIELS.

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710.Consultation (2)/279 : Telegram

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

BOGOTÁ, July 12, 1940—10 p. m.

[Received 11 : 10 p. m.]

189. Department's circular telegram July 11, 5 p. m. Government project on same topic is very brief but, according to Minister for Foreign Affairs, similar in purpose to Department's draft and contemplates trusteeship and two-thirds vote.

Minister for Foreign Affairs leaves for Habana Monday.

BRADEN

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710.Consultation (2)/289 : Telegram

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

MONTEVIDEO, July 13, 1940—10 a. m.

[Received 4 : 30 p. m.]

159. Guani tells me that the Uruguayan delegation to the Habana meeting carries instructions concerning three points in particular :

(1) To discuss with the other delegations the questions of incompatibility of the exercise of diplomatic functions with those pertaining to representation of a foreign political organization (the case of the Press Attaché of the German Legation here).

(2) The adoption of a resolution urging that all the American countries prohibit the entrance of belligerent submarines into their ports, [3 ?] Uruguayan representatives to discuss with the other delegations a proposal to extend the limits of territorial waters (see my despatch No. 175, February 23<sup>50</sup>). Regarding this proposal Guani insisted that

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<sup>50</sup> Not printed. See Draft Resolution entitled "Proposition of Uruguay on Extension of Maritime Zone", enumerated as project No. 34 of the List of the Projects delivered to the Office of the Secretary General, dated July 24, 1940, declared for the extension of the maritime sovereignties of each country, to a minimum distance of 25 miles off their respective shores. (Copy in the Pan American Union.)

it did not imply any abandonment of the declaration of Panama. His thought apparently is that, the belligerents having failed to accept the Panama security zone, it might be possible to obtain their acceptance of a smaller security belt on the principle of the extension of the limits of territorial waters while still maintaining on the part of the American states the declaration of Panama. He seems to feel that the British would accept the idea of extending the limits of territorial waters.

He said that the Uruguayan delegation has a copy of the complete report of the parliamentary commission investigating Nazi activities and that it will make this information available to other delegations, feeling that what has been discovered here may assist other governments in taking necessary defense measures.

WILSON

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710. Consultation (2) / 290 : Telegram

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

LIMA, July 13, 1940—11 a. m.

[Received 12:44 p. m.]

101. Department's circular of July 11, 5 p. m. I presented the texts of the draft convention and resolution to the Foreign Minister late last night. He said that he would place them before the President and the Cabinet immediately for study and suggestions and indicated that Peru had not contemplated a formal convention providing machinery for possible administrative control of the regions under reference. He indicated also that he intended to consult with Peru's neighbors regarding their reaction. His attitude again reflected over-caution and hesitancy. He assured me that both projects would have careful study and promised an early reply giving his Government's comments.

NORWEB

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710. Consultation (2) / 294 : Telegram

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

MEXICO, July 13, 1940—noon.

[Received 2:08 p. m.]

263. I have just had a talk with Minister Suarez<sup>51</sup> who heads the delegation to Habana. He will leave next Thursday. He tells me that President Cardenas has given him instructions, which accord with his

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<sup>51</sup> Eduardo Suarez, Minister of Finance and Credit, personal representative of the Minister for Foreign Affairs.

own feelings, to cooperate fully with the delegation from the United States in the carrying out of plans for continental solidarity. He says, "Our Government sees eye to eye with the United States."

DANIELS

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710.Consultation (2)/291 : Telegram

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

CARACAS, July 13, 1940—5 p. m.

[Received 6 : 48 p. m.]

105. Department's circular July 11, 5 p. m. After consultation with the President <sup>52</sup> the Minister for Foreign Affairs informs the Department he is in perfect accord with the two drafts which he considers excellent. Because of Venezuela's desire ultimately to acquire the Dutch West Indies Islands should the sovereignty of Holland lapse over these possessions the Minister for Foreign Affairs proposes the addition of an additional article "G." to the convention.<sup>53</sup> The text in English would be as follows:

"(G) If the sovereignty of a non-American country over its colonies in the western hemisphere lapses during the *status quo* established by the present convention and the people of said colonies express a desire to unite with the nearest American country the commission provided for in the convention will organize and supervise a plebiscite for this purpose".

In further explanation the Minister stated that Venezuela's position regarding the Dutch possessions and British Guiana had been fully set forth to Under Secretary Welles by Dr. Escalante.

SCOTT

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710.Consultation (2)/312 : Telegram

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

MEXICO, July 15, 1940—6 p. m.

[Received 10 : 29 p. m.]

267. Department's circular July 11, 5 p. m. This morning General Hay told me that he had discussed the draft convention and resolution with Licenciado Suarez who will head the Mexican delegation to Habana; that their views were in harmony but that there was one feature of the convention which he mentioned to Suarez and would now mention to me and to ask me to forward to the Department for its consideration: Article 3 of the convention provides for three commissioners representing the trusteeship of the committee provided for in article 2.

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<sup>52</sup> Gen. Eleázar López Contreras.

<sup>53</sup> i.e., the convention transmitted in circular telegram of July 11, 5 p. m., p. 216.

General Hay believes that a change in article 6 would be desirable to provide that any deficit be borne in the first instance by the ratifying governments represented on the committee under the pro rata system and that one of the nations nominating the three commissioners should only be liable for deficit expenses if there were specific action by the majority of the Committee to fix such liability upon them. Presumably such liability would only be fixed if the actions of one or more of the commissioners were such as to make the country which nominated them properly responsible for the deficit.

General Hay explained that in his views of the [matter] the three commissioners, although suggested by three particular countries, should in effect be representatives of the committee, that is to say of all of the Latin-American countries not just of three. His Government, he felt, could not agree to any system which would imply that the actions of Mexico as a nation could be questioned by the other Latin-American nations in connection with financial and administrative authority outlined in article 4. He felt the commissioners after nomination by their governments should be held responsible on all matters to all of the Pan-American governments as commissioners for all the governments for whom they would act.

General Hay mentioned the possibility of Belch [*sic*] as an example of what he had in mind. If the commissioners were nominated by Mexico, Cuba and the United States, for instance, could all 21 governments, assuming that all ratified the convention, hold any of these three governments primarily responsible for the defiance which would certainly occur in Berlin under present conditions. Could any government properly be placed in the position of having to justify its trusteeship or the cost.

General Hay seemed to feel that there might be in such a situation a reflection on the integrity and ability of a nation rather than more properly as he thought, on that of individual commissioners.

I told the General that I would transmit his views to the Department.

If the Department sends me back comment on them it may be desirable for me to discuss the matter not only with General Hay but also with Licenciado Suarez.

BOAL

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710. Consultation (2) / 313 : Telegram

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

Bogotá July 15, 1940—midnight.

[Received July 15—4:20 p. m.]

190. Department's circular telegram July 11, 5 p. m. Minister for Foreign Affairs informed me this morning that long conference last

night with the President and others found on few points where differences existed between Department's and Colombian draft, the former went further. Therefore, Colombia would accept it integrally, although it would be necessary to sign draft resolution *ad referendum* congressional approval. . . . Pointing to urgency for naming five countries, I inquired as to his estimate of time for ratification of resolution. The Minister would not hazard a guess how long "merry-go-round of debate" would take, but felt "action by United States would not be handicapped" since eventual ratification was certain.

Minister for Foreign Affairs said economic project as presented to Washington Committee by Under Secretary of State was not only generous but extraordinarily satisfactory to Colombia since it contemplated not merely temporary commercial benefits but rather promotion of sound internal economic stability of countries such as Colombia. . . . he emphasized his Government would require detailed technical guidance in fomentation of agriculture and mining.

He concluded that Secretary of State and our delegation could throughout count upon Colombia's quiet but always complete cooperation.

BRADEN

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710.Consultation (2)/332

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

No. 564

HABANA, July 15, 1940.

[Received July 16.]

SIR: I have the honor to inform the Department that immediately on the receipt of its circular rush telegram of July 11, 5 p. m., I called on the Secretary of State, Dr. Campa, and delivered to him the draft convention and draft resolution submitted with the Department's telegram, and conveyed orally the observations in the first paragraphs of the Department's telegram under reference.

The Secretary of State said that he would give this matter his very careful consideration immediately and then, after consultation with the President, give me a reply.

I received this morning a strictly confidential memorandum from the Secretary of State, together with a confidential draft resolution which I am transmitting herewith. As this is a holiday and only a very restricted skeleton staff available in the Embassy, I have not been able to make a translation of the memorandum, but am submitting it only in Spanish.

I am transmitting these by the air mail this noon today in order that they may reach the Department at the earliest possible moment. The time does not permit me to make any observations or comment.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure—Translation]

*The Cuban Secretary of State (Campa) to the American Ambassador  
(Messersmith)*

The Secretary of State of the Republic of Cuba received the two strictly confidential documents which the Ambassador of the United States was good enough to hand him personally day before yesterday.

Although the Cuban Government agrees, in principle, with these two documents, it feels nevertheless that, in view of the gravity of the situation which is being faced, the public interest centered on this problem and the very urgency involved in the proposed action make it advisable that the said action be given the most solemn and legal form possible.

In effect, Resolution XVI of the Consultative Meeting of Panama is an expression timidly drawn up and should be completed by a declaration of principle which, in reasoned form, would form the basis for the conventional form which the Government of Cuba also agrees should be given to this problem, as the only effective means of achieving the purpose suggested.

The advantage offered by the declaration is that a document of this character is in itself the total expression of American thought and permits the convention and the resolution to become effective even though the first of those instruments may not have been ratified by all the countries of America.

This is obvious when we recall the difficulties which are nearly always in the way of ratification of treaties because of natural constitutional delays, and if a delay of that character should deprive the convention of moral force, the declaration, by affirming the spirit of America in this sense, would facilitate the immediate application of the end in mind without reserves of any kind.

Therefore we believe that, in order to make it more formal and efficacious, American collective action should comprise three points: first: a declaration of principle in an identical or a similar form to that of document Number One which is enclosed in draft form, confidentially, with this memorandum; second: the draft convention prepared by the United States, following from the foregoing declaration, to which the Cuban Government suggests adding the words contained in enclosure two; third: the draft resolution of the Government of the United States with which the Cuban Government is in agreement with the addition of the phrase contained in enclosure three.

HABANA, July 15, 1940.

[Annex 1—Translation<sup>64</sup>]

## DECLARATION OF THE AMERICAN REPUBLICS

The destiny of the European colonies in America is the subject of deep concern for all the governments of this Hemisphere.

The essence and pattern of the democratic institutions of America demand the adoption of certain measures for the maintenance of peace and the existence of its traditional institutions; and though till now this peace and these institutions seemed unmenaced, yet any change arising from the European war could fundamentally affect them, by introducing into America's geographical precinct, the right of conquest now solemnly prescribed in its international relations.

The solidarity of our peoples, agreed upon in the Lima and Panama meetings, which interpret the purpose of collective aid, counsels the taking of immediate and energetic precautionary resolutions as an indispensable basis for a vigilant defensive policy, and with the object that the progressive and peaceful mission of the Continental States will not be upset by the hidden danger of this solidarity being obstructed by other regimes or systems in disagreement with the juridical concept which constitutes the foundation of our national political organizations.

The XVI Resolution adopted at Panamá, which considered a motive for consultation of the Ministers of Foreign Affairs any change in sovereignty of the European colonies in the New World, implicitly admitted the seriousness and transcendency of such event.

On the other hand, the quick step of military operation in the old Continent during the past weeks, and the international changes coming in their wake, make this an imminent peril for America, thus forcing her to eliminate every menacing possibility threatening the territory or islands likely to become strategic points in the aggression or penetration of our Hemisphere.

For such reason, the American Republics declare:

First:—That American islands or territories liable to the risk of becoming the subject-matter of transaction or changes of sovereignty, may be provisionally occupied by the American nations under the following exceptions:

a) That immediately as the circumstances prompting such occupation cease, every region so occupied has an inalienable right of free determination, constituting itself in an independent state, or be united to other regions which have similar habits, interests and population.

b) That such territories, which on account of their political and economical conditions, were unable to establish a national autonomous

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<sup>64</sup> Translation supplied by the editors.



Government, will be temporarily placed under a regime of mandate, operative in the collective manner agreed upon by the American nations.

c) That the American Republics will come to an agreement during this meeting upon the conventional and adequate means for the operation of this mandate, as well as the urgent measures to be adopted for the execution of this declaration.

Second:—The rights traditionally alleged by the American nations regarding the Continental regions or islands at present occupied by non-American powers, shall be reserved to the American nations concerned.

HAVANA, July . . . , 1940.

[Annex 2—Translation <sup>55</sup>]

To add to the Draft Convention as an introduction to paragraph six which begins "Desiring etc."

"With the purpose of making effective the Declaration drawn up by the Foreign Ministers in this Second Meeting and desiring etc, etc.

[Annex 3—Translation <sup>55</sup>]

#### PROPOSED ADDITION TO THE PROPOSED RESOLUTION

WHEREAS: this Second Consultative Meeting of the Ministers for Foreign Affairs of the American Republics has defined in a solemn Declaration the dangers which threaten this Hemisphere in the political situation of the American regions belonging to European countries. (This will be the first whereas.)

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710. Consultation (2) / 360 : Telegram

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

LIMA, July 17, 1940—4 p. m.

[Received 6 p. m.]

102. The Foreign Minister assures me that the Peruvian Government concurs in the proposal for a convention and resolution substantially as submitted in the Department's circular of July 11, 5 p. m. He said that his Government had in mind certain additions to the preamble to the convention stressing in some detail the basic principles of Pan-Americanism. His Government also has in mind recommending abrogation of the last sentence of sub-paragraph (f) of paragraph 1 as it seems desirable to avoid bringing up this question of eventual restoration or self-government.

<sup>55</sup> Translation supplied by the editors.

As regards paragraph 8 he said Peru would be in favor of a provision whereby the convention would come into effect upon ratification by the United States, by two-thirds of the states of Central America including Mexico, and by two-thirds of the South American countries. I endeavored to discourage such a zoning plan on the grounds that the Americas should be considered as a unit and that any percentage basis should apply to the 21 republics.

He promised a formal memorandum tomorrow after Peru's position had been worked out in detail by the Advisory Committee on Foreign Relations.

NORWEB

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710.Consultation(2)/359 : Telegram

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

RIO DE JANEIRO, July 17, 1940—9 p. m.

[Received 9 : 21 p. m.]

358. My 352, July 12, 2 p. m.<sup>57</sup> Aranha says that the only suggestion he has to make is that the committee under paragraph 3 of the draft convention should not "request the governments of three of the American Republics each to designate from among its nationals a commissioner" but should request in each case one American Republic to assume the mandate.

Aranha is telegraphing his suggestions in full to his Ambassador at Washington.

CAFFERY

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710.Consultation(2)/381

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] July 17, 1940.

The French Ambassador<sup>58</sup> called and made inquiry about the program of the forthcoming Habana Conference next week as it might affect the French colonies in this hemisphere. I replied that the program would be general; that, of course, it contemplates no interference with governments in this hemisphere by any foreign government regardless of whether such interference relates to colonies owned by foreign or American governments prior to and since the Monroe Doctrine. The Ambassador desired to know whether we would personate any French colonies at Habana in our defensive acts. I said that I knew of no such intention at present, but that he must understand

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<sup>57</sup> Not printed.

<sup>58</sup> Count de Saint-Quentin.

that the Habana Conference would be opposed to any violation of the Monroe Doctrine and that this would include any methods of any foreign government to undermine or overreach or otherwise become a material factor in any of the American nations, or to undertake to dominate to a material extent the governments of the island possessions of foreign nations such as the French.

C[ORDELL] H[ULL]

710.Consultation(2)/374

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

No. 574

HABANA, July 18, 1940.

[Received July 19.]

SIR: I have the honor to refer to my strictly confidential despatch 564 of July 15, 1940, with which I transmitted to the Department a strictly confidential memorandum and a draft resolution from the Secretary of State of Cuba, which represents the comment the Department invited from the Cuban Government in its circular telegram of July 11, 5 p. m., with respect to the status of possessions in the Western Hemisphere of non-American States. It was impossible at the time I transmitted these communications from the Secretary of State of Cuba to make any comment in the despatch under reference.

I now have to transmit herewith as, I believe, of interest to the Department the memorandum commenting on the proposals and observations of Dr. Campa, which has been prepared by the First Secretary of the Embassy, Mr. Beaulac. I am in accord with the views expressed by Mr. Beaulac in his memorandum and agree that Dr. Campa's proposals diverge widely from our draft resolution and convention.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure]

*Memorandum by the First Secretary of Embassy in Cuba (Beaulac)  
to the Ambassador in Cuba (Messersmith)*

HABANA, July 17, 1940.

MR. AMBASSADOR: Dr. Campa suggests, in addition to the Convention and Resolution proposed by the Department, a Declaration—the advantage of which, according to his memorandum, “is that a document of this character is in itself the total expression of American thought and permits the Convention and the Resolution to become

effective even though the first of those instruments may not have been ratified by all the countries of America."

. . . the purpose of the Resolution is to cover situations which "may develop prior to the coming into force of the said Convention necessitating action on the part of the American Republics to protect their peace and sovereignty." A Resolution, of course, does not require ratification, and, from that point of view, would be just as immediately effective as Dr. Campa's Declaration would be; in fact, as already stated, it is proposed that the Resolution be placed in immediate effect, regardless of whether the various countries have ratified the Convention.

Furthermore, Dr. Campa's Declaration goes much farther than does the Resolution. The latter provides "that should it become necessary to establish a collective trusteeship . . .", a committee shall be designated to have certain powers and to act in a certain manner.

Dr. Campa's Declaration, on the other hand, provides that:

"The Republics of America declare, first, that the American islands or territory which are in danger of being subject to transactions or changes of sovereignty shall be occupied provisionally by the American nations under the following conditions. . . ."

It is obvious, of course, that the French possessions in this area, for example, are "in danger" of being subject to transactions or changes of sovereignty, whether or not such transactions actually occur. My interpretation of Dr. Campa's Declaration would be, therefore, that provisional occupation of such territory by the American nations would at once become mandatory.

The second proposal in Dr. Campa's Declaration is likewise radical. He proposes that such islands or territory, at the end of the period of such occupation, have "the inalienable right to dispose freely of their own destiny" by becoming independent States or attaching themselves to other regions with which they are associated in customs, interests, and population."

The proposed Convention, on the other hand, provides that

"the American Republics declare their intention either to restore the territory or territories in question to their original sovereign, whenever the security of the Americas renders such transmission of sovereignty possible, or to recognize their independence if it shall appear that they are capable of undertaking this task of self-government."

In other words, Dr. Campa's Declaration contemplates (1) independence of the territories or (2) attachment "to other regions with which they are associated in customs, interests and population." Such other regions might include Latin American countries, for example, or they might include a non-American State.

Dr. Campa also provides in his Declaration for a joint mandate of the American countries over those regions not capable of self-government. The proposed Convention does not contemplate the possibility of such a permanent arrangement. In fact, as stated above, it proposes only (1) return of the territories to their original sovereigns or (2) independence.

Dr. Campa's Declaration also contains a provision which would safeguard American claims to territories now occupied by non-American countries. This, assumedly, would take care of Guatemala's claim over British Honduras and Argentina's claim affecting the Falkland Islands.

The additions suggested by Dr. Campa to the proposed Convention and Resolution are merely to introduce the appropriate references to Dr. Campa's proposed Declaration.

It should be evident, from the foregoing, that the effect of Dr. Campa's Declaration would be not to provide an instrument which can be placed in effect immediately pending ratification of the Convention, since this is already taken care of by the proposed Resolution, but rather to introduce fundamental changes into the plan embodied in the draft Convention and Resolution submitted by us.

Dr. Campa's proposed Declaration appears to be a rewording of his proposed "Declaration of Ciudad Trujillo," which failed of approval at the Second Meeting of the Caribbean.

W[ILLARD] L. B[EAULAC]<sup>59</sup>

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710. Consultation (2) / 407a : Telegram

*The Acting Secretary of State to the American Delegate to the Second Meeting of the Ministers of Foreign Affairs of the American Republics (Hull)*

WASHINGTON, July 20, 1940—3 p. m.

1. For the Secretary. The Brazilian Ambassador called to see me this morning and gave me a copy of a telegram he had received from Aranha in which Aranha approved of all of our projects but suggests that in the resolution dealing with European possessions, one country rather than three be appointed as the committee to undertake the administration of each European possession and further suggests that any deficit in the administration of a particular possession be met by the committee in charge of that possession rather than by a pro rata division among all of the 21 republics.

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<sup>59</sup> A notation in ink below the signature reads, "I agree G[eorge] S. M[essersmith]".

At the conclusion of the telegram Aranha says "Please assure the Secretary of State of our desire to cooperate in the best possible form with the Government of the United States for a successful solution of the initiative undertaken by the United States. Please give him, with the reservations above noted, the assurance that Brazil is disposed to sign the convention even if only the United States were to be the other signatory and that Brazil is likewise anxious to advance in every possible way in Habana the realization of the United States project." The Ambassador is cabling Nabuco, the Brazilian delegate. I thought it desirable for you to have this before you talked with the latter.

WELLES

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710.Consultation(2)/394: Telegram

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

LIMA, July 20, 1940—6 p. m.

[Received 9:42 p. m.]

104. Embassy's telegram 102, July 17, 4 p. m. Following is a translation of the "Memorandum concerning the proposed convention to be presented to the meeting at Habana with respect to possessions of European nations in America".

"The Peruvian Chancellor considers the original convention advantageous. It is to be hoped that it will be accepted by all of the nations but if some changes are suggested it would be necessary to modify the convention since a unanimous solution of the matter is a requisite as a manifestation of American solidarity.

The Chancellor of Peru believes that he may express the opinion that the American Republics are taking joint action by means of this convention in defense of the proclaimed principles of Pan-Americanism which are: Independence and sovereignty of each of the American Republics; the maintenance of peace in the Americas, and the elimination of the principle of force in international relations.

The drafting of the prohibition of the acquisition of territory by non-American States should be unconditional suppressing the mention of the word 'force' in sub-paragraph A of paragraph 1 of the draft of convention; there should be also eliminated the last sentence of sub-paragraph F of paragraph 1, dealing with the future return of territories to the so-called 'original Spain [*sovereigns*]' since it is necessary to keep alive the hope that the colonial regime in America may disappear.

It also might be suggested that the word 'interest' be eliminated in sub-paragraphs B and C of 1 of the draft of convention as unnecessary and because it lends an elastic interpretation which would depart from the objective sought, which is the maintenance of the 'status' (*sic*).

With respect to paragraph 8 of the convention it should enter into force when it shall have been ratified by the United States of Amer-

ica, two-thirds of the countries north of the Canal and including Panama, two-thirds of the South American Republics, and two-thirds of the insular countries.

As concerns the proposed resolution it seems that if it is necessary to establish the provisional collective trusteeship the matter should be handled by a committee constituted of representatives of at least a majority of the American States and not by a committee of a few members.<sup>59</sup>

The phraseology of the last paragraph may indicate some doubt on Peru's part of the necessity for emergency action contemplated by the resolution.

Not repeated to Habana.<sup>60</sup>

NORWEB

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710.Consultation (2)/396: Telegram

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

BUENOS AIRES, July 20, 1940—1 p. m.

[Received July 21—1:50 p. m.]

309. Referring to Department's circular telegram of July 11, 5 p. m. and the Embassy's despatch No. 947 of July 16<sup>61</sup> regarding a draft convention and a draft resolution transmitted to the Foreign Office, a reply memorandum has today been received. It is understood that the Foreign Office has communicated the purport of its reply direct to its delegation in Habana.

After adverting to the occasion for the Habana conference as cited by our Government and after quoting subdivision 1 of chapter II of the amended agenda the memorandum states as follows:<sup>62</sup>

"This being the point which gave rise to the summoning of the meeting at Habana it should be the central topic of the discussions and it would seem to anticipate that its previous consideration would lessen the importance which the American Governments have wished to attribute to the meeting by sending to it their Foreign Ministers or high officials representing them.

However, in view of the request made by the Government of the United States through its Embassy the Argentine Government is disposed to study the proposals in general with the understanding that their detailed study is a task specifically pertaining to the consultative meeting at Habana where the Argentine representative will duly set forth the points of view of his Government.

As to the draft convention submitted, the Argentine Government, abiding by its traditional policy, by its adherence to the 'Anti-War

<sup>59</sup> Repeated to Habana by the Department in telegram No. 10, July 22, 1940, 2 p. m.

<sup>60</sup> Despatch not printed.

<sup>62</sup> Corrections based on text of the memorandum transmitted to the Department by the Ambassador in Argentina in his despatch No. 982, July 23, 1940, received July 31.

Pact'<sup>63</sup> and by its declarations made before the recent Pan-American Conferences expresses its decision to subscribe once again to the principle that the American Republics do not recognize on this Continent changes of sovereignty obtained by force.

At Panama with the Argentine vote there was adopted the [a] resolution whereby changes of sovereignty of geographical regions of America subject to the jurisdiction of non-American States, would call for consultation if such a change should involve danger to the security of the American Continent. The Argentine Government, in maintaining the same policy [*point of view*], does not believe that in general any transfer whatsoever or prospective transfer of sovereignty, of jurisdiction, of possession or of interests in such regions is in itself inimical to the peace, security or independence of the American Republics.

Adhering to a policy of nonintervention in European affairs, the Argentine Government would be unable to adhere to the proposal that the American Republics reserve for themselves in a general and previous manner the right to judge whether the political changes of European powers impair the political independence or the freedom of action of the American Republics. In any case, that right could only result indirectly or implicitly, if, as a consequence of a change of regime in European countries, there should arise in American countries specific situations of danger which would lead to intervention on the part of the American Republics for the defense of their independence.

The right which the American Republics [*States*] would reserve for themselves to take measures tending to prevent in the American regions subject to the sovereignty of European nations [*States*] acts contrary to the [principles] proclaimed by the American Republics [*States*] practically implies the occupation of those regions and the possibility of a joint military action. Apart from the eventual act of making such territories independent, such military intervention would naturally follow the purpose of preventing transfers of sovereignty for the benefit of the present sovereigns.

[The Argentine Government believes] where [*that*] the American Republics [*countries*], instead of obligating themselves as guardians of the possessions of European countries in America, might proclaim the principle that no European possessions should exist in America and that therefore the regions now under the sovereignty of non-American countries should be made independent or should be incorporated within the American Republics [*countries*].

As long as present capitals refuse to accept this principle and consequently continue to consider the American Continent as territory for colonization it is difficult to see how the American Republics [*countries*] would [*could*] expose themselves to the risk of a war in order to defend the interests of those capitals.

The Argentine Government considers therefore that if in any instance the intervention of the American Republics [*countries*] in American regions subject to the sovereignty of European countries were able to be justified it would be for the purpose of permitting those regions to decide upon their own destiny, there being exercised

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<sup>63</sup> See *Foreign Relations*, 1932, vol. v, pp. 260 ff.; *ibid.*, 1933, vol. iv, pp. 228 ff.



meanwhile in any case a provisional continental mandate, the organization and functioning of which can be discussed.

The foregoing observations made with regard to the proposed convention are, with greater reason, appreciable [*applicable*] to the project of a resolution. On the one [*other*] hand it is appropriate to point out that in matters which affect so fundamentally the sovereignty and the lofty interests of the American Republics it would not be possible to take action without the necessary and legal intervention of the legislative bodies.

In thus setting forth its observations frankly and loyally, the Argentine Government hopes that the Government of the United States will admit that, notwithstanding the differences existing between the points of view of both Governments, which are justified by the interests and the individual situation of each of them, it will always be possible to find a basis for agreement consistent with the spirit of good will and mutual understanding by which they are animated in attending the meeting in Habana."

ARMOUR

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710.Consultation(2)/416: Telegram

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

MONTEVIDEO, July 23, 1940—5 p. m.

[Received 6:12 p. m.]

170. My 167, July 20, 6 p. m.<sup>64</sup> Guani told me this morning that I could transmit the following as the reply of the Uruguayan Government to the proposals contained in your circular telegram July 11, 5 p. m.:

The Uruguayan Government accepts in its general lines and in its substance the draft convention; as regards the draft resolution, it would be helpful to obtain the acceptance of the greatest possible number of the American States. Guani said that he was instructing the Uruguayan delegation at Habana in this sense, asking them for information as to how the delegations were lining up on the draft resolution.

Guani said that his meeting yesterday morning with the parliamentary group of the Colorado Party had been entirely satisfactory. The President of the Republic <sup>65</sup> had attended and had declared that it should be the policy of the Uruguayan Government to cooperate fully and frankly in the present emergency with the United States Government. This statement received the approval of the group.

Yesterday afternoon Guani appeared before a secret session of the Chamber of Deputies. The Nationalists (Herreristas) raised no objection to draft convention because of the fact that it would have to come before the Parliament later for ratification. They were,

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<sup>64</sup> Not printed.

<sup>65</sup> Gen. Alfredo Baldomir.

however, flatly opposed to the draft resolution on the ground that it would enter into immediate effect and might commit Uruguay to a course of action leading to war. Guani has not yet consulted with the Senate, but there, where half the seats are held by the Nationalists, the opposition to the resolution will be even stronger. It is in order to combat this opposition that Guani considers it highly important that an overwhelming majority of the American States accept the resolution.

WILSON

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710.Consultation(2)/414: Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 23, 1940—6 p. m.

[Received 9:25 p. m.]

9. For Secretary Morgenthau<sup>66</sup> from White.<sup>67</sup> Secretary Hull raised with me the question as to the desirability of our Government being able to give confidentially to some of the other Foreign Ministers at this conference some indication of what our Government is prepared to do in the way of monetary assistance. We think that Secretary Hull would find it very helpful if and when he deems it appropriate he were able on your authorization to make orally the following statement or something like it either directly or through Berle<sup>68</sup> in private conversations with the heads of the delegations:

“I understand that should any Latin American Government approach the Secretary of the Treasury he is prepared to give immediate and sympathetic consideration to specific proposals involving American assistance for cooperative arrangements directed at stabilization of the foreign exchange relationship between the dollar and the currency of that country and the strengthening of the monetary and banking system of that country. Any such monetary cooperation is envisaged only when it is part of a broad program of cooperation between the countries directed toward the attainment of the objectives as outlined in my address before the conference.”

The transaction implied by this statement is presumably one involving essentially a loan of United States gold and dollars out of the stabilization fund with the currency of the other country as collateral. The statement doubtless will be interpreted in some such manner by any person to whom it is made. The term cooperative arrangement is inserted to indicate that certain conditions that you may prescribe

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<sup>66</sup> Henry Morgenthau, Jr., Secretary of the Treasury.

<sup>67</sup> Harry Dexter White, Director of Monetary Research, Department of the Treasury; Adviser to the Secretary of State at the Second Meeting of the Ministers of Foreign Affairs.

<sup>68</sup> Adolf A. Berle, Jr., Assistant Secretary of State, and Adviser, American delegation, Second Meeting of the Ministers of Foreign Affairs.

would have to be met by the other country before an arrangement could be consummated. Although the statement is so phrased as to commit you to no specific action it does commit you to serious consideration of any plan that may be brought to you and seems further to commit you to the expectation that favorable action will result in some cases provided the country in question has on its part cooperated adequately with us on other parts of the general program. [White.]

HULL

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710.Consultation (2)/235

*The Acting Secretary of State to the Chairman of the House  
Committee on Foreign Affairs (Bloom)*

WASHINGTON, July 23, 1940.

MY DEAR MR. BLOOM: I acknowledge the receipt of your letter of July 9,<sup>69</sup> in which you give me the opportunity to comment on H. Con. Res. 85, "To Promote Peace", requesting the Secretary of State "to place on the agenda of the Pan American Conference to be held at Habana this month a proposal that the pan-American countries as a unit tender their good offices as a mediator in the disputes which now unhappily threaten to disrupt European civilization", introduced by Representative Ludlow.

The general purpose of this resolution will receive the Department's prompt and careful attention and a further communication<sup>70</sup> will be forwarded to you in due course. However, it should be pointed out that the agenda for the forthcoming meeting of the Foreign Ministers at Habana, to which I assume Mr. Ludlow refers in his resolution, was approved in final form by the Governing Board of the Pan American Union on July 5, so that the specific inclusion in that agenda of Mr. Ludlow's proposal would not now appear to be feasible.

Sincerely yours,

SUMNER WELLES

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710.Consultation (2)/415 : Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 23, 1940—midnight.

[Received July 24—5 a. m.]

10. I am sending tonight the message which follows hereafter to Armour and hope that you will have the opportunity of reading it

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<sup>69</sup> Not printed.

<sup>70</sup> Not found in Department files.

prior to our telephone conversation tomorrow morning at 8:30 Eastern standard time.

"In a long and very friendly conversation this afternoon with Melo<sup>71</sup> at which Espil<sup>72</sup> was also present Melo said that he is not in favor of taking any action with respect to the European possessions in this hemisphere beyond the adoption of a declaration stating that the American Republics would oppose any transfer of such possessions to another non-American power. He based this attitude on the state of public opinion in Argentina which he said is not prepared at this juncture to accept the idea of a trusteeship. He pointed out that Argentina is a long distance from the areas in question (the claim to the Falkland Islands was not mentioned) and he implied that other nearer countries were more immediately interested. In later requests for the Argentine position, Espil maintained that the taking over of territories possessed by other countries could be considered an unneutral act and that it was all very well for the United States with its extensive armament program not to hesitate to incur the displeasure of Germany but that the other countries in the new world had no comparable defense. Melo asserted that he wished to cooperate to the greatest extent possible, considering public opinion in Argentina, and that he believed a declaration could be so framed as to meet our views and purposes.

In urging upon the Argentines the trusteeship plan I referred to the perils inherent in the present situation and pointed out that a failure of the American nations to maintain their unanimity might have results little short of tragic and that at the least such a failure would be the most encouraging development possible in the eyes of Germany and Japan. I said that in my opinion there appeared to be no disagreement in principle between United States and Argentina since both oppose the transfer of territories. In our case, however, we feel that the time has come to implement our common resolution by outlining a procedure under which the territories would be held in trust whereas the Argentine Government would recommend a mere declaration which in my opinion would have little or no practical effect and might even be considered an indication of weakness. In substance the United States proposes a joint statement of what the American nations are determined to do in a specific and not improbable contingency while the Argentine Government proposes in effect that we do nothing.

Recalling the important contribution of President Ortiz to the declaration of Lima, I asked Melo if he would convey to the President a message saying that I find it difficult to believe that one of the framers of that document would now hesitate to take the step which events in my opinion make incumbent upon the American Republics. In conclusion, I said that I wished to plead with all sincerity and deep earnestness for Argentina, not to be responsible for the failure of the American Republics to maintain their unanimity at the most critical period since their establishment as independent nations. I repeated

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<sup>71</sup> Leopoldo Melo, personal representative of the Argentine Minister for Foreign Affairs.

<sup>72</sup> Felipe A. Espil, Delegate of Argentina; Argentine Ambassador to the United States.

that there appeared to be no disagreement in principle but merely one concerning the mechanics of handling the situation, and that it was therefore my great hope that upon further consideration the Argentine Government would see its way clear to join with the other Republics.

I believe it would be very helpful if you were to bring to Cantilo's attention and in your discretion that of the Vice President the position which I have so vigorously stated to Melo. It seems likely that Melo will be cabling his Government regarding our conversation, in which case your talk with Cantilo and/or the Vice-President might prove most effective if it were to follow the receipt of Cantilo's [*Melo's?*] report.

I would appreciate a cable report of any conversations you may have as well as daily cable reports regarding the attitude of the Argentina press and public opinion with respect to the conference."

HULL

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710.Consultation (2) /432 : Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 24, 1940—2 p. m.

[Received 2 : 33 p. m.]

11. My No. 10, July 23, midnight. Since it appears that the Peruvian delegate Cornejo has thus far hesitated to commit himself concerning the trusteeship plan although he states that he is in full agreement in principle with the opposition of American Republics to the transfer of any non-European possessions to other non-European nations, I am cabling Norweb along the lines of my messages last night to Armour requesting that he bring my views to the attention of the Minister of Foreign Affairs and in his discretion also to the President of Peru.

HULL

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710.Consultation (2) /433 : Telegram

*The Ambassador in Brazil (Caffery) to the Acting Secretary of State*<sup>73</sup>

RIO DE JANEIRO, July 24, 1940—3 p. m.

[Received 3 : 15 p. m.]

366. Nabuco<sup>74</sup> reports there is talk in some quarters Habana that "autonomy should be conceded existing colonies in America". Aranha

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<sup>73</sup>This message was repeated to the American Delegate at Habana in Department's telegram No. 26, July 25, 2 p. m.

<sup>74</sup>Mauricio Nabuco, personal representative of the Brazilian Minister for Foreign Affairs at the Second Meeting of the Ministers of Foreign Affairs.

says that he disagrees with this. He supports the Department's position regarding the colonies.

CAFFERY

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710.Consultation (2) /440a : Telegram

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

WASHINGTON, July 24, 1940—7 p. m.

126. From a telephone conversation which I had with Secretary Hull this morning, it appears that the Chilean delegate has not as yet indicated that the Government of Chile will support our projected convention and resolution covering the question of European possessions in the Western Hemisphere. It would seem to me probable, judging from my experience in Panama, that pressure is being brought upon the Government of Chile by the Argentine Government to refrain from any commitments at least for the time being. I think it would be most helpful if you would see the Foreign Minister at the earliest opportunity and stress the desirability in the interest of hemispheric unanimity and in view of the great importance of implementing existing inter-American agreements in the manner contemplated, for the Government of Chile, through its delegation in Habana, wholeheartedly to support these projects. Please telegraph me any information you may obtain as a result of your conversation.

WELLES

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710.Consultation (2) /414 : Telegram

*The Acting Secretary of State to the American Delegate (Hull)*

WASHINGTON, July 24, 1940—8 p. m.

25. For White from the Secretary of the Treasury. Reference your 9, July 23, 6 p. m. I am willing to go along provided the Government and Central Bank of each particular country would guarantee individually and collectively the gold loan. [Morgenthau.]

WELLES

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710.Consultation (2) /448 : Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 26, 1940—4 p. m.

[Received July 27—9 : 15 a. m.]

14. The following texts are being presented this afternoon by the subcommittee composed of Cuba, Panama, Brazil and the United States to Committee on the Preservation of Peace.

“Redraft: Cuban project.

The second consultation of American Ministers of Foreign Relations considering:

that the status of territories in this hemisphere belonging to European powers is a subject of deep concern to all of the Governments of the American Republics;

that changes arising from the existing European war may give rise to the assumption that conquest, which has been renounced in the international relations of the American Republics, may nevertheless be resorted to, thereby endangering the essence and pattern of the international institutions of America;

that the doctrine of inter-American solidarity agreed upon in the meetings at Lima and at Panama requires adoption of a watchful and defense policy so that the pacific methods of the American Republics shall be free from the danger that conflicting systems or regimes may upset their contacts as good neighbors;

that the course of military events during the past weeks in the Old World and international changes resulting from them create the imminent possibility of an attempted change in sovereignty of the European territories in the new World, and require the American nations to eliminate the possibility that any European territories might become strategic points for aggression against or penetration of the American hemisphere;

The Ministers of Foreign Relations of the American Republics accordingly

declare:

that non-American islands or territories subject to the danger of becoming possible objects of barter of territory or change of sovereignty may be provisionally occupied by the American nations, subject to the following reservations:

(a) that as soon as the immediate reasons requiring such occupation shall cease to exist, the territories so occupied shall be returned to their original sovereign, if this would not be prejudicial to the safety of the American Republics, or in the alternative that they be permitted to establish for themselves autonomous and independent states whichever of these shall appear to be the more practicable and just having in mind all pertinent considerations;

(b) that such territories as may thus be occupied shall be placed temporarily under the guardianship of the American Republics, which guardianship shall be exercised for the economic, political and social benefit and the welfare of such territories until the American Republics shall be in a position to determine their ultimate destiny.”

“Resolution concerning American possessions of non-American states.

Whereas by the Declaration of Lima the American Republics reaffirmed their continental solidarity and their decision to maintain and defend against all foreign intervention and activity the principles upon which it is based; and

whereas situations may develop arising out of change in sovereignty or control over regions in this hemisphere belonging to or claimed by non-American states which may threaten the peace or security of this hemisphere and may necessitate appropriate defense action on the part of the American Republics or any one of them; and

whereas the representatives of the American Republics have this day signed a convention relating to the administration of such regions in the event of such change of sovereignty or control,

the meeting of the Foreign Ministers of the American Republics resolves:

(1) that should it become necessary, prior to the coming into force of the above-mentioned convention, to establish a collective guardianship over any region in this hemisphere belonging to or claimed by a non-American state, the committee hereinafter provided for shall assume on behalf of the American Republics the responsibility for undertaking its collective guardianship, and for applying in respect thereto the principles and policies set forth in the said convention. To this end it shall exercise the authority and functions granted by the said convention to the inter-American commission of guardianship and in the manner provided in the convention.

(2) that the committee shall consist of representatives, one to be appointed by each American Republic, and shall be considered as constituted when two thirds of the American Republics shall have appointed a representative

(3) that upon the coming into force of the said convention the authority and functions exercised by the committee established pursuant to this resolution shall devolve upon and shall be carried forward by the inter-American commission of guardianship

(4) that the American Republics will forthwith name their representatives on the committee to be established pursuant to this resolution. The committee shall assemble and organize upon the request of any signatory

(5) that should circumstances require measures of defense against a threat of danger, as referred to in the preamble to this resolution, of so urgent a nature as to preclude the possibility of previous consultation, the American Republics consider it the duty of any one or more of them, so situated as to be in a position to act promptly and effectively, to take, as a means of common defense, whatever action may be necessary

(6) that should any such action involve the taking by any American Government of control over any region heretofore in the possession of a non-American state, the matter shall automatically become a temporary responsibility of all of the American Republics and shall form the subject of prompt consultation among them through diplomatic channels for the purpose of determining whether a collective guardianship should be established for the region in question.”

“Draft Convention.

The Governments represented at the Second Meeting of Ministers of Foreign Affairs of the American Republics, considering:

that the European conflict, in which nations exercising sovereignty over regions of America are involved, might result in the extinguishment or impairment of that sovereignty;

that any transfer, or attempted transfer, of the sovereignty, jurisdiction, possession or any interest in or control over any such region to another non-American state, would be regarded by the American Republics as inimical to their peace, safety, and political independence;



that no such transfer or attempt to transfer or acquire any interest in, right to or control over, any such region, directly or indirectly, will be recognized or acquiesced in by the American Republics;

that the American Republics reserve the right to judge whether any change in the political relations of the European possessors on September 1, 1939, of geographic regions in the Americas has the effect of impairing their political independence or freedom of action, even though no formal transfer or change in the status of such region or regions shall have taken place;

that it is, therefore, necessary to seek a solution, and to decide upon the most desirable regime to be adopted for these regions, should conditions of the character referred to above materialize;

that it is evident that some of the regions have not yet reached a sufficient degree of developments to assume a status of sovereign states capable of defending and maintaining themselves, especially at this distressing moment in the life of nations;

that the American Republics, as an international community which acts strongly and integrally, using as a basis political and juridical principles which they have applied for more than a century, have the unquestionable right, in order to preserve their unity, to take such regions under their guardianship and to deliberate as to their destinies, in accordance with their respective degrees of political and economic development;

that such a community has international juridical capacity to act in this manner;

that in this case, the most appropriate rule is that of guardianship;

that since guardianship is exercised for the benefit of the ward, the state or states exercising these functions assume a great moral and material responsibility; and

being desirous of protecting their peace and safety and of promoting the interests of any of the regions herein referred to which may fall within the purview of the foregoing recitations, have resolved to conclude a convention for these purposes and to that end have designated the following plenipotentiaries:

who, after having deposited their full powers, found to be in good and due form, have agreed as follows:

(I) Any transfer or attempt to transfer, directly or indirectly, from a non-American state to another non-American state of the sovereignty, jurisdiction or possession of territory situated in or adjacent to the Americas, or of any interest in or control over any such territory, shall be deemed to threaten the peace and safety of the American continent, and such territory shall automatically come under the protection and guardianship of the American Republics.

(II) Guardianship assumed pursuant to this convention shall be exercised either individually or collectively, as may be deemed advisable in each case. In choosing the nations which shall function as guardians, there shall be taken into account their economic and financial conditions, their protective capacity, and especially, their geographic location with regard to the territory in question, to the end that the guardianship may be exercised as efficiently as possible.

(III) When guardianship shall have been established for any region it shall be exercised for the benefit of the people of the region under guardianship, with a view to their welfare and progress, until

such time as the region may, consistent with the security of the American Republics, be restored to its original sovereign, or the people thereof shall be capable of undertaking self government.

(IV) The guardian shall exercise the administration of the territory under conditions which shall guarantee freedom of conscience and of worship, subject only to such restrictions as public order and good habits may demand.

(V) The construction of fortifications and the giving of military training to natives, are hereby forbidden except for the supervision and defense of the territory or region in question.

(VI) The guardian shall enforce the local laws insofar as they are compatible with the purposes of this convention, but in order to meet situations in which there is no applicable local law or the existing law is deficient additional laws shall be promulgated.

(VII) In all that concerns trade, commerce and industry, all the American nations shall enjoy the same benefits as those enjoyed by the guardian, the latter being forbidden to establish a privileged position for itself or its nationals.

(VIII) Natives of the region shall participate in public administration and in the courts of justice in accordance with their capacity so to do.

(IX) To the extent that may be practical, the ownership, occupancy and use of real estate shall be governed by local law and custom, and vested rights shall be protected in accordance with such law.

(X) Forced labor shall not be permitted except in cases of public necessity, and in such cases it shall be permitted only when ordered by the constituted authorities, and subject to a fair remuneration.

(XI) The guardian shall provide facilities for the education of the natives with the two-fold purpose of developing the wealth of the country and improving the living conditions of the population in all respects, especially as regards public and individual hygiene, thus preparing them for the exercise of political autonomy as soon as possible.

(XII) The natives of the territory under guardianship shall have their own organic act, which the guardian shall establish by a special law.

(XIII) The guardian shall submit an annual report to the Inter-American organization entrusted with the control of the territory under guardianship of the matter in which it has fulfilled its functions, attaching thereto copies of its fiscal accounts and of the laws enacted during the year for the territory under guardianship.

(XIV) The organization referred to in the preceding article shall be competent to take cognizance of the petitions submitted by the inhabitants of the territory through the medium of the guardian, with reference to the exercise of the guardianship. The guardian shall transmit with these petitions such observations as it may deem proper.

(XV) The guardianship shall be granted for a period of 5 years, at the expiration of which, if the territory under guardianship shall not be in a position to be declared an independent state and restoration to its former sovereign is not feasible, it shall be renewed for successive periods of ten years.

(XVI) Within two years counted from the date on which the guardianship was granted, the guardian shall submit to the above-mentioned organization a project of guardianship which, having due regard for the principles established according to the convention, may satisfy the conditions of the territory under its guardianship. Once this project is approved, it may be altered only with the approval of the said organization within the periods hereinbefore mentioned.

(XVII) The expenses incurred in the exercise of the guardianship shall be defrayed with the revenues of the territory under guardianship but in case they are insufficient the deficit shall be paid by the guardian state or states.

(XVIII) The international organization to which this convention refers, shall be a commission composed of a representative from each one of the states which ratified this convention, and shall be entitled 'Inter-American Commission on Guardianships'. Once constituted, it shall elect its president and otherwise perfect its organization. Any country which ratifies the convention may convoke the first meeting of the Commission, at which time the latter shall fix its place of meetings. Two-thirds of the members of the Commission shall constitute a quorum, and when this quorum is present, it may act with the approval of two-thirds of the members present.

(XIX) The Commission is authorized to establish an inter-American guardianship over the regions covered by this convention, grant guardianship to be exercised by the number of states which it may determine in each case, and supervise the exercise of the functions of the guardian or guardians under the terms of the preceding articles.

(XX) The present convention shall be ratified by the high contracting parties in conformity with their respective constitutional procedures. The Secretary of State of the Republic of Cuba shall transmit at the earliest possible date authentic certified copies to the governments for the aforementioned purpose of ratification. The instrument of ratification shall be deposited in the archives of the Pan American Union in Washington, which shall notify the signatory governments of said deposit. Such notification shall be considered as an exchange of ratifications.

(XXI) The present convention shall enter in force whenever two-thirds of the American states have deposited their respective instruments of ratification.

Done in the city of Habana, et cetera."

HULL

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710.Consultation (2)/452 : Telegram

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

SANTIAGO, July 26, 1940—8 p. m.

[Received 10 p. m.]

186. This afternoon Foreign Minister handed us the following reply to your telegram No. 126 of July 24, 7 p. m.

We are officially told that this is not the result of consultation with Argentina and only by telegraph with the Chilean delegation at

Habana. However we were told that this will be sent to the Chilean Ambassador in Buenos Aires for presentation to Foreign Office there. The Under-Secretary here thought the setting up of complete machinery for mandate premature. The Foreign Office has notified its delegate at Habana.

“After careful consideration my Government has reached the conclusion that the subject in question would be better formulated and would suit the situation more exactly if the American Republics should adopt at Habana a declaration of a general character which would reaffirm the principle of nonrecognition of territory conquered by force (Saavedra Lamas Treaty),<sup>75</sup> of the renouncing of war as an instrument of national policy (Kellogg-Briand Treaty)<sup>76</sup> and would proclaim the determination of the American States not to recognize and to oppose any possible changes of sovereignty over European possessions in America in cases where such changes would operate for the benefit of non-American powers. It could likewise be added that the maintenance of the actual *status quo* is necessary for the security of the continent if a change in sovereignty or a modification in the jurisdiction, possession, or actual control exercised in these regions in favor of a non-American country, should come about the American Governments would immediately consult with each other and determine in common accord the most appropriate means with which to meet the new situation.[”]

BOWERS

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710.Consultation (2)/449 : Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 26, 1940—9 p. m.  
[Received July 27—3: 53 a. m.]

15. The Argentine delegation has circulated to a very few delegations a draft declaration which reads in translation as follows:

“The Governments of the American Republics represented at the Second Meeting of the Ministers of Foreign Affairs of the American Republics,

considering:

(a) that immediately after the outbreak of the present war, the Republics of America, at the First Meeting of the Ministers of Foreign Affairs at Panama, recognized as a common and primary purpose the maintenance of peace and the preservation of the security of the American continent and to this effect they expressed their unshakable decision to maintain it, assure it, and strengthen it by all adequate spiritual and material means within the democratic spirit upon which their institutions are based (joint declaration of continental

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<sup>75</sup> Signed at Rio de Janeiro, October 10, 1933, *Foreign Relations*, 1933, vol. IV, p. 234.

<sup>76</sup> Signed at Paris, August 27, 1928, *ibid.*, 1928, vol. I, p. 153.

solidarity) and reaffirmed their status as neutrals and their unanimous intention to remain aloof from the European conflict (resolution 5)

(b) that the sentiment which pointed out this duty and determined this purpose was so strong and dominant that the 'Declaration of Panama' stated that as a measure of continental self-protection 'the American Republics, so long as they maintain their neutrality, are as of [inherent right] entitled to have those waters adjacent to the American continent, which they regard as of primary concern and direct utility in their relations, free from the commission of any hostile act by any non-American belligerent nation, whether such hostile act be attempted or made from land, sea or air'

(c) that as a corollary to this categorical statement of purposes the Declaration of Panama defined the zone free from any hostile act and within the limits of the zone there were included possessions of European countries in America, a necessary explanatory statement having been made with respect to some territories illegally and precariously held which could not be considered as colonies or possessions because they formed an integral part of American states

(d) that the disregard of the principles of international law by belligerents in the conduct of warfare and of the evident rights of the nations of this hemisphere to preserve their peace and maintain their neutrality has already given rise to serious incidents which as yet have not been settled, and that it is clear that the existence of European colonies and possessions in America may give rise to other incidents which by their nature and magnitude may compromise the peace and security of the American continent

(e) that this possible danger was pointed out in the resolution adopted at Panama when reference was made to the possibility that some of the geographic regions of America subject to the jurisdiction of any non-American state might change sovereignty and thus threaten the security of the continent

(f) that in view of the foregoing it is necessary to recognize the need for finding, within practical juridical formulas and the democratic sentiments of America, the solution to be given to the problem of colonies should a change in sovereignty be imposed by conquest or by force, even though cloaked by clauses imposed in a treaty

(g) that the solution which appears to be most in harmony with the democratic tradition of America, and having the greatest legal basis, is that the colonies or possessions following the evolution and development of other peoples which today constitute the American Republics be organized into independent states and allowed to decide their own destiny by self-determination and not by force or by the application of the so-called right of conquest. One of these possessions, Jamaica, known for its culture and population, has already notified us that it wishes to be consulted.

Therefore, this meeting of Foreign Ministers,  
declares

(1) the Republics of America, reaffirming their respect for law, the democratic spirit which has inspired their institution, and the bonds of solidarity created by these sentiments, express as a common aspiration that within the territorial extent of America the free will of peoples shall determine and fix their definite destiny

(2) that they condemn and repudiate conquests, force and violence in any form as giving rise to rights or to the determination of changes of sovereignty in this hemisphere

(3) that in view of the impossibility, because of their respective sovereignties, to make a prior delegation of powers with regard to events, the seriousness and magnitude of which could only be appreciated at the time they occur, they consider the procedure of consultation and its rapid application through diplomatic channels as an imperative need to determine the urgent measures which may be required in order to safeguard peace or defend the continent.

Habana, July 25, 1940.[""]

HULL

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710.Consultation(2)/454 : Telegram

*The American Delegate (Hull) to the Acting Secretary of State*

HABANA, July 27, 1940—2 p. m.

[Received 4:28 p. m.]

18. We have obtained agreement with Argentineans on the convention and unless there are unexpected developments we anticipate no further difficulties. Adjustments were made to obtain agreement, but we have in no way weakened our proposal. On the contrary it is strengthened in some places.

We ourselves had previously made some changes intended both to improve and to aid in securing acceptance.

HULL

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710.Consultation(2)/454 : Telegram

*The Acting Secretary of State to the American Delegate (Hull)*

WASHINGTON, July 28, 1940—2 p. m.

42. Your 18, July 27, 2 p. m. My heartiest and most sincere congratulations to you. I fully appreciate the difficulties you have had to face and I consider your success an outstanding achievement of the utmost importance to this country at the present time.

The press which in general was pessimistic and skeptical yesterday, is exceedingly favorable once more today, and I think that when the details are made public, there will be an expression of tremendous gratification on the part of public opinion here.

The President asked me last night to tell you how tremendously pleased he was with the successful conclusion of your conferences.

WELLES

710.Consultation (2)/493: Telegram

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

BUENOS AIRES, July 31, 1940—6 p. m.

[Received 6:51 p. m.]

326. Minister for Foreign Affairs has expressed to me his deep satisfaction over the satisfactory conclusion of Habana conference, adding that he feels that its success was largely due to the United States' efforts and particularly the personal contributions of the Secretary of State to whom he intimated he was planning to address a telegram of congratulations.

Dr. Cantilo explained that under the Argentine constitution it would be necessary to submit both the resolution and convention regarding European possessions to Congress for ratification by both bodies, but envisaged no difficulty. He added that when he appeared before the Chamber in the recent secret session (see Embassy's telegram of July 25, 6 p. m. to the American delegation) that body had heartily approved the action the Government proposed to take at Habana and he felt sure [it?] would now be disposed of [to?] give complete accord to the agreements reached. As to the Senate, while there might be some opposition among the die-hards, he felt that this body also would undoubtedly give its approval.

ARMOUR

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859B.01/266

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

[WASHINGTON,] August 2, 1940.

The Danish Minister<sup>77</sup> came in today, at his request. He asked whether the Havana agreement had any effect on Greenland.<sup>78</sup> I said that Greenland was one of the European colonies within the hemisphere; that I construed the Act of Havana and the Convention as applying to it, though, I added, the other American Republics did not have any very vivid interest in the Greenland problem.

The Minister asked what test would indicate whether "change of control" not amounting to formal change of sovereignty would give rise to action under the Act of Havana. I said that I did not think

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<sup>77</sup> Henrik de Kauffmann.

<sup>78</sup> For correspondence regarding the situation in Greenland, see vol. II, pp. 352 ff.

we could set up any tests: it turned on facts in each case, and particularly on whether the use of the control amounted to an actual change in the real sovereignty, or to a threat to the peace and security of the continent.

A. A. BERLE, JR.

710.Consultation(2)/580

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

No. 1422

GUATEMALA, August 8, 1940.

[Received August 13.]

SIR: I have the honor to report that I had an informal conversation with the British Minister <sup>79</sup> yesterday regarding the results of the Habana Conference insofar as they affected the Belize question.<sup>80</sup>

The Minister did not appear to be greatly perturbed at the measures adopted at Habana, or at the Guatemalan reaction thereto (see Despatch No. 1412 of August 2, 1940 <sup>81</sup>). He seemed to be pleased that the Conference had been such a success in spite of German efforts to sabotage it.<sup>82</sup> With particular reference to Belize he said that the measures taken at the Habana Conference obviously would not affect Belize if the war should end in a stalemate or a British victory. If Great Britain should lose, Belize would not much matter in any case, and it was better that it should be in Guatemala's custody with its *de jure* situation unchanged rather than ceded to Guatemala by German dictate, or otherwise used for German ends. He said that he did not greatly fear that Guatemala would march into Belize unless Great Britain were defeated, but that he intended gently to warn the Foreign Minister in this connection on his return from Habana.

The Minister added that he had not heard anything from his Government regarding its reaction to the Habana measures insofar as they affected Belize.

Respectfully yours,

JOHN M. CABOT

710.Consultation(2)/663a

*The Secretary of State to President Roosevelt*

[WASHINGTON,] September 12, 1940.

THE PRESIDENT: The undersigned, the Secretary of State, has the honor to lay before the President, in certified form, with a view to its

<sup>79</sup> John Hurlleston Leche.

<sup>80</sup> See section entitled "Dispute between Guatemala and the United Kingdom regarding British Honduras (Belize)," pp. 416 ff.

<sup>81</sup> Not printed.

<sup>82</sup> See section entitled "Attempts by the German Government to obstruct cooperation on neutrality measures among the American Republics," vol. I, pp. 787 ff.



transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a Convention entitled "Convention on the Provisional Administration of European Colonies and Possessions in the Americas", signed at Habana on July 30, 1940.<sup>83</sup> The Convention is accompanied by the "Act of Habana"<sup>84</sup> which is included in the Final Act of the Conference, signed at the same time. This Act is important as information and as a part of the record.

Permit me also to make the following statement concerning the background and provisions of the Convention.

It will be recalled that the primary purpose of the American republics in convoking the Meeting of Foreign Ministers at Habana last July was to consider the possibility that developments in Europe might affect the status of the European possessions in the Western Hemisphere in such a manner as to constitute a threat to the peace and security of the American republics. Sovereignty over these possessions has been maintained for many generations and in some cases for several centuries by the French, British and Netherlands Governments. These geographic regions have not heretofore constituted a menace to the peace of the Americas and we have maintained the most cordial relations with their respective administrations.

It would not, however, be consistent with the policy of the United States or desirable from the point of view of the defense of the Western Hemisphere to permit these regions to become a subject of barter in the settlement of European difficulties, or a battleground for the adjustment of such difficulties. Either situation could only be regarded as a threat to the peace and safety of this Hemisphere, as would any indication that the possessions under consideration might be used to promote systems alien to the inter-American system. Any effort, therefore, to modify the existing status of these possessions whether by cession, by transfer, or by any impairment whatsoever in the control heretofore exercised would be of profound and immediate concern to all the American republics.

The foregoing views are entirely consonant with the basic principle of foreign policy of the United States as enunciated over a century ago by President Monroe.

This doctrine continues to represent the policy of the United States; it is fundamental to our national defense. Moreover, as I have pointed out to the Congress in connection with legislation designed to strengthen the defense of this country, the war at present raging in Europe is the result in part of the abandonment by certain European powers of those principles of respect for the pledged word and

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<sup>83</sup> Department of State Treaty Series No. 977; 56 Stat. (pt. 2) 1273.

<sup>84</sup> Department of State Executive Agreement Series 199; 54 Stat. (pt. 2) 2491.

of peaceful negotiation of agreements for the modification of the established order to which the American republics adhere.

The progress of that war to date has obliged the government of one of the countries<sup>85</sup> having possessions in the American republics to abandon its homeland; the government of a second of these countries<sup>86</sup> has been forced to sign an armistice involving, among other conditions, the hostile occupation of more than one-half of its territory. The third of the governments<sup>87</sup> with whose possessions in this hemisphere we are now concerned is engaged in a struggle in which its very existence may be at stake.

It was therefore altogether appropriate that the United States in company with the other free and sovereign republics of the Western Hemisphere, should consider the consequences which might result from the transfer of sovereignty over any of these British, French or Netherland possessions, especially if that transfer were made to a country which has demonstrated a lack of adherence to the established principles of international law. It was equally obvious that such a transfer, by giving a foothold in the Americas to the representatives of a system of government and of international politics entirely alien to the traditions and practice of the American republics, would constitute a very serious danger to the peace and security of the two continents.

It must also be recognized that this threat may become a reality, not only through a formal transfer of territory, but also through circumstances arising out of the relative status of victor and vanquished, without there having been any formal expression regarding the disposition of these territories.

On June 17, 1940, the Secretary of State, after the Government of the United States had been informed that the Government of France had requested of the German Government the terms of an armistice, directed the representatives of the United States at Berlin and Rome to make a communication to the German and Italian Governments<sup>88</sup> the pertinent paragraph of which is the following:

“The Government of the United States feels it desirable, in order to avoid any possible misunderstanding, to inform Your Excellency that in accordance with its traditional policy relating to the Western Hemisphere, the United States would not recognize any transfer, and would not acquiesce in any attempt to transfer, any geographic region of the Western Hemisphere from one non-American power to another non-American power.”

The Governments of France, Great Britain, and the Netherlands were informed in the same sense.

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<sup>85</sup> The Netherlands.

<sup>86</sup> France.

<sup>87</sup> The British Government.

<sup>88</sup> Telegram No. 1652, June 17, 1940, 11 a. m., vol. II, p. 494.

The Senate itself has also given evidence of its adherence to the policy which I have outlined above through the passage of S. J. Resolution 271 on June 17, 1940, "approving nonrecognition of the transfer of any geographic region in the Western Hemisphere from one non-American power to another non-American power, and providing for consultations with other American republics in the event that such transfer should appear likely".

On July 21, 1940 there assembled at Habana the Second Meeting of the Ministers of Foreign Affairs of the American Republics for purposes of consultation in accordance with the procedure established at the Inter-American Conference for the Maintenance of Peace held at Buenos Aires in December 1936 and the Eighth International Conference of American States held at Lima in December 1938.

It was recognized that it would be contrary to the interests of the American Republics to permit the European possessions in the New World to become a subject of barter in the settlement of European differences and that such a situation would involve a threat to the peace and security of the hemisphere. Even in the absence of an actual transfer of sovereignty, it was evident that the use of these possessions to promote systems alien to the inter-American system could not be countenanced. Furthermore, in approaching this matter, it appeared desirable that any solution which might be reached should not carry with it the creation of any special interest for the benefit of any particular American republic or republics but that the solution should further the legitimate interests of all the American republics as well as the interests of the possessions that might be involved. It was therefore agreed that in the event that conditions should so permit, such possessions as might be taken under control by, or on behalf of, the American republics should be returned to their original sovereigns or declared independent, as soon as possible after the passing of the emergency which furnished the basis for the assumption of control over them.

To give effect to the foregoing, two measures were adopted at Habana, the Act of Habana, and the Convention submitted herewith. The former, a copy of which, as already stated, I enclose as essential information but not as requiring ratification, provides for the emergency establishment of a regime of provisional administration under specified conditions "when islands or regions in the Americas now under the possession of non-American nations are in danger of becoming the subject of barter of territory or change of sovereignty". The determination of the necessity for establishing such a provisional regime is entrusted to an emergency committee consisting of one representative of each of the American republics, although provision is also made for individual or joint action on the part of any of the

American republics should the need be so urgent that consideration by the committee cannot be awaited. In other words, full freedom of action is retained by each of the American republics, should the circumstances be such as in its estimation to require it to take provisional steps without prior submission of its views to the Committee.

The purpose of the Convention is to obtain the acceptance in treaty form of the mutual obligations recognized by the American republics with respect to the situation envisaged in the "Act of Habana". It is my belief that this convention should be brought into force at the earliest possible date.

Respectfully submitted,

CORDELL HULL

## THE INTER-AMERICAN NEUTRALITY COMMITTEE<sup>1</sup>

740.00111A.R./874: Telegram

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

WASHINGTON, December 30, 1939—3 p. m.

251. From the Under Secretary. Please tell Aranha<sup>2</sup> that I should greatly appreciate it if he would let me have confidentially his views as to the nature of the work that should be undertaken by the Permanent Neutrality Committee as soon as it convenes. The way our minds are running here is that the work of the Committee should be divided into four broad fields:

1st. To formulate recommendations when asked to do so as to the action to be taken by any American government when faced by urgent situations similar to that confronted by the Government of Uruguay 2 weeks ago.<sup>3</sup>

2d. To elaborate and clarify questions relating to the rights and obligations of the American republics as neutrals, as set forth in the General Declaration of Neutrality of the American republics as agreed upon at Panama.<sup>4</sup>

3rd. The formulation of recommendations to the American governments for the purpose of securing unanimous agreement on the adoption of measures to secure observance on the part of the belligerents of the provisions of the Declaration of Panama. (In this connection it would be our thought that the most urgent question to be taken up would be the determination of the measures which would make it impossible for belligerent warships, or for belligerent merchant ships, acting as auxiliaries, which violate the terms of the Declaration of Panama, to obtain fuel or supplies or other facilities in the ports of any American republic.)

4th. To act as a court which would receive evidence and reach findings as to facts in cases where alleged violation by the belligerents of the provisions of the Declaration of Panama has taken place.

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<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 45-47. See also Pan American Union, Law and Treaty Series No. 15, *Decrees and Regulations on Neutrality* (Washington, 1940?); *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Havana, Cuba, July, 1940: Special Handbook prepared by the Pan American Union* (Washington, 1940); *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940: Report of the Secretary of State* (Washington, Government Printing Office, 1941).

<sup>2</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>3</sup> The reference is presumably to the *Graf von Spee* affair; see *Foreign Relations*, 1939, vol. v, pp. 85 ff.

<sup>4</sup> For text of the Declaration of Panama, see *ibid.*, p. 36.

Professor Fenwick<sup>5</sup> is planning to leave Washington for Rio de Janeiro on January 5 and I shall greatly appreciate receiving Aranha's views before that date.<sup>6</sup> [Welles.]

HULL

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740.00111A.R./875 : Telegram

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

WASHINGTON, January 2, 1940—6 p. m.

1. From the Under Secretary. Your 1, January 1, 11 a. m.<sup>7</sup> Please express my gratitude to Aranha for the information conveyed. With regard to paragraph 4 of the Department's telegram No. 251, December 30, 3 p. m., you may say to Aranha that the use of the word "court" was perhaps unfortunate. It seems to me, however, that if cases of alleged violation of the zone arise there will undoubtedly be great difficulty as to the determination of the exact facts in such cases, and it had seemed to me that the Committee might perform a very useful function if it were enabled to act as a body to determine evidence in such cases.

With regard to paragraph 3 in the Department's telegram under reference, I would value Aranha's opinion as to whether the questions which it was proposed the Committee would consider, and concerning which the Committee would then make recommendations to all of the American republics, should in his judgment be held in abeyance for some time to come, as would seem to be the case from your telegram under acknowledgment. It had been our thought that these questions should be discussed and determined without delay. Does Aranha believe that these questions should be made a matter of consultation between all of the American republics through diplomatic channels before the Committee convenes? I would appreciate having information as to his views on this point. [Welles.]

HULL

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740.00111A.R./894 : Telegram

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

RIO DE JANEIRO, January 4, 1940—noon.

[Received 1:30 p. m.]

7. For Under Secretary. My January 3, 8 p. m.<sup>7</sup> Aranha and Nabuco<sup>8</sup> referring again to paragraph 3 of the Department's 251,

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<sup>5</sup> Charles G. Fenwick, U. S. representative on the Inter-American Neutrality Committee.

<sup>6</sup> In telegram No. 1, January 1, 1940, 11 a. m., Ambassador Caffery reported that Foreign Minister Aranha agreed to paragraphs 1 and 2; reserved opinion on paragraph 3; and was opposed to paragraph 4.

<sup>7</sup> Not printed.

<sup>8</sup> Mauricio Nabuco, Secretary General, Brazilian Foreign Ministry.

December 30, 3 p. m., say that in their opinion different treatment should be envisaged for British and German vessels violating the neutrality zone: As they see it British war vessels are off this coast primarily for the purpose of convoying merchant ships and it is in the interest of Brazil to have merchant ships convoyed when they carry Brazilian goods; German war vessels are here for raiding purposes: In other words they would not like to enforce the sanctions set out as a possibility in paragraph 3 against British war vessels.

They add that in effect article XXI of Brazil's neutrality laws covers their position.

CAFFERY

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740.00111A.R./892: Telegram

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

WASHINGTON, January 4, 1940—5 p. m.

4. From the Under Secretary. Your 6, January 3, 8 p. m.<sup>9</sup> Please tell Aranha that we all deeply appreciate the information he has communicated through you regarding his views concerning the work to be undertaken by the Permanent Neutrality Committee. I do not see the evidence of any disagreement whatever between the views which he has expressed and the views held here. On the contrary, there would seem to be entire agreement between the viewpoint of the Brazilian Government as he has expressed it and the opinions held by this Government.

The only thing that I am not clear about is the opinion held by Aranha with regard to paragraph 3 of the Department's telegram No. 251. In that connection, I have not seen the British note referred to in your telegram under acknowledgment. Please telegraph a summary thereof. Am I to understand that Aranha considers it advisable that no agreement should be sought on the part of the American Republics with regard to the problems outlined in paragraph 3 of the Department's telegram No. 251 until after the Permanent Neutrality Committee has undertaken "studies in an effort to harmonize all the neutrality laws" of the American Republics as indicated in your telegram, and until he has had an opportunity of determining the temper and the disposition of the members of the Neutrality Committee? [Welles.]

HULL

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<sup>9</sup> Not printed.

740.00111A.R./898 : Telegram

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

RIO DE JANEIRO, January 5, 1940—4 p. m.

[Received 5 : 58 p. m.]

10. For Under Secretary. You correctly interpret Aranha's opinion in regard to paragraph 3 in the last sentence of your telegram No. 4, January 4, 5 p. m.

On Tuesday night the British Ambassador<sup>10</sup> informed me that his Government had agreed "to the neutral zone proposal on certain conditions" and would hand a copy of the reply next day, Wednesday, to the Brazilian Minister for Foreign Affairs. Aranha showed me the note the same day. The note which is cautiously and shrewdly written sets out that the British Government notwithstanding the fact that it involves the temporary surrender of various well known and acknowledged legitimate belligerent rights views with sympathy the stand of the American Governments in regard to a neutral zone and is prepared under certain conditions to surrender for the duration of hostilities only certain legitimate belligerent rights and consequently to respect the zone during this war. Their conditions in brief are: (1) German acceptance and actual compliance; (2) adequate measures to be taken by the American Republics to secure enforcement; (3) German ships now in ports of American Republics not be allowed to leave those ports. Then follows a courteous but vigorous protest in advance against any attempt to deny port facilities to British war vessels (as envisaged in published proposals).

Aranha promised me a full copy of the text for tomorrow.

CAFFERY

740.00111A.R./906 : Telegram

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

SANTIAGO, January 8, 1940—4 p. m.

[Received 6 p. m.]

6. Your recent telegram No. 5, January 5, 11 a. m.,<sup>11</sup> delivered in substance to Ortega<sup>12</sup> Saturday morning. He agrees to the use of Brazil for circulating views and was clearly pleased with your reference to his cooperative attitude. He was in council all this morning and I suspect on the formulation of suggestions. He has just telephoned he will see me Tuesday morning at 11 : 00.

BOWERS

<sup>10</sup> Sir Geoffrey George Knox.

<sup>11</sup> Vol. I, p. 682.

<sup>12</sup> Abraham Ortega, Chilean Minister for Foreign Affairs.



740.00111A.R./925

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

No. 179

CARACAS, January 8, 1940.

[Received January 12.]

SIR: I have the honor to refer to my despatch No. 167 of January 2<sup>13</sup> reporting the appointment of Dr. Gustavo Herrera as the Venezuelan representative at the Inter American Neutrality Committee meeting to be held in Rio de Janeiro in a few days. In this connection during a conversation this morning the Minister for Foreign Affairs<sup>14</sup> was kind enough to outline the preliminary instructions which have been given to Dr. Herrera for his guidance in the early discussions of the Committee.

The Minister stated that originally he had not favored the establishment of the 300-mile Security Zone until its implications had been more fully studied but that once the decision had been taken by the American Republics he felt that everything possible should be done to defend it. With respect to specific matters which should be discussed, Dr. Gil Borges mentioned especially that Dr. Herrera would raise the question of floating mines.<sup>15</sup> He drew a sharp distinction between controlled mine fields which were sown for defensive purposes and which he considered perfectly legal, and mines which were sown at large and not controllable and would thus constitute an illegal offensive weapon of warfare and a menace to neutral shipping.

With regard to the juridical basis for the establishment of the Security Zone the Minister made a most interesting point. The neutral nations have sacrificed or voluntarily suspended many of their rights including the right of free navigation. Thus the tacit acceptance of zones of belligerency by the neutrals more than justified their setting up zones from which belligerent activities are excluded. The Minister was emphatic in stating that "if the belligerents could depart from international law and set up a zone of peril barring peaceful shipping from such areas then peace-loving nations certainly had the right to set up a zone free from the perils of war".

Finally he referred to the fact that the possession of colonies within the Security Zone on the part of belligerent nations had been alleged to be an obstacle to making effective such a zone. He said that he did not feel that this offered a real difficulty since the principle could be clearly established between activities purely defensive in nature, such as the sending of merchant or war vessels to the colonies of belligerent

<sup>13</sup> Not printed.

<sup>14</sup> Estebán Gil Borges.

<sup>15</sup> On this subject, see Memoranda Nos. 1-5 printed in Venezuela, Ministerio de Relaciones Exteriores, *Libro Amarillo de los Estados Unidos de Venezuela*, 1941, tomo I, pp. 105-111.

nations, and acts which were belligerent in character. It would be quite different, in other words, were England or France to send cruisers to protect their island possessions within the Caribbean or were they to send vessels of this character for warlike acts.

Respectfully yours,

FRANK P. CORRIGAN

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740.00111A.R./924 : Telegram

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

SANTIAGO, January 12, 1940—4 p. m.

[Received 5 : 56 p. m.]

15. Department's telegram No. 5, January 5, 11 a. m.<sup>16</sup> Ortega is worn out and has been ordered to take a 5 days rest at his farm. He therefore abandoned his hope of an extensive interview with me today and has imparted his views through the Under Secretary and the Chief of the Diplomatic Department as follows:

(1) The four broad fields of discussion mentioned in the Department's telegram<sup>17</sup> are accepted by Chile in principle but with the reservation that additional fields may be opened up or the language as submitted may be modified and amplified at Rio.

(2) With regard to the role of the Brazilian Government, Chile is willing that it should serve to a limited degree to coordinate exchange of information proposals but prefers that the Committee in general should communicate with and through the Pan American Union as provided by the Panama agreements.

(3) With regard to the subject matter of the agenda Chile notes might be: (a) The Committee is composed of juris-consults and its function is technical and nonpolitical. Its decisions should not be mandatory particularly in view of the fact that it has representatives of only 7 out of the 21 republics; (b) with regard to the rights and obligations of the American Republics as neutrals Chile believes that especial attention should be given to maritime neutrality; (c) with regard to the adoption of measures against belligerent vessels which violate the zone Chile feels that the Committee should give this point secondary place and should consider first the ways and means by which the belligerents might be induced through friendly diplomatic discussions to accept the zone. In this connection she would give primary importance to a discussion of measures by the American Republics to guarantee that a belligerent which accepts the zone shall not suffer injuries or losses in consequence; (d) if the Committee is empowered to study evidence and emit factual findings in cases of violations this function should not constitute it a tribunal and its statements should not have the nature of juridicial decisions. It should simply be an investigating body and its investigations should be undertaken only at the request of a republic whose zone may have been violated.

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<sup>16</sup> Vol. I, p. 682.

<sup>17</sup> These were the same as the four points included in telegram No. 251, December 30, 1939, to the Ambassador in Brazil, p. 257.

The attitude of the Chilean Government continues to be friendly and favorable toward the Panama system, but there are manifestly good reasons both economic and diplomatic why she should move with intelligent discretion.

BOWERS

740.00111A.R.—N.C./5

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

No. 2373

RIO DE JANEIRO, January 12, 1940.

[Received January 18.]

SIR: I have the honor to inform the Department that Dr. Charles G. Fenwick arrived in Rio de Janeiro at half past three yesterday afternoon by Panair to take part in the Inter-American Neutrality Conference. I am enclosing, as of possible interest to the Department, a copy of a memorandum which Dr. Fenwick has prepared in connection with his ideas as to a possible agenda for the Conference.

Respectfully yours,

For the Ambassador:  
WILLIAM C. BURDETT  
*Counselor of Embassy*

[Enclosure]

*Memorandum on Meeting of Inter-American Neutrality Commission*

A. Definition of terms of the General Declaration of Neutrality of the American Republics:

1. What constitutes a "base of belligerent operations": use of ports in violation of national legislation and inter-American regulations.
2. What activities of persons within their respective territories are "capable of affecting" the neutral status of the American Republics;
  - a. activities forbidden by international law;
  - b. activities specially proscribed by national legislation in excess of international law.
3. Specification of privileges of belligerent vessels in port:
  - a. generalization of twenty-four hour rule;
  - b. amount of fuel allowed warships;
  - c. prohibition against refueling within three months:
    - ? extension of rule for each state to American states as a unit;
  - d. exclusion of submarines;
  - e. merchant vessels to be regarded as "auxiliary transports" if making contact with belligerent warship.

Decl. V  
3, a

Decl. V  
3, b  
Resol. VIII

Decl. V

B. Measures to secure observance of the provisions of the Declaration of Panama :

- Decl. XIV
1. What constitutes a violation of the Declaration :
    - a. determination of belligerent taking the initiative in hostilities ;
    - b. application of the doctrine of "hot pursuit".
  2. Denial of port privileges :
    - a. penalties against individuals violating the denial.
  3. Internment :
    - a. provision for caring for vessel and crew ;
    - b. effect of resistance of belligerent vessel to internment.

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740.00111A.R./933a : Telegram

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

WASHINGTON, January 15, 1940—5 p. m.

12. For Professor Fenwick. The Foreign Minister of Venezuela has communicated to me through his Ambassador in Washington <sup>18</sup> a portion of the instructions given to Dr. Gustavo Herrera, representative of Venezuela on the Neutrality Committee. The text is as follows :

"In the Neutrality Committee which will meet at Rio de Janeiro penalties must be considered for the violations of the safety zone defined in (1) of Declaration XV of the Inter-American Consultative Meeting at Panama, October 3, 1939.

The study of the penalties will involve an examination of the right of the neutrals to establish them for acts consummated on the high seas and a definition of the hostile acts which constitute violations of the safety zone.

With respect to these two questions the opinion of this Department is the following :

1. The definition of an extent of the open sea as a safety zone is an act without precedent in international law. It indicates a practical tendency toward the neutralization to the benefit of trade and of humanity of certain areas where naval operations are not essential for the accomplishment of the war aims of the belligerents.

The neutralization of such maritime areas has been imposed on the neutrals by practices likewise without precedent in maritime warfare

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<sup>18</sup> In note of January 12, 1940, from the Venezuelan Ambassador, Diógenes Escalante, to the Under Secretary of State. The instructions, in Spanish, are dated January 9.

which have refused to recognize and have violated the rights of the neutrals.

An unprecedented practice is the declaration of war zones which embrace large areas of the high seas. This practice of prohibiting to neutral vessels the navigation of certain strategic areas arbitrarily determined by the belligerents has since the Russo-Japanese War attained an indefinite extension.

An unusual and unprecedented practice is the use, without any limitation or control, of submarine mines which circulate freely at the will of currents and imperil the life and property of neutrals over large maritime areas.

It is an unprecedented practice to subject neutral vessels sailing in indeterminate regions fixed by the belligerents to immediate destruction without compliance with any of the duties imposed by the international rules of naval warfare, of verifying the hostile character of the vessel and of saving the lives of passengers and crew.

Unusual and unprecedented is the extension of the lists of contraband and the interpretation of the doctrine of the continuous voyage.

These practices modify exclusively to the advantage of the military and economic aims pursued by the belligerents the best defined principles and universal rules of international law. In view of these conditions of maritime warfare, it is reasonable that the neutrals should reserve in the part of the seas contiguous to the American continent a zone in which the duties of humanity and the international rules of maritime warfare may be observed and peaceful navigation be carried on without dangers to life and property.

2. The acts from which belligerents must refrain in the safety zone are described in the Preamble as '*actividades bélicas*' (warlike activities) (Par. 2), '*actos de hostilidad*' (acts of hostility) (Par. 5), '*acto hostil*' (hostile act) (Art. 1). This Department deems it fitting that the Neutrality Committee interpret, define and give a precise sense to these expressions. It is evident that the Declaration did not have the purpose of including among warlike activities those which are purely defensive. This interpretation limits the warlike activities which violate the security of the zone to acts of aggression.

The penalty for these violations might be formulated as follows:

"There shall not be admitted into the ports, roadsteads and internal waters of any American nation, aircraft or war or merchant vessels of any of the belligerents, guilty of an act of aggression or having given assistance to the aggressor within the zone defined in (1) of Declaration XV of the Inter-American Consultative Meeting, at Panama, October 3, 1939."

I have expressed my general belief that the question of the penalties to be imposed as indicated in the last paragraph of this document is a question which should be considered in full and very careful detail by the Committee before any final decision is taken by the Governments of the American Republics.

HULL

740.00111A.R./934 : Telegram

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

RIO DE JANEIRO, January 16, 1940—2 p. m.  
[Received 2:35 p. m.]

21. The Uruguayan Ambassador here<sup>19</sup> has requested me to invite the Department's attention to the following questions which he presented yesterday on behalf of his Government to the Neutrality Commission.<sup>20</sup>

"1st. Belligerent submarines. The possibility of adopting a common American rule regarding the exclusion of said vessels from ports and territorial waters, considering the difficulties involved in observing their activities in fulfilling the duties of a neutral. Such a prohibition has already been decreed by several American countries but it would be suitable to have uniform norms.

2d. Auxiliary vessels of belligerent fleets. Cases analogous to that of the German steamer *Tacoma* recently declared an auxiliary war vessel by the Uruguayan Government<sup>21</sup> are contemplated. With regard to this it would be suitable to adopt rules relative to belligerent merchant vessels which, while in neutral ports or waters, in one way or another render services to war vessels or are in clandestine communications with them in violation of neutrality.

3d. Rules for the internment of officers and crews of warships and auxiliary vessels. Legal status of persons interned. In particular whether belligerent Governments may employ refugees or interned persons in their service when this service is not for war purposes. The question might also be studied whether a belligerent government itself may change the legal status of a person interned in a neutral country."

CAFFERY

740.00111A.R./937 : Telegram

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

RIO DE JANEIRO, January 17, 1940—2 p. m.  
[Received 3 p. m.]

25. The meeting yesterday afternoon of the Neutrality Committee was an organizational one.<sup>22</sup> The question was immediately raised as to whether the Committee is to sit in permanent session for the duration of the war or whether it is to work rapidly for a few weeks and

<sup>19</sup> Juan Carlos Blanco.

<sup>20</sup> See *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15 (Washington, Pan American Union, 1940?), p. 33.

<sup>21</sup> See note of January 3, 1940, from the Uruguayan Minister for Foreign Affairs, vol. I, p. 682.

<sup>22</sup> The members of the Neutrality Committee at that time were: Argentina, Luis Podestá Costa; Brazil, Afranio de Mello Franco; Chile, Mariano Fontecilla; Costa Rica, Alejandro Aguilar Machado; Mexico, Roberto Córdova; United States, Charles G. Fenwick; Venezuela, Gustavo Herrera.

See *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15.

then adjourn for a month or two and meet again and sit for a longer period. Our representative and the representatives of Mexico and Costa Rica are in favor of the second alternative.

Aranha tells me that the only matter that the Brazilian Government will suggest at this juncture for the consideration of the Committee is the matter of belligerent interference with neutral mails.

CAFFERY

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740.00111A.R./938 : Telegram

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

RIO DE JANEIRO, January 17, 1940—4 p. m.

[Received 5:24 p. m.]

26. For the Under Secretary from Fenwick. Neutrality Committee now organized plans prompt decisions on concrete problems as per memorandum already in your hands also special questions submitted by Uruguay and other governments. Attempt will also be made to codify law of neutrality but this less urgent. Believe it possible to make recommendations on immediate problems within 3 weeks. Will forward preliminary recommendations on specific points within a few days. [Fenwick.]

CAFFERY

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740.00111 A.R.--N.C./7 : Telegram

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

RIO DE JANEIRO, January 18, 1940—2 p. m.

[Received 2:05 p. m.]

28. My 25, January 17, 2 p. m. In a neutrality subcommittee meeting last evening the Argentine delegate submitted as a basis for the Committee's deliberations a lengthy project for a comprehensive neutrality code, covering land and aerial as well as maritime problems. It appealed to a number of the members to proceed on this basis. However, Fenwick, who must leave here by February 6 at the latest, is endeavoring to persuade the Committee to take up first the immediate problems involved in the Declaration of Panama, finish them this month if possible and then perhaps proceed with a comprehensive codification if the Committee continues indefinitely.

He says that he could not return to Rio de Janeiro later to remain indefinitely unless he could make some arrangement other than the present one in which he must pay the salary of a substitute at his college while giving his time gratuitously to the neutrality conference. Three other members also wish to leave Rio next month and two of those who do not wish to return.

CAFFERY

740.00111A.R.—N.C./8 : Telegram

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

RIO DE JANEIRO, January 20, 1940—11 a. m.

[Received 1:16 p. m.]

33. For the Under Secretary from Fenwick. Certain members of the Committee doubt whether the Committee has jurisdiction to consider ways and means of securing observance of the Declaration of Panama arguing that it was established solely to consider traditional neutrality laws referred to in general declaration of neutrality. I am insisting that all declarations and resolutions of Panama meeting be considered as a whole otherwise recommendations of Committee will lack reality; hence, although it must avoid political aspects of Declaration of Panama City, it should, in formulating its recommendations in respect to neutrality, take into account conditions which are obstacles to observance of declaration. Organization of work necessarily proceeds slowly due to unfamiliarity of some members with technical problems. Questions of jurisdiction to be decided Monday after which progress should be more rapid. [Fenwick.]

CAFFERY

740.00111A.R.—N.C./10 : Telegram

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

RIO DE JANEIRO, January 23, 1940—noon.

[Received 1 p. m.]

36. For Under Secretary from Fenwick. Opposition of certain members to assuming jurisdiction over question security zone has resulted in decision to make formal inquiry through Pan American Union whether governments desire Committee to assume jurisdiction. Meantime question on submarines submitted by the Government of Uruguay decided in favor of general rule excluding them. Question of auxiliary transports now being considered. [Fenwick.]

CAFFERY

740.00111A.R.—N.C./13 : Telegram

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

RIO DE JANEIRO, January 25, 1940—4 p. m.

[Received 4:25 p. m.]

40. For the Under Secretary from Fenwick. Work of Committee appears sufficiently important to justify special appropriation in Department's budget. Committee expected to be in permanent ses-



sion except for brief recesses. Answer to request Government Uruguay to be completed next week after which subcommittees will study less urgent problems pending reply from governments regarding jurisdiction security zone. Am leaving here February 6 to meet necessary academic engagements after which I can continue work here if Department so desires. [Fenwick.]

CAFFERY

740.00111A.R.-N.C./13a : Telegram

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

WASHINGTON, January 25, 1940—7 p. m.

19. The resolution of the Neutrality Committee containing an inquiry as to its competence to deal with problems arising from the Declaration of Panama has been received by the Pan American Union and will be submitted by that organization to the Governments of the American republics through their representatives in Washington. It is the Department's view that it would be highly desirable to obtain an affirmative answer on this point as soon as possible. The Department is thinking of instructing our chiefs of mission in the other American republics to make known our views informally to the governments to which they are accredited.

You are authorized in your discretion to discuss the foregoing procedure with Aranha in order to ascertain his views as well as the possibility that the Brazilian Government may wish to take similar steps.

HULL

740.00111A.R.-N.C./14 : Telegram

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

RIO DE JANEIRO, January 26, 1940—5 p. m.

[Received January 26—4:30 p. m.]

41. Department's 19, January 25, 7 p. m. Aranha is in Uruguay. I discussed the matter with Nabuco and he says that he agrees with the Department's point of view and will instruct the Brazilian chiefs of mission along the lines indicated by the Department.

CAFFERY

740.00111A.R.-N.C./16

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

WASHINGTON, January 26, 1940.

MY DEAR MR. SECRETARY: I have the honor to send to you the enclosed copy of an English translation of the cable communication

of January 23, 1940,<sup>23</sup> received from Dr. Afranio de Mello Franco, Chairman of the Inter-American Committee on Neutrality, which was established by the General Declaration of the Neutrality of the American Republics approved at the recent Meeting of the Ministers of Foreign Affairs of the American Republics at Panama. In the cablegram received from Dr. Mello Franco he requests the Pan American Union to consult the member governments, relative to the functions which appertain to the said Committee with respect to the problems that arise under the Declaration of Panama, approved at the above-mentioned Meeting.

In accordance with the request contained in the said cable communication from Dr. Afranio de Mello Franco, permit me to inquire if the Government of the United States is in accord that the Inter-American Committee on Neutrality should consider "the problems that come up by virtue of the Declaration of Panama relative to the Safety Zone, concerning the possibility that this Committee might formulate recommendations, both as to the conditions that seem to give rise to the difficulties of assuring the observance of the Declaration of Panama, and as to the possible means and methods of obtaining more easily and effectively the observance of the same Declaration on the part of the belligerents." The above quotation is taken textually from the cablegram of Dr. Mello Franco.

In view of the desire expressed by the Inter-American Committee on Neutrality to be informed without delay of the collective reply of the American Republics to its inquiry, I shall appreciate it if you will be good enough to inform the Pan American Union at the earliest possible moment of the point of view of the Government of the United States with respect to the question raised by the Committee.

I beg to remain [etc.]

L. S. ROWE

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740.00111A.R.-N.C./27

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

No. 2459

RIO DE JANEIRO, January 26, 1940.

[Received February 1.]

SIR: Referring to previous reports concerning the Neutrality Committee which is in session here, I have the honor to report that the Acting Minister of Foreign Affairs told me this morning that the Ecuadoran Minister<sup>24</sup> had suggested to him that the Committee take up the matter of the American protest in regard to the Russian invasion of

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<sup>23</sup> Printed in *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 53.

<sup>24</sup> Homero Viteri Lafrontera.

Finland.<sup>25</sup> Nabuco told the Minister that, in his opinion, that was not a matter for the Committee to handle as it was obviously a political and in no sense a technical question.

Respectfully yours,

JEFFERSON CAFFERY

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740.00111A.R.-N.C./17 : Telegram

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

RIO DE JANEIRO, January 27, 1940—10 a. m.

[Received 10:35 a. m.]

42. For the Under Secretary from Fenwick. Neutrality Committee seeking to maintain its permanent character in spite of temporary absence of two members, myself and Aguilar of Costa Rica. Hence brief recess after February 3. Subcommittees will continue work until answer comes on the question of jurisdiction when full Committee expected to meet. No necessity of making provisional appointment at present. Will report on arrival February 11. [Fenwick.]

CAFFERY

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740.00111A.R.-N.C./18a : Circular telegram

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

WASHINGTON, January 27, 1940—3 p. m.

A resolution recently adopted by the Neutrality Committee now in session at Rio contains an inquiry as to the competence of that Committee to deal with the problems arising from the Declaration of Panama and is being submitted by the Pan American Union to the Governments of the American Republics through their representatives at Washington.

The Department feels very strongly that it would be highly desirable to remove at once any doubt as to the competence of the Neutrality Committee to deal with such an important matter since it appears to be ideally equipped rapidly to study and coordinate the proposals made by the other American Republics with a view to making definitive recommendations on the subject. You are requested in your discretion to make known these views informally to the appropriate officials of the government to which you are accredited. The Department understands that the Brazilian Government is also issuing instructions to this general effect to its representatives in the other American republics.

HULL

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<sup>25</sup> See *Foreign Relations*, 1939, vol. v, pp. 128 ff.

740.00111A.R.—N.C./20 : Telegram

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

CARACAS, January 29, 1940—6 p. m.

[Received 6:17 p. m.]

10. Department's circular January 27, 3 p. m. The Foreign Minister informs me that the position of the Venezuelan Government is identical with our own and instructions to that effect have been sent Venezuela's delegate.

CORRIGAN

740.00111A.R.—N.C./35

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

No. 941

TEGUCIGALPA, January 29, 1940.

[Received February 5.]

SIR: With reference to the Department's circular telegram of January 27, 3 p. m. (1940), which was received at this Legation via San Salvador, El Salvador, on Sunday morning, January 28, at 11 a. m., regarding the resolution recently adopted by the Neutrality Committee now in session at Rio, I have the honor to report that I sought and was accorded an audience with the Honduran Foreign Minister <sup>28</sup> this morning at 11 o'clock.

After informal explanation was made of the question raised in the resolution recently adopted by the Neutrality Committee as to the competence of that committee to deal with problems arising from the Declaration of Panama, Minister Aguirre stated, without qualification, that when the matter is brought officially to his attention through his Legation at Washington, he will inform Minister Cáceres that the attitude of the Honduran Government is that the Neutrality Committee is fully competent to deal with the matters under inquiry. The Foreign Minister agreed that the Neutrality Committee is ideally equipped to make a thorough study of the proposals submitted by the other American Republics with a view to making definitive recommendations. He stated that he would confer with President Carías in anticipation of such an inquiry through other channels.

The Foreign Minister reiterated the desire of himself and his Government to act in full accord with the course suggested in this instance and that followed by the United States Government in all the questions arising out of the sessions of the Neutrality Committee. I expressed the appreciation of my Government for this attitude and emphasized that the thought motivating the Department in the sug-

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<sup>28</sup> Salvador Aguirre.

gestion is to increase unity of action so essential to give full strength to any accord reached by the Latin-American powers in dealing with problems arising from the Declaration of Panama.

Respectfully yours,

JOHN D. ERWIN

740.00111A.R.—N.C./36

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

No. 1087

SAN JOSÉ, January 30, 1940.

[Received February 5.]

SIR: I have the honor to refer to the Department's circular telegram of January 27, 3 p. m., advising that a resolution adopted by the Neutrality Committee now in session at Rio de Janeiro contains an inquiry as to the competence of that Committee to deal with the problems arising from the Declaration of Panamá, and that this inquiry is being submitted by the Pan American Union to the Governments of the American Republics through their representatives at Washington.

The Department further advises that it feels very strongly that it would be highly desirable to remove at once any doubt as to the competence of the Neutrality Committee to deal with such an important matter, since it appears to be ideally equipped to study and coordinate rapidly the proposals made by the other American Republics with a view to making definitive recommendations on the subject, and directs that, at my discretion, these views be informally made known to the appropriate officials of the Government of Costa Rica.

There is attached a copy of an informal communication delivered to the Secretary of Foreign Relations under date of January 27, 1940.<sup>27</sup> During the course of an interview granted me by the Secretary of Foreign Relations<sup>28</sup> on January 27, prior to the receipt of the telegram under reference, for the purpose of discussing another matter, the Secretary informed me that he had received an inquiry direct from the Costa Rican member of the Neutrality Committee with regard to the question of the competence of the Committee to deal with problems arising out of the Declaration of Panamá; that in reply he had informed the Costa Rican representative that the Pan American Union, which is in direct contact with the Department of State, is the medium through which such a point should be resolved; and that, since the Government of the United States is supporting the other American Republics, Costa Rica will in turn be guided by any resolution taken by the Pan American Union.

The foregoing statement appears to be lacking in clarity in some respects, but it is my understanding that the Secretary of Foreign

<sup>27</sup> Not printed.

<sup>28</sup> Tobías Zúñiga Montufar.

Relations intended to convey the impression that Costa Rica would undertake to support any position taken by the Government of the United States with regard to this matter, and I am of the opinion that Costa Rica's representative in Washington will be so instructed in connection with the resolution submitted by the Pan American Union.

Respectfully yours,

WM. H. HORNIBROOK

740.00111A.R.-N.C./37

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

No. 288

PANAMÁ, January 30, 1940.

[Received February 6.]

SIR: I have the honor to refer to the Department's circular telegram of January 28 [27], 1940, regarding the inquiry of the Neutrality Committee as to its competence to deal with problems arising from the Declaration of Panamá.

The Department's views as set forth in the telegram were communicated informally to the Panamanian Minister of Foreign Relations this afternoon. Dr. Garay said that he had not thus far received the text of the Committee's resolution embodying the inquiry in question but that it would no doubt be received in due course through the Panamanian representative in Washington. He expressed himself informally as being in agreement with the Department's view that the Committee is well equipped to study and coordinate proposals and to make recommendations. He said, however, that he assumes that the Committee would only make recommendations and would not be empowered to make decisions binding the several Governments.

Respectfully yours,

WILLIAM DAWSON

740.00111A.R.-N.C./21: Telegram

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

QUITO, January 30, 1940—3 p. m.

[Received 7:45 p. m.]

6. Department's circular telegram of January 27, 3 p. m. Ecuador regards the Neutrality Committee now in session at Rio as competent to recommend measures arising from problems connected with the Declaration of Panama, being submitted by the Pan American Union to the governments of the American Republics through their representatives at Washington and has so advised its representative at Rio.

LONG

740.00111A.R.—N.C./22 : Telegram

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

MONTEVIDEO, January 30, 1940—5 p. m.

[Received January 30—4:35 p. m.]

11. Department's circular telegram January 27, 3 p. m. I mentioned this matter to Guani<sup>29</sup> today. I have the impression that he is somewhat piqued because Uruguay was not invited to have a representative on the Neutrality Committee. However, I believe that he shares our views regarding the competence of the Committee.

WILSON

740.00111A.R.—N.C./23 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, January 31, 1940—9 a. m.

[Received 10:30 a. m.]

4. Department's telegram of January 27, 3 p. m. Minister for Foreign Affairs<sup>30</sup> states that he wholeheartedly supports position of the Department.

JENKINS

740.00111A.R.—N.C./24 : Telegram

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

MANAGUA, January 31, 1940—1 p. m.

[Received 3:02 p. m.]

9. Department's circular telegram January 27, 3 p. m. The Acting Foreign Minister<sup>31</sup> states that thus far no question in this regard has been received but that in the event his Minister at Washington asks, Nicaragua's attitude will agree with that of Brazil and the United States.

NICHOLSON

740.00111A.R.—N.C./26 : Telegram

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

MEXICO, January 31, 1940—1 p. m.

[Received 4:45 p. m.]

32. Referring to Department's telegram of January 27, 3 p. m., circular. Under Secretary Beteta says he feels sure Mexico is in agreement. I will see Minister Hay tomorrow and report official approval.

DANIELS

<sup>29</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>30</sup> Alberto Ostria Gutiérrez.

<sup>31</sup> Antonio Barquero.

740.00111A.R.-N.C./25 : Telegram

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

SANTIAGO, January 31, 1940—1 p. m.

[Received 5:16 p. m.]

33. Department's circular of January 27, 3 p. m. Regarding position of the Neutrality Committee now in session at Rio the Foreign Office has furnished an expression of its views in an informal memorandum textually in translation as follows:

"The predominant idea is that the Committee on Neutrality should have sufficient influence not only vis-à-vis the neutral countries but very especially vis-à-vis the belligerents so that its resolutions or recommendations may be duly considered. So long as there be no opposition the resolutions of the committee should be applied provisionally until their ratification."

Orally it was mentioned several times that the decisions should not have other than an *ad referendum* character but that subject to this limitation the Committee should have the utmost possible authority consistent with not provoking restiveness or protest from American countries not having members on it. The foregoing represents the views of Ortega and Mújica<sup>32</sup> who is virtually the Acting Under Secretary during De la Maza's invalidism and who was entrusted with handling the matter.

BOWERS

740.00111A.R.-N.C./38

*The Minister in Bolivia (Jenkins) to the Secretary of State*

No. 108

LA PAZ, January 31, 1940.

[Received February 6.]

SIR: I have the honor to confirm my telegram of January 31, 9 a. m., in reply to the Department's circular of January 27, 3 p. m., regarding the position of the Department relative to the resolution of the Neutrality Committee sitting in Rio de Janeiro questioning its competence to deal with the problems arising out of the Declaration of Panama.

The telegram arrived on January 29, a holiday in honor to [of] the Bolivian protomartyrs Murillo and Ságarnaga. It was not possible to see Dr. Alberto Ostria Gutiérrez, the Minister for Foreign Affairs, until 5:30 the next day. When the substance of the Department's telegram under reference was explained to him he stated with all emphasis that he wholeheartedly supported the position of the

<sup>32</sup> Héctor Mújica Pumarino, Director, Diplomatic Department, Chilean Ministry for Foreign Affairs.



Department and that of the Brazilian Government, and reiterated that he thought that the Neutrality Committee was in all respects qualified and competent to deal with any questions arising out of the Declaration of Panama. He went on to point out that he had a particular interest in the matter inasmuch as he felt that his labors in bringing the Declaration into being entitled him to consider himself one of its fathers. He further stated that he had already heard of the deplorable questioning by the Committee of its own competence and that he had made known his views as just expressed to the Bolivian Minister at Washington.

Respectfully yours,

DOUGLAS JENKINS

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740.00111A.R.-N.C./41

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

No. 873

SAN SALVADOR, January 31, 1940.

[Received February 8.]

SIR: I have the honor to inform the Department that on January 29th I discussed informally with Dr. Avila, the executive head of the Salvadoran Ministry of Foreign Relations, the contents of the Department's circular telegram of January 27, 1940 (3 p. m.).

Dr. Avila stated that he had at that time heard nothing on the subject from Dr. Castro, the Salvadoran Minister in Washington, but that his views upon it coincided exactly with those of Secretary Hull, as stated in the telegram under reference, and that he was confident they would be shared by his Government as a whole.

Respectfully yours,

ROBERT FRAZER

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740.00111A.R.-N.C./43

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

[WASHINGTON,] January 31, 1940.

The British Ambassador<sup>33</sup> called to see me this morning at his request. The Ambassador inquired whether I cared to give him any information as to the course of the deliberations undertaken by the Permanent Neutrality Committee in Rio de Janeiro.

I replied to the Ambassador that the Committee was engaged upon the consideration of various problems involving the joint interests of the American Republics and that in as much as the question of the competence of the Committee to formulate recommendations to the Governments of the American Republics with regard to the imple-

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<sup>33</sup> The Marquess of Lothian.

mentation of the Declaration of Panama had arisen, the Governments of the American Republics were all of them being requested to express their desires in this regard. I said to the Ambassador that from all indications so far received, the opinion of the United States that it was highly desirable that the Permanent Neutrality Committee formulate recommendations on this topic was shared by the Governments of the other American Republics.

The Ambassador asked if I would advise him if any decisions were reached in this regard, expressing again the opinion that it would be helpful not to have made public any determinations as to policy in this regard before the British Government had been afforded an opportunity of considering the questions involved.

I told the Ambassador that were the Committee to formulate recommendations on this subject, and were the American Republics to take action upon such recommendations, their decisions would undoubtedly be made public, but that I would be glad to advise the Ambassador from time to time of any questions which might be determined by the Neutrality Committee in which I believed he might be legitimately interested.

S[UMNER] W[ELLES]

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740.00111A.R.—N.C./30 : Telegram

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

RIO DE JANEIRO, February 1, 1940—4 p. m.

[Received 4 : 26 p. m.]

46. My 44, January 29, 2 p. m.<sup>34</sup> Fenwick will leave Rio de Janeiro Saturday by air for his visit to the United States during the recess of the Neutrality Committee (subcommittees functioning meanwhile by order).<sup>35</sup>

The Committee is now completing draft recommendations covering submarines and auxiliary vessels. It is likely that one or both of these will be agreed upon before the recess begins on Saturday.

The only recommendations that have been made so far are those concerning internment which were communicated to the Department through the Pan American Union last week.

Fenwick finds that the work of the Committee has been hampered by the interference of some of the governments that have nominated members :

For example earlier agreement on a rule to exclude submarines was prevented by the insistence of the Argentine Navy that Podesta Costa

<sup>34</sup> Not printed.

<sup>35</sup> See *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 85.

oppose exclusion. Also countries not having members on the Committee have been manifesting a desire to get advance information regarding its work and a feeling that they were not being represented by it. For these reasons the Committee have been endeavoring more and more to maintain their identity as a committee of experts representing all the members of the Pan American Union reporting only to the latter in strict compliance with the Panama Resolutions and avoiding any appearance of representing the nominating governments. This is why Fenwick has felt constrained to report less fully to the Department directly than he did at first.

CAFFERY

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740.00111A.R.-N.C./29 : Telegram

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

MEXICO, February 1, 1940—6 p. m.

[Received 8:55 p. m.]

34. Referring to Department's circular of January 27, 3 p. m., the Foreign Office informs me today that Mexico's attitude is in accordance with that of the Brazilian Government. It sent a message to the Mexican representative on the Neutrality Committee at Rio de Janeiro which said:

"In the terms of the General Declaration of Neutrality of the American Republics and according to the fifth resolute point, the Committee is competent to handle matters relating to the safety zone. It is indispensable the discussions of the matter be accepted only in specific aspects thereof. Officially Mexico interprets the Declaration of Panama in the sense that the safety zone begins where the Mexican territorial waters end for the purposes of patrols and other acts of vigilance."

DANIELS

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740.00111A.R.-N.C./31 : Telegram

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

BOGOTÁ, February 1, 1940—7 p. m.

[Received 10:35 p. m.]

20. Referring to the Department's circular dated January 27, 3 p. m., Minister of Foreign Relations assures me Colombian Government likewise believes Neutrality Committee [competent?] to study, coordinate and make recommendations.

BRADEN

740.00111A.R.-N.C./42

*The Chargé in Argentina (Tuck) to the Secretary of State*

No. 454

BUENOS AIRES, February 2, 1940.

[Received February 9.]

SIR: I have the honor to acknowledge the receipt of the Department's circular telegram of January 27, 3 p. m. referring to the resolution recently adopted by the Neutrality Committee, now in session at Rio de Janeiro, which contains an inquiry as to the competence of that Committee to deal with problems arising from the Declaration of Panama. This resolution is being submitted by the Pan American Union to the Governments of the American Republics, and, in making clear the Department's views as to the competence of the Committee, the Embassy is requested in its discretion to convey these views informally to the Argentine Government.

At an Embassy luncheon given in honor of His Eminence Cardinal Dougherty on January 31, Ambassador Armour took occasion to bring this matter informally to the attention of the Argentine Minister for Foreign Affairs. Dr. Cantilo was of the opinion that the Neutrality Committee, according to the Declaration of Panama, was only competent to hand down advisory recommendations and not executive resolutions. He also referred to the limited composition of the Neutrality Committee, which, in his opinion, could not represent the views of all the South American republics.

In a conversation which I had on February 1 with the Brazilian Ambassador, Dr. Rodrigues Alves, he informed me that, at the request of his Government, he had taken this matter up with the Minister of Foreign Affairs on the previous day, and that Dr. Cantilo had on that occasion expressed much the same views as those which he offered to Ambassador Armour. He has told Dr. Rodrigues Alves that the very fact that the Inter-American Neutrality Committee was composed of experts in international law (*jurisconsultes*) limited perforce any recommendations it might deliver to an advisory or consultative character and precluded the possibility of executive resolutions. Nor could the limited composition of the Committee entitle it to speak for all the South American republics. Furthermore, according to Dr. Rodrigues Alves, the Argentine delegate to the Neutrality Committee, Dr. Podestá Costa, had been instructed to this effect. Dr. Cantilo had also informed Dr. Rodrigues Alves—somewhat to the latter's surprise—that on the occasion of Dr. Aranha's visit to Buenos Aires (Embassy's despatch no. 426 of January 23<sup>36</sup>), he had made known his views as to the competence of the Committee to the Brazilian Minister for Foreign Affairs and the latter had ex-

<sup>36</sup> Not printed.

pressed agreement with him. Dr. Rodrigues Alves could only explain this by saying that due to Dr. Aranha's absence from Rio, he could not have been familiar with his Government's views in the matter. Dr. Rodrigues Alves, however, had immediately reported Dr. Cantilo's opinions by telegraph to his Government.

In a conversation I have just had with Dr. Santos Muñoz, Secretary General of the Ministry of Foreign Affairs, he confirmed to me this Government's views as to the character of the recommendations which the Neutrality Committee could make.

With regard to the work of the Neutrality Committee, I am enclosing herewith an article, with translation, which appeared in *La Prensa* of February 1, 1940,<sup>37</sup> dealing with the internment of belligerents.

Respectfully yours,

S. PINKNEY TUCK

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740.00111A.R.—N.C./32 : Telegram

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

RIO DE JANEIRO, February 3, 1940—noon.

[Received February 3—11 : 50 a. m.]

47. My telegram No. 46, February 1, 4 p. m. In its final session last evening before recessing the Neutrality Committee agreed upon recommendations regarding submarines and auxiliary transports.<sup>38</sup> The texts are being sent to the Department through the Pan American Union.

Most of the Committee favored complete exclusion of submarines. But Argentina and Chile while not strongly opposed to excluding them from ports and harbors did oppose anything that might raise the question of territorial waters because of their respective claims to the entire mouth of the River Plate and the Straits of Magellan. For this reason the submarine recommendation had to be drafted to include an alternative rule for countries desiring to admit them.

During the recess subcommittees will study the problem of contraband and special questions concerning mines and radio and telegraph communications that have been presented by Venezuela and other governments.

Only Fenwick and the Costa Rican delegate are leaving today for visits home during the recess. It is expected that the full committee will meet again about the middle of March.

CAFFERY

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<sup>37</sup> Not printed.

<sup>38</sup> See *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 94.

740.00111A.R.-N.C./55

*The Inter-American Neutrality Committee Report Submitted by Mr. C. G. Fenwick, Covering January 15 to February 3, 1940*<sup>39</sup>

### I. *Organization of the Committee.*

The Committee met a few days before its formal opening on January 15 and proceeded to settle details of organization. Dr. Mello Franco of Brazil was elected President of the Committee. Methods of work were discussed and it was agreed that time would be saved if the problems before the Committee were assigned to subcommittees which could report to the full Committee the results of their studies. It was agreed that all publicity respecting the activities of the Committee should be given out by the President of the Committee. The Committee then discussed the extent to which it was desirable to communicate directly with such Governments as might ask information of the Committee; and it was agreed that information as to the work of the Committee should be given out by the Chairman since the 21 American Republics had been informed of decisions through the Pan American Union. Emphasis was placed upon the fact that in accordance with the General Declaration of Neutrality adopted at Panama the Committee should not communicate directly with the Governments but only through the Pan American Union. The work to be undertaken by the Committee was then discussed and I submitted to the Committee two memoranda: one containing an outline of the problems to be considered (a copy of which is already in your hands) and another a series of questions based substantially upon the first memorandum.

### II. *Jurisdiction of the Committee.*

Foremost among the problems discussed by the Committee at its first meeting, during which the organization of the Committee was worked out, was the question of the jurisdiction or competence of the Committee to discuss problems connected with the security zone created by the Declaration of Panama. Four members of the Committee were unwilling to have it take jurisdiction over the security zone and it was impossible to convince by argument. I stressed the fact that the jurisdiction of the Committee extended to "neutrality problems", and that the security zone was clearly a neutrality problem. Other members insisted that the Committee was created by the General Declaration of Neutrality, that there was no mention of it in the Declaration of Panama, and that the Declaration clearly reserved to the Governments the decision as to what measures should be taken to

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<sup>39</sup> See *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, pp. 23 ff.

secure its objectives. The result was that the Committee decided to make a formal inquiry of the 21 Governments, through the Pan American Union, of its jurisdiction to consider questions connected with the security zone. In view of the fact that it was probable that the answers might not all be in the affirmative, or if in the affirmative they might be restricted or qualified, the President of the Committee requested the Pan American Union to try to obtain from the Governments a "collective answer" so that the Committee would know whether it should proceed or not. No decision was taken by the Committee as to its course of action if a collective answer was not given.

### III. *Request from the Government of Uruguay for Opinion of Committee on Specific Points.*

With the question of jurisdiction temporarily disposed of the Committee next took up the request of the Government of Uruguay for an answer on three specific questions. The Committee decided, however, that in formulating its recommendations on the questions submitted no specific reference should be made to the inquiry from the Government of Uruguay but that the answers should be in the form of general recommendations.

#### *a. Internment.*

The third question submitted by the Government of Uruguay dealt with the internment of the officers and crew of the steamship *Tacoma*,<sup>40</sup> using that specific problem as the basis for a request on the general problem of internment. The Committee found no fundamental differences of principle on this point and it was more a question of working out the details of the problem. One question of interest concerned the release of officers on parole, in accordance with traditional international law. This the Committee opposed arguing that it was contrary to democratic principles and was a relic of older times. Another point of interest was the question whether the Government of the interned persons might employ them in its diplomatic and consular service. On this the Committee gave a negative recommendation, insisting that there be no connection between the interned persons and the belligerent Government.

#### *b. Submarines.*

In the inquiry from the Government of Uruguay it was urged that submarines be excluded from neutral ports because of the difficulty of watching their movements in order to prevent violations of neutrality. A majority of the Committee favored exclusion but two members after first giving the appearance of being willing to go with the majority and have a unanimous opinion refused to accept the principle of exclusion and argued at length that the Committee had no authority to offer recommendations upon the strict text of the General Declaration of Neutrality which created the Committee. In that General Declaration neutral states were given the option of either excluding submarines or of admitting them on certain conditions. I suggested the exclusion of submarines from ports and harbors, leaving the question

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<sup>40</sup> See note of January 3, 1940, from the Uruguayan Minister, vol. I, p. 682.

of exclusion from territorial waters untouched. This was in an effort to win over members from Chile and Argentina, both of whom opposed complete exclusion. The underlying difficulty seems to have been the objection on the part of the Chilean and Argentine delegates to raising the question of territorial waters, Chile having an eye on the Straits of Magellan which it claims are wholly within its territorial jurisdiction, subject of course to an international right of passage, and Argentina having its eye possibly on the Falkland Islands which it is not yet willing to admit are not within its territorial waters. The subject of limiting the exclusion to ports and harbors was not acceptable and the compromise finally agreed upon was to recommend the alternative of complete exclusion, subject to conditions of *force majeure*, or of admission, subject to consent being obtained in each particular case of admission to ports and harbors. The recommendations were preceded by a preamble in which note was made that a majority favored exclusion, and with that compromise the recommendation offered the two alternatives. How far the desire of Argentina not to deny to British submarines the privileges of Argentine ports played a part in its decision is impossible to say. Remarks made by the Argentine member to the effect that his admiralty officers were pointing out to him the difficulties involved in exclusion suggested a political motive of that kind, but they might also have referred to the problem of territorial waters.

*c. Auxiliary Transports.*

The request from the Government of Uruguay on auxiliary transports came in the form of a desire for a recommendation of ways and means to meet cases similar to that of the *Tacoma*. In its larger aspects the problem dealt with means of preventing contacts between merchant vessels, whether of belligerent or neutral flags, and warships in the same neutral port or on the high seas. The principle at issue created no difficulties, because the rule of international law was clear that any such contacts were in violation of the duties of neutrality. The specific problem, however, consisted in formulating regulations which, while adequate to prevent such contacts, would not be unnecessarily burdensome to ordinary commerce. The Committee considered at length a wide variety of restrictions that might be imposed upon merchant ships in port, but in most cases it was found that while the restrictions would be helpful in preventing the forbidden contacts, it would be unnecessarily burdensome to commerce or it would require a degree of administrative supervision which some of the smaller states might not be able to furnish. Hence the regulations recommended laid down a number of general principles but confined the restrictive provisions to suspicious cases, leaving it to each state to determine what might be grounds of suspicion in accordance with the general rules laid down.

*IV. Problems to be Considered Pending a Reply on Jurisdiction.*

During the recess of the Committee, taken in order to enable two of the members to leave for important business at home, subcommittees were created to deal with a number of problems which were in urgent need of decision. In accordance with the resolution adopted at Panama the subject of contraband of war is now being studied in connec-



tion with the shipment of foodstuffs to the civilian population of the belligerent countries. A number of questions on the subject of mines were submitted by the Government of Uruguay, and there were inquiries from other Governments on the subject of control of radio-telegraphic communications, as well as other lesser problems.

V. The Committee is now at recess awaiting call from the President which it is expected will come as soon as an answer is received on the subject of jurisdiction.

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740.00111A.R.-N.C./16

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

WASHINGTON, February 3, 1940.

MY DEAR DR. ROWE: The receipt is acknowledged of your communication of January 26, 1940, enclosing a copy of an English translation of a cable communication<sup>41</sup> received from Dr. Afranio de Mello Franco, Chairman of the Inter-American Committee on Neutrality, with reference to the duties of the Committee.

It is the view of this Department that the Committee may consider "the problems that come up by virtue of the Declaration of Panama relative to the Safety Zone" and that it might very well formulate "recommendations both as to the conditions that seem to give rise to the difficulties of assuring the observance of the Declaration of Panama, and as to the possible means and method of obtaining more easily and effectively the observance of the same Declaration on the part of the belligerents."

Sincerely yours,

For the Secretary of State:  
SUMNER WELLES

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740.00111A.R.-N.C./40 : Telegram

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

PORT AU PRINCE, February 7, 1940—1 p. m.

[Received 2:10 p. m.]

17. Department's circular January 27, 3 p. m. The Minister for Foreign Affairs<sup>42</sup> strongly supports the Department's point of view.

MAYER

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<sup>41</sup> Printed in *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 68.

<sup>42</sup> Léon Laleau.

740.00111A.R.—N.C./25

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

No. 108

WASHINGTON, February 9, 1940.

SIR: With reference to your telegram No. 33, January 31, 1 p. m., while the Department agrees with the view expressed by the Chilean Foreign Office that the Neutrality Committee now in session at Rio de Janeiro should have a maximum of influence, it should be remembered that the Committee is a purely advisory body whose recommendations and resolutions are to be submitted through the Pan American Union to the governments of the American republics. Should those governments desire to take collective action on any specific recommendation or resolution, it is to be assumed that they would employ the procedure of consultation in order to reach agreement.

It is furthermore the Department's view that the Neutrality Committee is not a body consisting of the representatives of seven governments, but that it is a group of prominent international lawyers provided for a specific purpose by the governments of the twenty-one American republics.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

740.00111A.R.—N.C./44 : Telegram

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

CIUDAD TRUJILLO, February 9, 1940—1 p. m.

[Received 2:10 p. m.]

19. Department's circular January 27, 3 p. m. Dominion [*Dominican*] Minister for Foreign Affairs<sup>43</sup> today said that he would issue instructions shortly to his representative in Rio which will be in accordance with the Department's views on the Neutrality Committee. The serious illness of the President during the past few weeks was, according to the Secretary, delaying approval of such matters.

HINKLE

740.00111A.R.—N.C./44 : Telegram

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

WASHINGTON, February 12, 1940—6 p. m.

17. Your 19, February 9, 1 p. m. The question of the competence of the Neutrality Committee to deal with matters arising out of the

<sup>43</sup> Arturo Despradel.

Declaration of Panama was submitted by the Pan American Union to the representatives of the American Republics in Washington and by them to their governments. The answers to this question should follow the same channel. In your discretion, please bring this matter informally to the attention of the Dominican Minister of Foreign Affairs since the Pan American Union has as yet received no reply from the Dominican Government.

HULL

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740.00111A.R.-N.C./46 : Telegram

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

TEGUCIGALPA, February 13, 1940—3 p. m.

[Received 6:58 p. m.]

3. The Honduran Minister for Foreign Affairs requests this Legation to ascertain attitude of my Government to the proposal of the Uruguayan delegate to the Inter-American Committee on Neutrality concerning the admission of submarines in ports and territorial waters of the American states. The Minister stated that before any decision was arrived at by his Government in the matter he would appreciate knowing how the United States viewed the proposal.

ERWIN

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740.00111A.R.-N.C./48 : Telegram

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

CIUDAD TRUJILLO, February 15, 1940—4 p. m.

[Received 4:55 p. m.]

22. Department's telegram No. 17, February 12, 6 p. m. The Dominican Foreign Minister said that formal instructions to Pastoriza <sup>44</sup> have not yet been sent presumably because of the General's absence on a high seas cruise, but reaffirmed in the most positive way Dominican adherence to extending the powers of the Neutrality Committee.

NORWEB

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740.00111A.R.-N.C./46 : Telegram

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

WASHINGTON, February 16, 1940—6 p. m.

4. Your no. 3, February 13, 3 p. m. By proclamation dated October 18, 1939,<sup>45</sup> it was declared unlawful for the submarines of a

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<sup>44</sup> Andrés Pastoriza, Dominican Minister in the United States.

<sup>45</sup> Department of State *Bulletin*, October 21, 1939, p. 396; 54 Stat. (pt. 2) 2668.

foreign belligerent state, including both commercial submarines and submarines which are ships of war, to enter ports or territorial waters of the United States, exclusive of the Canal Zone, except in case of *force majeure*. The proposal of the Uruguayan delegate to the Inter-American Neutrality Committee is therefore one which has already been adopted by the United States.

HULL

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740.00111A.R.-N.C./22: Telegram

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

WASHINGTON, February 21, 1940—7 p. m.

13. Your 11, January 30, 5 p. m. In view of the fact that 17 American republics have replied affirmatively as to the competence of the Neutrality Committee to deal with matters arising from the Declaration of Panama, you are requested, in your discretion, to ascertain from Guani his intentions in this matter. The Department's views are contained in its circular telegram of January 27, 3 p. m.

HULL

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740.00111A.R.-N.C./54: Telegram

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

MONTEVIDEO, February 23, 1940—7 p. m.

[Received February 23—5:46 p. m.]

24. Your 13, February 21. Guani tells me that he cabled an affirmative reply yesterday.

WILSON

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740.00111A.R.-N.C./67a

*The Chief of the Division of the American Republics (Duggan) to the Ambassador in Brazil (Caffery)*

WASHINGTON, February 28, 1940.

MY DEAR MR. AMBASSADOR: We have been giving thought to the question of publicity regarding the recommendations of the Inter-American Neutrality Committee which we hope will shortly resume its sessions at Rio.

It appears probable that the Committee will, in the very near future, receive an affirmative answer from the twenty-one American republics to its inquiry relative to its competence to deal with matters arising from the Declaration of Panama. It is our hope that as soon as this matter is cleared up, the Committee will give prompt consid-

eration to the ways which may be open to the American republics in order to attain the objectives of the Declaration and that the corresponding recommendations will be forwarded through the Pan American Union at an early date. It may be that the Committee will wish to point out the advantages and disadvantages of several different courses of action.

In as much as this is a matter in which the belligerents have shown considerable interest and which may quite possibly assume a controversial character as between the American republics themselves, it has seemed to us that it would be desirable to keep publicity to a minimum, until the American republics have, through the procedure of consultation, resolved upon a common position.

The present practice of the Committee is apparently to communicate its recommendations, or a summary thereof, to the press as soon as it has received the assurance from the Pan American Union that that organization has transmitted them to the representatives of the American republics in Washington. It appears to us desirable that this practice, as far as it relates to the recommendations of the Committee on questions such as those arising from the Declaration of Panama, be discontinued. We understand that the Governments of Venezuela and Argentina are thinking along the same line.

I realize of course that the absence of official releases will inevitably produce leaks of various kinds. However, I am of the opinion that the advantages of keeping the recommendations officially confidential are not outweighed by the disadvantage of unofficial indiscretions in regard thereto.

It would be most helpful if you could discuss this situation with Aranha. If he concurs with our views, perhaps he would be willing to pass them on to Mello Franco. Meanwhile we will also go into the matter with Professor Fenwick before he returns to Rio.

As a matter of interest, there is a tendency for some of the governments which do not have a national on the Committee to feel that they are "not represented" and that the Committee's recommendations are in reality the views of the seven governments which are "represented". The Dominican Minister in Rio whose name is Sanchez Lustrino recently proposed to his Government that each of the fourteen governments "not represented" should appoint a substitute who might participate in the deliberations of the Committee and vote when taking the place of one of the "regular" members. It is of course our view that the Committee is a technical body consisting of prominent international lawyers acting in an advisory capacity only on behalf of the twenty-one American republics.

Sincerely yours,

LAURENCE DUGGAN

740.00111A.R.—N.C./63a : Telegram

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

WASHINGTON, February 29, 1940—9 p. m.

30. The Inter-American Neutrality Committee some weeks ago addressed an inquiry through the Pan American Union to the governments of the American republics regarding the competence of the Committee to deal with matters arising under the Declaration of Panama. The Department understands that 20 of the American republics have replied affirmatively to this inquiry and that only Haiti remains to be heard from. In view of the fact that a committee of the Governing Board of the Pan American Union will meet on Saturday <sup>46</sup> to consider the preparation of a collective reply to the Inter-American Neutrality Committee in Rio, it would be highly desirable that the Haitian reply be in the hands of the Pan American Union by that time. Please discuss this informally with the Foreign Minister.

HULL

740.00111A.R.—N.C./67a

*The Chief of the Division of the American Republics (Duggan) to the Ambassador in Brazil (Caffery)*

WASHINGTON, March 2, 1940.

MY DEAR MR. AMBASSADOR: After signing my letter of February 28, I had the opportunity of discussing the question of publicity regarding the recommendations of the Inter-American Neutrality Committee with Professor Fenwick. I found that while he believes that the recommendations of the Committee on technical matters of international law should be made public he is in full agreement with us that the recommendations regarding "political" matters, such as those arising under the Declaration of Panama, should be kept secret until the American republics have had a chance to consult among themselves and to determine upon a course of action.

Professor Fenwick plans to sail from New York on Friday March 8.

Sincerely yours,

LAURENCE DUGGAN

740.00111A.R.—N.C./64 : Telegram

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

PORT-AU-PRINCE, March 2, 1940—2 p. m.

[Received 3 : 25 p. m.]

24. Department's telegram No. 30, February 29, 9 p. m. The Minister for Foreign Affairs has just informed me that the communication

<sup>46</sup> March 2.

from the Inter-American Neutrality Committee has not been received.<sup>47</sup> Nevertheless in view of the urgency and in the absence of any objection on the part of the Haitian Government to the competence of the Neutrality Committee to deal with the problems arising from the Declaration at [of] Panama, he will transmit without delay to the Pan American Union an affirmative reply to the inquiry.

MAYER

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740.00111A.R.-N.C./73

*Memorandum of Conversation, by Mr. Philip W. Bonsal of the  
Division of the American Republics*

[WASHINGTON,] March 6, 1940.

Participants: Señor Andrés Pastoriza, Minister of the Dominican Republic.

Mr. Briggs.<sup>48</sup>

Mr. Bonsal.

Dr. Pastoriza called to discuss a communication which he had received from the Dominican Minister of Foreign Affairs<sup>49</sup> concerning the Inter-American Neutrality Committee at Rio (a translation of this communication is attached.<sup>50</sup>) The proposal made by the Dominican Minister in Rio<sup>51</sup> involves the naming of fourteen substitutes to the Inter-American Neutrality Committee.

Señor Pastoriza was told that in our opinion the Committee is not a body on which individual governments have representation but that it is a technical advisory body set up on behalf of the twenty-one American republics in order to make recommendations concerning specific topics. It therefore is our opinion that the Dominican proposal would introduce an undesirable change in the character of the Committee.

Señor Pastoriza appeared to be in agreement with these views and stated that his Government had not made up its mind about the proposal.

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<sup>47</sup> In despatch No. 759, March 5, the Minister in Haiti reported that the communication was received on March 4 and the Minister for Foreign Affairs had confirmed his instructions to the Haitian Minister in Washington (740.00111 A.R.-N.C./69).

<sup>48</sup> Ellis O. Briggs, Assistant Chief of the Division of the American Republics.

<sup>49</sup> Arturo Despradel.

<sup>50</sup> Not printed.

<sup>51</sup> Gilberto Sanchez Lustrino.

740.00111A.R.-N.C./80

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

No. 2790

RIO DE JANEIRO, March 28, 1940.

[Received April 4.]

SIR: Referring to previous reports on the Inter-American Neutrality Committee, I have the honor to report that the Committee resumed its sessions on Monday, last.<sup>52</sup> Dr. Fenwick informs me that the subject now under discussion is the status of German merchant vessels now in American ports:<sup>53</sup> in his opinion those vessels should be given a choice of leaving port or being interned. However, no unanimity of opinion has yet developed on this matter within the Committee.

Respectfully yours,

JEFFERSON CAFFERY

740.00111A.R.-N.C./79 : Telegram

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

RIO DE JANEIRO, April 3, 1940—3 p. m.

[Received 3:14 p. m.]

137. From Fenwick for Duggan. Committee now considering security zone and recommendation favoring internment of belligerent merchant vessels in neutral ports when withdrawn from regular commerce, object being to prevent occasions for violation of zone by belligerents. Please communicate any ideas you may have on the general subject. [Fenwick.]

CAFFERY

740.00111A.R.-N.C./82

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

No. 2820

RIO DE JANEIRO, April 3, 1940.

[Received April 11.]

SIR: In continuation of my previous despatches on the subject, I have the honor to report that the Inter-American Neutrality Committee met yesterday following the recent recess of the full Committee. In view of the absence of the Costa Rican member, it took no definitive action at this meeting, and will not do so until he arrives next week. The meeting was confined to a continuation of the informal preliminary discussions that have been taking place during

<sup>52</sup> March 25.<sup>53</sup> See pp. 408 ff.



the past week or so and a statement by the chairman, Dr. Afranio de Mello Franco, of matters to be included in the agenda for future meetings.

The agenda will provide for various and sundry specific questions brought up by individual governments falling both within and without the general problem of the security zone. The first of these will be that of submarine mines. Simultaneously the Committee will make a comprehensive study of the security zone itself and the problems involved in it.

Dr. Fenwick has drawn up a tentative outline for an approach to the general question of the security zone dealing with the definition of the zone, the "inherent rights" on which it is based, et cetera. One of the vital elements in this outline is the means of commanding respect for the zone on the part of belligerents. Formerly Dr. Fenwick had apparently entertained the idea of using American naval forces not only to patrol the zone but also actually to enforce respect for it through destroying or seizing belligerent vessels that violated it. He now feels that reliance must be placed solely in peaceful means, of which he is planning to suggest two for discussion, viz. (a) the withdrawal of port privileges from vessels of the same flag as those violating the zone, and (b) the internment of belligerent merchant vessels harboring in American ports while not actually engaged in commerce.

With reference to (b) above, he is inclined towards the internment of all German vessels now in American ports. This view proceeds from the following line of thought: The German merchant vessels now in American ports are a disturbance to the peace of those ports and the security zone; they are not engaged in regular commerce; they lie in port indefinitely, departing when not expected to depart, and as often as not remaining in port after feigned departure; they are a cause of the presence in American waters of large numbers of allied war vessels seeking to capture them; they therefore constitute a disturbance of the peace. To correct this Dr. Fenwick would recommend the internment of belligerent vessels that remain in an American port longer than a given period of time. Apparently this idea appeals to most of the other members of the Committee, the principal point of disagreement being whether or not they should be given a period of grace (of say thirty days after notice) in which to leave, as Dr. Fenwick would provide.

It may be worth noting in connection with the general work of the Committee that although the Committee likes to maintain its identity as an organ of the Pan-American Union in no way answerable to or influenced by any one of the American governments (an attitude shared by Dr. Fenwick), Dr. Fenwick welcomes expressions of the views of the individual American governments, particularly those con-

cerning the security zone; he takes the realistic view that the Committee should strive to produce resolutions that are not only just but also workable—that it would be quite futile for it to work in a vacuum, making resolutions that were fine in theory but unworkable in practice because unacceptable to the governments concerned.

Respectfully yours,

For the Ambassador:  
WILLIAM C. BURDETT  
*Counselor of Embassy*

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740.00111A.R.—N.C./79 : Telegram

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

WASHINGTON, April 8, 1940—7 p. m.

92. Your 137, April 3, 3 p. m. For Fenwick from Duggan. I am of the opinion that it would be desirable for neutrals to differentiate the treatment accorded belligerent merchant vessels engaged in regular commerce from that of such vessels using neutral ports and waters for the purpose of temporary or permanent refuge from hostile forces.

There might be required from each belligerent merchant vessel, either upon entry into a neutral port or upon the coming into effect of this provision, a statement covering, among other details, the purpose of the visit, nature of cargo to be unloaded or loaded, length of time estimated to be necessary for the purpose and requesting permission from the appropriate neutral authorities for a stay of the number of days thus estimated. On the basis of this declaration, the neutral authorities would be able to determine the character of the vessel's activities and either to grant permission for a stay of a reasonable number of days or decree the internment, for the duration of the war, of vessels obviously no longer engaged in "regular commerce". Internment would also be applicable to vessels overstaying the period granted them except in cases of *force majeure*.

It is of interest in this connection that a decree of the Venezuelan Government dated September 23, 1939 provides that belligerent merchant vessels seeking refuge in Venezuelan ports, as well as their officers and men, shall be interned.

I am confident, of course, that the proposal regarding the treatment of belligerent merchant vessels will constitute only a part of the Committee's recommendation relative to the implementation of the Declaration of Panama, and that the Committee's recommendation regarding "vessels used as auxiliary transports of warships", to which considerable importance attaches in this connection, will be re-emphasized and that consideration will also be given to the treatment

to be accorded vessels of belligerents who have been guilty of hostile acts within the Security Zone.

You will recall that the protest of December 23<sup>54</sup> refers to the "adoption of rules to prevent belligerent vessels from supplying themselves and repairing damages in American ports, when the said vessels have committed warlike acts within the Zone of Security established in the Declaration of Panama". [Duggan,].

WELLES

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740.00111A.R.-N.C./87

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

No. 2848

RIO DE JANEIRO, April 12, 1940.

[Received April 18.]

SIR: With reference to my previous despatches regarding the Inter-American Neutrality Committee, I have the honor to report that although Dr. Fenwick was at first inclined to consider enforced observance of the American zone of neutral waters within the realm of immediate possibility, he tells me that he now clearly observes in all the American republics, including the United States, a lessening of the initial enthusiasm for the zone idea and increasing skepticism and reticence regarding its practicability. He therefore feels that the primary function of the Neutrality Committee will be to keep the zone idea alive, and to build up the legal position of the Americas with reference to it, without however contemplating any real action by the Governments to enforce it in the near future.

Elaborating upon his two suggested means of enforcement mentioned in my despatch No. 2820 of April 3, 1940, he says that the first one, namely the withdrawal of port privileges from belligerents violating the zone, may be included in the Committee's recommendations in some form although it would not be expected that enforcement of the zone as such would actually be attempted by the Governments. With reference to the other means of enforcement, namely the detention of belligerent merchant vessels remaining in American ports after withdrawing from active trade, he says the Committee is considering their "immobilization". "Immobilization" would be a new concept in international law, intermediate between "internment" of vessels (the crews would probably not be interned) and "asylum" (it would be involuntary on the part of the vessel). While this "immobilization" would be written into the Committee's recommendations as

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<sup>54</sup> See statement by the 21 American Republics to France, Great Britain, and Germany, Department of State *Bulletin*, December 23, 1939, p. 723. See also *Foreign Relations*, 1939, vol. v, pp. 85 ff.

one of the means of enforcing respect for the security zone, in Dr. Fenwick's opinion it could also be justified on the basis of existing rules of international law, so that it might well be put into practice independently, even if the other recommendations regarding the security zone itself were ignored.

Dr. Fenwick expressed these ideas to me after he had had an opportunity to discuss them with the other members of the Committee. They are therefore indicative of the lines along which the Committee's recommendations regarding the security zone are likely to crystallize.

Respectfully yours,

For the Ambassador:  
WILLIAM C. BURDETT  
*Counselor of Embassy*

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740.00111A.R.-N.C./83 : Telegram

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

RIO DE JANEIRO, April 13, 1940—11 a. m.

[Received 11:40 a. m.]

153. Fenwick to Duggan. Neutrality Committee now considering possible recommendation on inviolability of neutral postal correspondence. Draft project insists upon complete inviolability of sealed mail. This seems to me impracticable in view of large amount of contraband money orders, bills of exchange, et cetera, which can be sent that way. Lansing's attitude during World War <sup>55</sup> more than ever true now a conflict of principles in which neutrals cannot press inviolability against belligerent rights to capture contraband. I am suggesting a plan by which the neutral state could guarantee certain mail bags not to contain contraband and these would be absolutely inviolable. Other mail not so guaranteed would be subject to search for contraband. This is purely tentative. [Fenwick.]

CAFFERY

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740.00111A.R.-N.C./86 : Telegram

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

RIO DE JANEIRO, April 17, 1940—9 a. m.

[Received 11:20 a. m.]

165. From Fenwick for the Under Secretary. Suggestion that I made last week, namely, that Government set aside certain mail and guarantee to the belligerents that it contains no contraband and then insist upon complete inviolability now meeting favorable response

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<sup>55</sup> See *Foreign Relations*, The Lansing Papers, 1914-1920, vol. 1, p. 308; and *Foreign Relations*, 1916, supp., pp. 591, 604.

from Committee. Idea would be to set up an optional system by which businessmen wishing to keep their correspondence from being read by belligerents would have it certified by their Government as not containing bank notes, checks, or other forms of contraband that might be sent in sealed letters. A fee might be charged for this service to prevent post office from being burdened. No question of admitting legality of search by belligerents of other mail but this guaranteed mail could be assured complete inviolability. Please inform me if the Department is adhering to the position of Secretary Lansing taken during the World War. Department's note of January 2,<sup>56</sup> suggests that Lansing's position was not being followed. British reply of January 17<sup>57</sup> cites Lansing's position and our own war practice. Neutrality Committee is still divided as to whether to insist upon absolute inviolability in all cases except parcel post or to recognize the facts of World War practice and present practice. Committee's recommendation would not in any case embarrass the Department but the Department's views would be helpful to me if they can be stated. [Fenwick.]

CAFFERY

740.00111A.R./1010

*The German Chargé (Thomsen) to the Secretary of State*

[Translation]

By direction of his Government, The German Chargé d'Affaires has the honor to communicate the following to the Secretary of State of the United States of America :

It has come to the knowledge of the German Government that a proposal has been submitted to the Pan American Neutrality Commission at Rio de Janeiro that concerns the treatment of the merchant ships of belligerent powers in certain American ports. It is intended by the proposal to bring about a decision of the American Governments concerned, to the effect that a time limit for leaving these ports is set for merchant ships of belligerents which call at the ports of the countries under consideration and, if this period expires without action, measures are to be occasioned by which the freedom of movement of the ships is restricted.

The decision proposed would, if adopted, violate not only German interests, but also international law and conventional law. It would not be in harmony with the rules of international law in so far as it

<sup>56</sup> For text of note, see telegram No. 1664, December 22, 1939, 9 p. m., to the Chargé in the United Kingdom, *Foreign Relations*, 1939, vol. II, p. 270.

<sup>57</sup> See telegram No. 146, January 17, 1940, noon, from the Chargé in the United Kingdom, *ibid.*, 1940, vol. III, p. 79.

restricted the freedom of navigation which has been guaranteed from time immemorial by international law. The decision would also be in contradiction with the provisions of the Geneva Maritime Ports Statute of 1923.<sup>58</sup> It could not be alleged that circumstances existed which endangered the security or vital interests of the state in which the port is situated, for the presence of ordinary unarmed merchant ships cannot be considered such an endangerment. The putting through of the decision proposed would also, as far as the United States of America is concerned, run counter to the provisions of the German-American Treaty of Friendship, Commerce and Consular Rights,<sup>59</sup> by which the freedom of navigation between the two contracting powers is expressly guaranteed, and hence also the right of free departure of merchant ships from a port of the other contracting party.

The principles which the Pan American Conference at Panama in 1939 established with regard to the neutrality of the individual American countries empowered these countries only to watch over the merchant ships of belligerents which seek refuge in the ports of American countries, but not to restrict the freedom of movement of such ships.

No change is made by the fact that certain non-American states are at war with each other, in the duties of the American countries under international law and treaties to uphold, as mentioned [above], freedom of commercial navigation. This is to be recognized in particular from the Pan American Neutrality Convention of 1928,<sup>60</sup> in the preamble of which the countries of America explicitly undertake always to respect freedom of commerce. The same conclusion is also to be drawn from Article XII of the 1928 Neutrality Convention mentioned.

According to the recognized rules of international law, belligerent countries are entitled to observe closely trade between neutrals and belligerents and, if necessary, to limit it. A similar right is not granted to neutral countries by international law. The distribution of relative strength in case of war involves the contingency that merchant ships of one belligerent may under certain circumstances be compelled to remain for a considerable time in neutral ports. If a neutral power should utilize such a state of affairs to render the peaceful trade of one belligerent difficult or destroy it, it would in so doing support the foe and thus would render itself culpable of a serious breach of neutrality.

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<sup>58</sup> See Green Haywood Hackworth, *Digest of International Law*, vol. iv, p. 343.

<sup>59</sup> Signed December 8, 1923, *Foreign Relations*, 1923, vol. ii, p. 29. For agreement terminating parts of article VII of the treaty of December 8, 1923, signed June 3, 1935, see 49 Stat. (pt. 2) 3258, or Department of State Treaty Series No. 897. For correspondence, see *Foreign Relations*, 1935, vol. ii, pp. 438 ff.

<sup>60</sup> Convention regarding maritime neutrality, signed at Habana, February 20, 1928, *ibid.*, 1928, vol. i, p. 604.

The German Chargé d'Affaires believes that he can express the anticipation that the Government of the United States of America will be convinced of the illegality which the adoption of the decision mentioned at the beginning [of this note] would involve, but must reserve the right to submit a decided protest in case the proposed decision should be adopted, contrary to expectation.

WASHINGTON, April 18, 1940.

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740.00111A.R.—N.C./86 : Telegram

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

WASHINGTON, April 18, 1940—6 p. m.

107. Your 165, April 17, 9 a. m. For Fenwick. I doubt the feasibility of segregating mail under a guarantee to belligerents that it contains no contraband for the reasons, among others, first, that it would amount in effect to the censoring of mail by neutral countries which I do not believe that this Government would desire to undertake, second, it seems very questionable whether belligerent governments would be willing to accept such a guarantee and grant immunity to the mail thus segregated, third, any arrangement of this sort would, however carefully safeguarded, constitute an implied admission of the legality of censorship by the belligerents of all classes of mail and place neutral governments in the position of cooperating with the belligerents. The Post Office Department concurs in our view that such an arrangement would be inadvisable and difficult to carry out.

The Department's present position is that Article I of Eleventh Hague Convention of 1907<sup>61</sup> is applicable to correspondence on the high seas as well as to correspondence forcibly taken into port, but that it does not have application to correspondence coming normally within the jurisdiction of a belligerent government. It has also taken the position that official correspondence passing between this Government and its representatives abroad, as well as between those representatives, should not be subjected to censorship. Parcels post are, of course, in the same category as freight shipments of merchandise.

HULL

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740.00111A.R./1010

*The Secretary of State to the German Chargé (Thomsen)*

The Secretary of State presents his compliments to the Chargé d'Affaires ad interim of Germany and acknowledges the receipt of

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<sup>61</sup> *Foreign Relations*, 1907, pt. 2, p. 1236.

a communication dated April 18, 1940 from the German Embassy to the effect that it has come to the knowledge of the German Government that a proposal has been submitted to the Inter-American Neutrality Committee at Rio de Janeiro that concerns the treatment of the merchant ships of belligerent powers in certain American ports.

In this connection the Secretary of State desires to point out to the German Chargé d'Affaires ad interim that the Inter-American Neutrality Committee is a body composed of seven experts in international law designated by the Governing Board of the Pan American Union and that the Committee was established for the duration of the European war with a view to studying and formulating recommendations with respect to the problems of neutrality, in the light of experience and changing circumstances. The Inter-American Neutrality Committee's recommendations are transmitted by the Governing Board of the Pan American Union to the Governments of the American republics.

The Secretary of State notes that should a recommendation be made by the Inter-American Neutrality Committee along the lines described in the German Chargé d'Affaires' communication and should that recommendation be adopted by the Government of the United States, the German Chargé d'Affaires reserves his right to submit a decided protest.

WASHINGTON, April 26, 1940.

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740.00111A.R.—N.C./90 : Telegram

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

RIO DE JANEIRO, April 29, 1940—11 a. m.

[Received 12:05 p. m.]

181. For the Under Secretary from Fenwick. Security zone recommendation completed. I believe it represents the views expressed by the Department taking into account the necessity of reconciling the different attitudes of the several members of the Neutrality Committee. A subcommittee consisting of Cordova,<sup>62</sup> Herrera<sup>63</sup> and myself prepared the draft which was accepted by the Committee with only minor changes. The principle of the zone is strongly defended; but measures of enforcement are made subject to investigation by a special committee and to subsequent consultation of Foreign Ministers. Hence the matter need not be pressed further than the governments desire at the time of the next violation. No need of collective answer

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<sup>62</sup> Roberto Córdova, Mexican representative on the Inter-American Neutrality Committee.

<sup>63</sup> Gustavo Herrera, Venezuelan representative on the Inter-American Neutrality Committee.



to belligerents unless this is desired by governments. Publication of the recommendation would be a sufficient answer if publication thought desirable. Cannot commend too strongly the work of Cordova and Herrera. [Fenwick.]

CAFFERY

740.00111A.R.-N.C./90

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, April 30, 1940.

MY DEAR PROFESSOR FENWICK: I have received your telegram of April 29th in which you tell me that the Committee's recommendation on the security zone has been completed. I note that, while the recommendation strongly defends the principle of the zone, it leaves the question of measures of enforcement subject to investigation by a special committee and to subsequent consultation between Foreign Ministers of the American Republics.

This procedure appears to me satisfactory as far as it goes; I hope that the recommendation will, however, include a discussion of the measures which the American Republics might adopt and of the lines of investigation in regard thereto which your Committee believes should be pursued by the proposed special committee.

It is my opinion that, for the time being at least, it would not be desirable to give publicity to your recommendations on this subject. . . .

I have very much appreciated your courtesy in keeping me informed of the progress of your Committee's deliberations.

With cordial regards,  
Sincerely yours,

SUMNER WELLES

740.00111A.R.-N.C./105

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, May 3, 1940.

DEAR MR. WELLES: I enclose a preliminary translation of the recommendation on the Security Zone which the Neutrality Committee completed last Saturday.<sup>64</sup> It has been somewhat hurriedly made and is obviously subject to corrections. I shall forward a copy of it

<sup>64</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix F, p. 57.

to Dr. Rowe<sup>65</sup> in case he may find it of assistance in making the official translation.

The recommendation, as I suggested in my telegram last Monday,<sup>66</sup> seems to me to meet most of the important points which we discussed together before I left Washington and which Mr. Duggan and I discussed after you had left on your European mission.<sup>67</sup> I had to give way on a number of points to the desire of certain members of the Committee not to allow any suggestion to appear in the recommendation which might even indirectly commit them to enforcing the observance of the Security Zone. There was of course no question of that in any case, but it was necessary to go farther than was actually required in that direction in order to satisfy them.

The draft of the recommendation is less concise and definite than I wanted it to be; but you know what happens when a number of persons get at a draft and try to touch it up here and there to meet their particular views. . . .

Córdova and Herrera both cooperated splendidly in putting the recommendation through the Committee. We three formed a subcommittee to prepare a preliminary draft, and we worked intensively at it in order that our draft might be so complete as to leave no room for obstructive criticism. The result was that in spite of the reluctance of several members of the Committee to go along with us, our draft was accepted without substantial amendments.

You will note in particular that we have tried to defend the principle of the Security Zone as strongly as possible, for on that score there seems to be no ground for giving way to political expedience. We defended the basis of the Security Zone, as set forth in the Declaration of Panama, and then undertook to answer the arguments raised in the British, French and German replies<sup>68</sup> to the collective protest of the American Republics on December 23rd last. Certain members of the Committee who did not wish to press the matter of the zone very far insisted that no reference be made to the British, French and German objections by name, with the result that our Articles on that point may seem a little vague; but those who know the facts of the controversy will readily be able to interpret the meaning of the generalized answers.

Having defended as effectively as we could the principle of the zone, we pressed lightly upon the measures to be taken to secure its observance. This was done by making provision that in the event of

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<sup>65</sup> Leo S. Rowe, Director General, Pan American Union.

<sup>66</sup> Telegram No. 181, April 29, 11 a. m., p. 300.

<sup>67</sup> See vol. I, pp. 1 ff.

<sup>68</sup> For British and French replies, see note D. D. No. 262, January 26, from the Panamanian Minister for Foreign Affairs, vol. I, p. 689; for German reply, see note No. D-65, February 16, from the Panamanian Ambassador, *ibid.*, p. 696.

a violation of the zone, a special commission (it might of course be this same Inter-American Neutrality Committee) should be created to investigate the facts of the violation and to determine where the primary responsibility lay. That was necessary, of course, in order to carry out the principle we laid down that self-defense is not forbidden within the zone. But at the same time the creation of this commission to investigate the facts, and the further requirement that after the commission has made its report there must be a consultation among the American Governments to determine what further steps must be taken, will make it possible to postpone definite action as long as the United States and other Governments want it postponed.

Our Committee is now taking up once more the question of postal correspondence, as raised by the inquiry from the Government of Brazil, and of automatic contact mines. I shall enclose in the next airmail a statement of the lines along which the discussions of those topics are proceeding.

Sincerely yours,

CHARLES G. FENWICK

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740.00111A.R.-N.C./101

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

[WASHINGTON,] May 4, 1940.

Dr. Bunge<sup>69</sup> left with me the attached instruction<sup>70</sup> received from the Foreign Office regarding the question of whether the Inter-American Neutrality Committee in Rio should remain in continuous session or, upon completion of its present duties, recess subject to call at any time. Before taking the matter up with other governments the Argentine Ambassador<sup>71</sup> desires to learn the views of this Government.

I told Dr. Bunge that it was my belief that the Department considered that the Inter-American Neutrality Committee could serve a very useful function by always being available to give immediate and expeditious consideration to neutrality problems as they arose. I did not think that the Department would wish to take the view that this Committee should, nevertheless, be in continuous session once it had terminated its studies of the several matters that are now pending before it, but I expressed strongly the view that if the Committee

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<sup>69</sup> Ricardo Bunge, Counselor of the Argentine Embassy.

<sup>70</sup> A memorandum by Mr. Duggan to Mr. Bonsal dated May 8 attached to this document states that "The papers which Dr. Bunge left with me should be returned."

<sup>71</sup> Felipe A. Espil.

recessed it should be on the clear understanding that its members would reconvene immediately should any situation arise on which its advice and recommendations would be helpful. I indicated, however, that this was only a personal view and that I would prefer to consult others in the Department.

L[AURENCE] D[UGGAN]

740.00111A.R.-N.C./94 : Telegram

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

RIO DE JANEIRO, May 4, 1940—11 a. m.

[Received 11:50 a. m.]

194. For the Under Secretary from Fenwick. Committee finding difficulty in reaching agreement on the subject of postal correspondence some wishing to assert the principle of inviolability just as it is laid down in the Hague Convention<sup>72</sup> without any attempt to reconcile it with the belligerent right of contraband. Others are prepared to recognize that inviolability of postal correspondence must be restricted to genuine correspondence but this group divided as to practical means of carrying out that restriction without breaking down the principle. My own judgement is that the claim of inviolability can only be successfully maintained if limited to special mail bags guaranteed not to contain contraband. But the Department appears to oppose this. Will advise progress of discussions. [Fenwick.]

CAFFERY

740.00111A.R.-N.C./103

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, May 6, 1940.

DEAR MR. WELLES: I do not want to trouble you with the affairs of our Neutrality Committee here in Rio, for I know you have weightier matters on your mind at the moment. Nevertheless, just to keep you in touch with what we are doing, I would like to make a few observations on the subject of Postal Correspondence, which is being considered by the Committee in response to an inquiry of Brazil.

As I explained in my telegram a few days ago,<sup>73</sup> the members of the Committee are divided as to the best way to handle the problem. Some of them want to do no more than re-affirm the principle of inviolability without any exceptions or qualifications other than those

<sup>72</sup> See Article I of the XI Hague Convention of 1907, *Foreign Relations, 1907*, pt. 2, p. 1237.

<sup>73</sup> Telegram No. 194. May 4. 11 a. m., *supra*.

prescribed in the Hague Convention. This group proposes to overlook entirely what happened during the World War and to be satisfied with re-affirming the principle of inviolability even though they know there is no chance whatever that their recommendation on the subject will have the slightest effect on the belligerents.

A second group, including myself, feel that as "technical experts" we cannot turn our backs upon the practice of governments during the World War, when it was conceded that the inviolability of postal correspondence was limited to "genuine" postal correspondence and did not include sealed mail which contained contraband.

But this second group is divided as to how to solve the conflict between the right of the neutral to inviolability and the right of the belligerent to search for contraband,—a conflict which Secretary Lansing pointed out very clearly in his notes on the subject. The plan which seems to find favor with this group is to re-assert the principle of inviolability but to concede that it must be limited to genuine postal correspondence; and in order to determine what is genuine postal correspondence the suggestion is being taken up that the neutral State undertake to do this, since only in this way could it prevent the belligerent from doing so.

For myself, I believe that this is the better way to handle the problem, to limit our demand for inviolability to what is feasible and to take a stand on that. The objection is of course that if we limited our demand for inviolability to certain designated mailbags certified as not containing contraband, the belligerent would feel that he had a free hand in searching other mail. But he is doing that already and is at the same time censoring genuine correspondence which he has no right whatever to do.

The system we are discussing by which the neutral might certify that certain mailbags contain only genuine postal correspondence would be an entirely voluntary one on the part of those sending the letters and it would not involve censorship of any kind by the postal authorities of the neutral State. It would be something in the nature of registration, except that in this case the registration of "certification" would precede or rather attend the sealing of the letter in the presence of the postal authorities. That could be done without the authorities reading the letter or doing more than observe that it contained no contraband.

The postal authorities here seem to think the plan entirely feasible; but inasmuch as the postal authorities in Washington do not think so probably the recommendation of the Committee will not get very far even if it is made. But inasmuch as we are a technical committee we feel that we must handle the problem not from the point of view of political considerations but from the point of view of

reconciling belligerent and neutral claims and salvaging something from the unlimited censorship that is going on at the present day.

This is all tentative and I am merely letting you know what the Committee is discussing and shall keep you in touch with later developments.

Sincerely yours,

CHARLES G. FENWICK

[Enclosure]

*Draft Convention for the Sub-Committee, Submitted by  
C. G. Fenwick, May 5, 1940*

POSTAL CORRESPONDENCE

*Considering*

1—that Article 1 of the XI Hague Convention of 1907, relative to certain Restrictions with regard to the Exercise of the Right of Capture in Naval War, recognized the principle of the inviolability of the postal correspondence of neutral states found on the high seas by a belligerent on board a neutral or enemy ship;

2—that the grounds for the recognition of this principle were the fact that the grave inconvenience and harm done to neutral states by the search of their mails overbalanced any military advantages that might accrue to the belligerents from the detention of correspondence destined directly or indirectly to the enemy;

3—that although the Hague Convention was not ratified by all of the signatories, nevertheless the principles and rules it laid down may be regarded as expressing the consensus of opinion of the nations assembled at the Hague Conference;

4—that during the World War of 1914–1918 certain of the belligerents asserted the necessity of distinguishing between genuine (“missive”) correspondence and other sealed packets enclosed in neutral mail bags, admitting the inviolability of genuine correspondence, but claiming that the other mail was subject to the belligerent right to search for and seize contraband destined to the enemy;

5—that the experience of the World War showed the necessity of developing the principles of the Hague Convention so as to take account of certain uses of the postal service not contemplated at the time the Hague Convention was adopted, particularly the fact that sealed packets, normally entitled in many countries to the privileges of “first class” correspondence, may actually have no character whatever of postal correspondence but may be in respect to their contents no more than articles of merchandise;

6—that the determination of what constitutes genuine postal correspondence as distinct from other sealed packets can not be left to

the belligerent which intercepts neutral mails en route to neutral ports, in as much as such action on the part of the belligerent would of necessity result, and has in actual practice resulted, in the most minute and prolonged examination by the belligerents of sealed neutral mail, thus exposing to the belligerents confidential business correspondence and other equally confidential personal affairs, and subjecting neutral sealed mail to censorship of the most exacting character;

7—that if belligerents are to be kept from searching neutral postal correspondence in order to prevent contraband goods from reaching the enemy the neutral states themselves must undertake individually to determine by preliminary inquiry the genuineness of the postal correspondence for which inviolability is claimed; so that, when the neutral state is assured of this fact, it may be able to insist more effectively upon the inviolability of postal correspondence thus segregated and bearing an indication of its genuine character;

8—that this determination on the part of the neutral state of the genuineness of postal correspondence which may thus be guaranteed as to its character should be carried out in such a way as to be consistent with the domestic standards of the neutral state in respect to the inviolability of postal correspondence; and that in consequence submission to the methods of preliminary inquiry into the contents of the letters should be entirely at the option of the persons sending the letters which are to be guaranteed as being genuine postal correspondence;

9—that it may also be possible for the neutral state to devise ways and means by which the genuineness of postal correspondence may be assured by resort to external tests, such as the size and weight of sealed mail packets; which tests, although not assuring absolutely the non-contraband character of the contents of designated mail bags, would nevertheless do so to such an extent that the amount of contraband that might be included would be negligible relative to the importance of the principle of inviolability;

10—that the claim of belligerents of a right to prevent “intelligence”, whether of a military character or otherwise, from reaching the enemy by way of sealed letter post is completely lacking in any basis of international law and must therefore be rejected as in contravention of the principle itself of inviolability, in as much as the enforcement of such a claim would require the censorship even of genuine postal correspondence never regarded heretofore as coming under belligerent scrutiny;

11—that the inviolability attaching to neutral correspondence on the high seas is not in any degree lessened by reason of the fact that neutral vessels may be compelled by force to put into a belligerent contra-

band control port for purposes of search at the greater convenience of the belligerent; but rather that the inviolability remains the same in such case as if the vessel were on the high seas;

12—that neutral states do not claim inviolability for correspondence destined to or proceeding from a blockaded port when there has been a violation of blockade by the vessel carrying such correspondence:

*For These Reasons the Inter-American Neutrality Committee Recommends:*

I—That the American States reaffirm the principle that postal correspondence, as distinct from post parcels, found by belligerents on neutral vessels on the high seas is inviolable.

II—That the American States recognize the exception, contained in the XI Hague Convention, of correspondence destined to or proceeding from a blockaded port, but only in case of violation of blockade.

III—That the American States, acting individually and each in accordance with its own national constitution and laws and regulations made in pursuance thereof, undertake to distinguish genuine postal correspondence from other sealed mail matter and to segregate the two classes of mail.

IV—That this distinction and segregation may be carried out by;

a)—establishing a special bureau in important post-offices at which persons may voluntarily submit letters destined to belligerent or neutral countries and have them sealed in the presence of the postal officer and certified as not containing contraband, this service being rendered without inquiry by the postal authorities into the message contained in the letter submitted and upon payment of a fixed charge for the service; registration of the said letter being also required by the neutral state when considered desirable;

b)—fixing, by special postal regulations, a limit for the size and weight and form of sealed mail packets with the object of preventing the transmission of contraband in more than negligible quantities;

c)—prescribing, when deemed desirable, penalties against the transmission in letters addressed to belligerent countries of money, in the form of bank notes, bills of exchange or otherwise, or other contraband destined directly to belligerent countries.

V—That correspondence thus determined to be genuine postal correspondence, and segregated from other sealed mail, be placed in mail bags specially marked as containing "letter mail", "epistolary correspondence", or other designation indicating that the said letters have been certified as not containing contraband.



740.00111A.R.—N.C./94 : Telegram

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

WASHINGTON, May 10, 1940—2 p. m.

121. Your 194, May 4, 11 a. m. For Fenwick. The following considerations are believed to render inadvisable the proposal that neutral governments guarantee that special mail bags contain no contraband and insist upon their complete inviolability :

(1) As stated in my 107, April 18, 6 p. m., such a procedure would amount to a censoring of mail by neutral countries. Moreover, we are informed that this could not be done under existing law in the United States for the reason, among others, that the postal authorities are not permitted to break the seals of letters even for the purpose of apprehending criminals; that the only authority for opening sealed correspondence is for the purpose of removing non-mailable material, such as salacious or fraudulent matter.

(2) We admitted during the World War, and now admit, that parcels post packages are subject to the same belligerent right of search and seizure as is applicable to merchandise shipped in any other manner, and that mail containing stocks, bonds, coupons and similar securities is to be regarded as merchandise and subject to the exercise of belligerent rights; also that money orders, checks, drafts, notes and other negotiable instruments which might pass as the equivalent of money are likewise to be classified as merchandise. Therefore, in order to be able to certify that ordinary letter mail does not contain any of these articles, it would be necessary to open every envelope or container. Consequently, if Congress should enact legislation to carry out an undertaking of this kind, a tremendous burden would be placed upon this Government. It would be necessary to establish a central agency for the examination of all outgoing mail. The Division of International Postal Service of the Post Office Department tells us that such an arrangement would be inadvisable and difficult to carry out.

(3) It is very questionable whether belligerent governments would be willing to accept the guarantee of neutrals and grant immunity to mail thus segregated, since one of the primary purposes of censorship is to obtain information of possible military value as well as contraband.

(4) Any arrangement of this sort would, however carefully safeguarded, constitute an implied admission of the legality of censorship by the belligerents of all classes of mail and place the neutral countries in the position of cooperating with the belligerents. The principle of censorship contended for by the belligerents and contested in certain classes of cases by the neutrals would be admitted and strengthened and Article I of the Eleventh Hague Convention of 1907, declaring the inviolability of correspondence on the high seas, would virtually be set at naught.

HULL

740.00111A.R.—N.C./101: Telegram

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

WASHINGTON, May 13, 1940—7 p. m.

123. From the Under Secretary for Fenwick. The Argentine Embassy here has approached the Department regarding the difference of opinion among members of the Inter-American Neutrality Committee as to whether the Committee should remain in continuous session or, upon the disposition of the questions now before it, should recess subject to call at any time. Podesta Costa, with whose views it is assumed you are familiar, has communicated with the Argentine Foreign Office in regard thereto.

The Department's position was set forth to the effect that the Inter-American Neutrality Committee should, for the duration of the war, be available to give immediate and expeditious consideration to neutrality problems as they arise. The Department does not believe that this will necessarily imply continuous sessions, but feels strongly that if the Committee recesses, it should be on a clear understanding that its members would reconvene immediately should any situation arise on which its advice and recommendations would be helpful. The Department is confident that the Committee will work out an arrangement which will provide a maximum of efficiency with a minimum of lost time on the part of its members. [Welles.]

HULL

740.00111A.R.—N.C./100: Telegram

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

RIO DE JANEIRO, May 14, 1940—2 p. m.

[Received 3:47 p. m.]

217. Department's 123, May 13, 7 p. m. To the Under Secretary from Fenwick. Not familiar with Podestá Costa's views but other members discussing same problem. I am in complete accord with Department's views and will insist that if recess taken Committee will be prepared to reassemble immediately upon call.

Committee is considering on my initiative recommendation to governments of American Republics that a collective protest be made against recent violation of neutrality undermining whole basis of neutral rights and duties.<sup>74</sup> [Fenwick.]

CAFFERY

<sup>74</sup> See "Protest against the violation of neutrality of Denmark, Norway, Holland, Belgium, and Luxemburg," in *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 100.

740.00111A.R./1061 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, May 14, 1940—3 p. m.

[Received 6 : 37 p. m.]

46. The Secretary of State<sup>75</sup> showed me this morning two draft decrees he is submitting to the President<sup>76</sup> providing for the internment of submarines which may have engaged in belligerent activities within the American neutrality zone and providing that Cuba shall adopt an attitude of "benevolent neutrality" toward countries that may have been invaded without provocation.

BEAULAC

740.00111A.R.—N.C./132

*Memorandum by the Legal Adviser (Hackworth)*<sup>77</sup>

[WASHINGTON,] May 14, 1940.

I see no objection to this recommendation on the Security Zone,<sup>78</sup> with the exception of paragraph 12 of the preamble, inasmuch as it will be for the Governments to decide whether they desire to adopt the recommendation.

Paragraph 12 deals with a very controversial question and does not, in my opinion, dispose of it in a satisfactory manner. It seems to take the position in effect that belligerent merchant ships may be permitted to operate within the zone free from the right of capture on the part of the opposing belligerent. I doubt whether any belligerent would acquiesce in the shielding by neutrals from the recognized right of capture of a large fleet of enemy merchant ships.

This, in my opinion, was the most difficult point in the series of questions raised by the British Government. As a practical matter, the issue may never arise. Had I been concerned in the preparation of the document, I should have recommended the omission of the entire paragraph. It may now be too late to have it omitted but it is well to bear the matter in mind should the recommendation come before the Governments in its present form.

I shall leave to Mr. Duggan the preparation of a communication to Mr. Fenwick.

GREEN H. HACKWORTH

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<sup>75</sup> Miguel Angel Campa.

<sup>76</sup> Federico Laredo Brú.

<sup>77</sup> Addressed to Mr. Duggan and Mr. Welles.

<sup>78</sup> See letter of May 3 from Mr. Fenwick to the Under Secretary of State, and footnote 64, p. 301.

740.00111A.R./1061 : Telegram

*The Secretary of State to the Chargé in Cuba (Beaulac)*

WASHINGTON, May 15, 1940—6 p. m.

56. Your 46, May 14, 3 p. m. With regard to the draft decree providing for the internment of submarines which may have engaged in belligerent activities within the American neutrality zone, you are requested to inform Campa that the Department understands that the Inter-American Neutrality Committee will shortly issue recommendations on the general subject of the Declaration of Panama. The Department is of the opinion that the postponement of any measures by individual countries, pending the reception and study of these recommendations followed by any necessary consultation among the American Republics, would be conducive to more uniform and consequently more effective action.

With regard to the adoption of an attitude of "benevolent neutrality" the Department is similarly impressed with the advantages of a uniform continental attitude and ventures to suggest that, before taking action in this matter, Campa may wish to submit his proposal to the Inter-American Neutrality Committee now in session at Rio.

The Department is confident that you will be able to delay action by the Cuban Government on these two draft decrees.

HULL

740.00111A.R.—N.C./100 : Telegram

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

WASHINGTON, May 15, 1940—6 p. m.

127. Your 217, May 14, 2 p. m. From the Under Secretary for Fenwick. In view of the fact that the Uruguayan Government has already circulated to the other American Republics a proposal for a joint declaration regarding the invasion of Holland, Belgium and Luxemburg,<sup>79</sup> I am sure that you will concur with me as to the disadvantages of duplication in these matters and that you will agree that the Uruguayan proposal takes care of the situation adequately. [Welles.]

HULL

740.00111A.R./1076 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, May 16, 1940—1 p. m.

[Received 5:07 p. m.]

50. Department's No. 56, May 15, 6 p. m. The dispositive portion of the decree which Campa has prepared reads as follows in translation:

<sup>79</sup> See vol. I, pp. 727 ff.

"1st. Any submarine which has committed a belligerent act within the security zone defined by the Declaration of Panama and which takes refuge in Cuban ports shall be immediately interned with its crew until the end of the war.

"2d. For the purpose of determining the conduct of the Cuban authorities in the application of rules of neutrality the international juridic situation of those countries which without justification have been invaded by one of the belligerent powers in violation of the principles which govern normal relations among peoples is defined as a 'state of unprovoked invasion'.

"When this [apparent omission] after a study of the special circumstances of the case considers that a given country should be included in the definition to which the preceding paragraph refers all the rules of neutrality shall be applied to it with greater benevolence."

Campa is disinclined to submit this proposed decree to the Inter-American Neutrality Committee since he considers that the South American representatives on that Committee have a different attitude from that which should be assumed by the North American countries. However he is desirous of working in accord with the United States and has consented not to have this decree and the second one which implements it signed until the United States has had an opportunity to express its views.

Campa foresees the possibility of representations on the part of Germany concerning as [*sic*] the treatment of Norwegian, Danish and Dutch vessels in Cuba and wants to provide a legal basis for benevolent treatment of such vessels by the Cuban authorities.

He said Doctor Ramos<sup>80</sup> was prepared to discuss this general situation with the Department.

BEAULAC

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740.00111A.R.—N.C./103

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, May 17, 1940.

MY DEAR PROFESSOR FENWICK: I have received your letter of May 6 in which you inform me concerning recent discussions in the Neutrality Committee with regard to the subject of the censorship of postal correspondence.

While I believe that my telegram of May 10th to you on this subject is an adequate statement of the Department's position, I want you to know that I am personally very appreciative of the way in which you have kept us informed of the progress of your discussions.

Sincerely yours,

SUMNER WELLES

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<sup>80</sup> Domingo F. Ramos, Cuban Secretary of Defense.

740.00111A.R.-N.C./111

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

No. 133

RIO DE JANEIRO, May 28, 1940.

DEAR SUMNER: Afranio Mello Franco<sup>81</sup> asked me yesterday to let you know that Jimenez Ortiz, who is the second representative (the first stayed a fortnight) appointed by Costa Rica on the Neutrality Committee, after a stay of six weeks is leaving on Saturday not to return. It is Mello Franco's opinion that if Costa Rica is not in a position to maintain a representative here, she should withdraw and be replaced by another country on the Committee. However, Dr. Fenwick does not agree with this: I asked him to set out his point of view in a memorandum which he has done. I send you herewith a copy thereof.

With all good wishes,  
Yours very sincerely,

JEFFERSON CAFFERY

[Enclosure]

*Memorandum by the American Member of the Inter-American  
Neutrality Committee (Fenwick)*

## COMMENTS ON THE SITUATION WITHIN THE NEUTRALITY COMMITTEE

After taking a recess early in February, the Inter-American Neutrality Committee reconvened the first week of April upon the arrival of a new delegate from Costa Rica. At the end of the month, however, the Argentine member left for Buenos Aires and the Committee has been unable to make any formal recommendations since his departure. The present rule of procedure is that recommendations must be formulated in sessions at which all members of the Committee are present. Recommendations may, however, be voted by a majority provided they have been discussed in full session.

The Argentine member is now returning but the Costa Rican member, substituting for the original appointee, is leaving at the end of the week. Under the circumstances it would seem wisest in my opinion that the Committee dispose of the business now before it, without waiting for the arrival of a new member from Costa Rica which would take possibly a month.

Three problems are still before the committee and they have been thoroughly discussed in sub-committee, awaiting the return of the Argentine member. In view of recent developments in Europe which

<sup>81</sup> Representative of Brazil and president of the Neutrality Committee.

have undermined the fundamental principles of neutrality, the problems before the Committee seem to most of the members relatively insignificant. But it is thought best to proceed with their solution and clear the record, after which a recess might be taken for two or three months, during which the members would be subject to recall upon being advised by the Chairman that there was urgent business to attend to. I have urged that the members pledge themselves to return immediately upon call, and that if they cannot do so they should ask to have substitutes appointed.

Under the circumstances it would seem wiser not to await the arrival of a new appointee from Costa Rica but to dispose promptly of present business and then to recess for two or three months.

CHARLES G. FENWICK

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740.00111A.R.-N.C./110

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, May 31, 1940.

DEAR MR. WELLES: May I add a supplement to my letter of the 25th inst.<sup>82</sup> which went off by the last air mail.

On the return of Dr. Podestá Costa last Wednesday our Committee was able to meet in full membership; and a decision was taken to change the rules of procedure established last January so as to permit a majority of the members to discuss problems presented to the Committee and to adopt recommendations by a majority vote of the whole membership. It was emphasized that this was emergency procedure, and it was the sense of the meeting that it would not be resorted to over the protest of the absent members, although there was no statement to that effect in the resolution adopted.

Under this new procedure we are now proceeding to dispose of the business before us, notwithstanding the fact that Señor Jimenez is leaving us to-morrow. In consequence, it seems to me much better that the question of a substitute for Sr. Jimenez not be raised at this time. Costa Rica might not be able to send another member, and in that case there would be half a dozen countries seeking the right to make the appointment. Besides, the new appointee could not get here for some weeks, and in the meantime we should have finished the work before us and be ready to recess. If Sr. Jimenez finds that he cannot return to us after the recess is over, there will be ample time to consider the appointment of a substitute.

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<sup>82</sup> Not found in Department files. This may refer to memorandum enclosed with letter of May 28 from Mr. Caffery, *supra*.

It appears probable that an agreement will be reached to recess on July 1st for two or three months, subject to the right of the Chairman to recall the members in case of urgent business.

Sincerely yours,

CHARLES G. FENWICK

740.00111A.R.-N.C./105

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, June 1, 1940.

MY DEAR PROFESSOR FENWICK: I must apologize for the delay in acknowledging the receipt of your letter of May 3 transmitting a preliminary translation of the recommendation on the Security Zone prepared by the Neutrality Committee. We are giving this matter very careful consideration. The recommendation has now been formally transmitted to us by the Pan American Union with a request for our views "relative to the desirability of having the Committee release to the press information concerning the recommendations".

Our reply with regard to the question of publicity will be along the lines which Mr. Duggan discussed with you early in March and which he confirmed in his letter to you of March 7, 1940<sup>83</sup> to the effect that in our opinion the recommendation on the subject of the Declaration of Panama should be kept confidential while the American republics consult together in regard thereto and reach an agreement as to the measures which they may wish to take in order to attain the objectives of the Declaration.

I am truly appreciative of your courtesy in describing to me the considerations which led to the adoption of the Committee's recommendation. We are all indebted to you for your thorough and painstaking approach to the problem.

With cordial personal regards,

Sincerely yours,

SUMNER WELLES

740.00111A.R.-N.C./114

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, June 4, 1940.

[Received June 24.]

DEAR MR. WELLES: Our Neutrality Committee has completed a recommendation on the subject of postal correspondence<sup>84</sup> and an official text has been forwarded to the Pan American Union.<sup>85</sup>

<sup>83</sup> Not printed.

<sup>84</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix D, pp. 43 ff.

<sup>85</sup> Copies were transmitted to the Department with letter of July 3 from the Director of the Pan American Union, not printed.



The recommendation is about the best that could be made under the circumstances, but it can not be said to be of much intrinsic value. All that we could do after long consultations was to reaffirm the principles of the Hague Convention, and then offer a few suggestions of a practical character. My earlier proposal, based upon Secretary Lansing's position during the World War, was withdrawn when the Department expressed its opposition to it; but in any case it would not have been acceptable to certain members who felt that it conceded too much to the belligerents. . . .

All of our remaining problems are on the way to final solution; but you can realize that none of them seem of much importance in the presence of the tragic events in Europe.

[Here follows information regarding Mr. Fenwick's private writings on neutrality.]

With warm personal regards,  
Sincerely yours,

CHARLES G. FENWICK

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740.00111A.R.-N.C./107

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

WASHINGTON, June 6, 1940.

MY DEAR DR. ROWE: I acknowledge the receipt of your letter of May 21<sup>86</sup> enclosing copies of the English text of the recommendations submitted by the Inter-American Neutrality Committee relative to the Security Zone<sup>87</sup> established by the Declaration of Panama.

Your letter states that, in transmitting the said recommendations, the chairman of the Committee requests the opinion of the members of the Governing Board of the Pan American Union relative to the desirability of having the Inter-American Neutrality Committee release to the press information concerning the recommendations. I note that the Supervisory Committee of the Governing Board at a meeting held on May 14 agreed that pending a final decision, it would inform the Inter-American Neutrality Committee that, in the opinion of the Supervisory Committee, no publicity should be released with respect to the recommendations.

My Government is of the opinion that, pending the study of these recommendations and the reaching by the American republics of an agreement as to the measures which they are willing to take in order to attain the objectives of the Declaration of Panama, it would be

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<sup>86</sup> Not printed.

<sup>87</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix F, pp. 57 ff.

desirable to give no publicity to the different proposals which may be discussed, including the current recommendation of the Inter-American Neutrality Committee.

Sincerely yours,

CORDELL HULL

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740.00111A.R.-N.C./109

*The British Embassy to the Department of State*

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom have had under consideration the Recommendation relative to Internment recently submitted to the Governments of the American Republics by the Inter-American Neutrality Committee.<sup>88</sup> They wish to make the following three observations on the subject of this Recommendation:

(1) As it at present stands Article 1 of the Resolutions attached to the Recommendation would oblige all parties adopting it to intern all members of the armed forces of belligerent powers, whatever might be the occasion for their presence in the territory of the country concerned. This obligation goes beyond the requirements of International Law and in the opinion of His Majesty's Government appears to establish an inconvenient and undesirable precedent;

(2) Article 4 of the Resolutions, providing that "belligerents who are victims of wrecks or accidents arriving in neutral territory shall be interned", also goes beyond the ordinary principles of international law under which, in the view of His Majesty's Government, persons need not normally be interned if they are brought in on neutral merchantmen or if they swim ashore;

(3) Article 8 of the Resolutions, in seeking to prevent internment from involving a neutral in financial loss, appears to His Majesty's Government to overlook the fact that internment is primarily a duty owed to the opposing belligerents to prevent internees from taking further part in the war and that the paramount consideration in fixing the place and conditions of internment should be to ensure their safe custody. In consequence it would seem that only such private activities should be permitted to an internee as are compatible with his strict detention.

His Majesty's Embassy has been instructed to bring the foregoing observations to the notice of the State Department and to request that they may receive the consideration of the competent authorities of the United States Government.

WASHINGTON, June 8, 1940.

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<sup>88</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix A, pp. 28 ff.

740.00111A.R.-N.C./134

*Memorandum by Mr. Philip W. Bonsal of the Division of the  
American Republics*

[WASHINGTON,] June 14, 1940.

THE DECLARATION OF PANAMA

The recommendation of the Inter-American Neutrality Committee entitled "Recommendation on the Security Zone Created by the Declaration of Panama" is dated Rio de Janeiro, April 27, 1940 and Pan American Union, Washington, D. C., May 1, 1940. However, it was not officially made available to the Department by the Pan American Union until the end of May. A copy of a preliminary translation of the recommendation was sent to Mr. Welles by Professor Fenwick with an airmail letter dated May 3 which was referred to Le<sup>89</sup> and RA.<sup>90</sup> (See in this connection Mr. Hackworth's memorandum of May 14 and my memorandum of May 21.<sup>91</sup>) The recommendation as well as the two memoranda just mentioned were discussed on June 11 by Mr. Duggan, Mr. Daniels, and the writer.

It is the purpose of this memorandum to record the writer's tentative conclusions and recommendations in view of this discussion and of current developments:

(1) The international situation has changed since the date of the original formulation of the Declaration of Panama as well as since the issuance of the Committee's recommendation in regard thereto. The Declaration itself says that the inherent right therein asserted is a measure of continental self-protection to which the American Republics are entitled "so long as they maintain their neutrality". It is of course beyond the scope of this memorandum to attempt to define the present status of some of the American republics including the United States; it is sufficient to point out that there has been a substantial reorientation from the traditional concept of neutrality which, with the exception of certain traditional neutral rights specifically waived (notably in the case of the United States), governed the position of the American republics from the outbreak of the war until April of this year. This orientation implies, as far as the United States is concerned, a determination to render all possible material aid to the Allies and, therefore, to take no steps which would hinder the Allies.

(2) The recommendation of the Inter-American Neutrality Committee provides for both punitive and preventive measures (see pages 3

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<sup>89</sup> Office of the Legal Adviser.

<sup>90</sup> Division of the American Republics.

<sup>91</sup> Latter not printed.

and 4 of my memorandum of May 21). The preventive measures involve the detention in the ports of the American republics of belligerent merchant ships which may be presumed to have abandoned their ordinary commercial activities, if, in the opinion of the American republic concerned, such departure would give rise to a violation of the Security Zone. It is my belief that while it would be desirable to exercise control over belligerent merchant vessels which are obviously using the ports of the American republics to seek refuge from the war vessels of the opposing belligerent it hardly seems advisable for that control to be exercised in such a manner as to imply a conviction that the opposing belligerent has no intention of respecting the zone.

(3) The justification for the internment of belligerent merchant vessels under certain conditions might be said to arise from the fact that the continued use by such vessels of the ports and harbors of a non-belligerent for the purpose of escaping capture by an opposing belligerent, although at the same time the said merchant vessels preserve freedom of action, constitutes, in effect, the rendering of assistance by the non-belligerent to the opposing belligerent. Such use of non-belligerent ports tends to immobilize armed vessels of one belligerent just as surely as if the armed vessels of the other belligerent were permitted to remain in the said non-belligerent ports indefinitely instead of having a choice between departure within the legal period or internment.

(4) A practical justification for the internment, as it relates specifically to Italian and German vessels, arises from the fact that Germany has sunk a large amount of neutral shipping since the outbreak of the war and that early this month the Argentine vessel *Uruguay* was similarly treated; it might be argued that pending a clarification of the German attitude with respect to the *Uruguay* case in particular and the treatment of the vessels of the American republics in general the merchant vessels of Germany and of his ally Italy might well be treated to some extent as hostages.

(5) The punitive measures proposed by the Inter-American Neutrality Committee would most immediately apply to Allied warships interfering with the movements of Italian or German merchant vessels and would therefore be inconsistent with our present policy.

(6) It appears to me that the measure which would most immediately and effectively contribute to prevent the commission within the security zone of hostile acts of an undesirable nature, that is to say, attacks on Allied and neutral shipping by Italian and German submarines, as distinguished from hostile acts such as attacks on Italian and German merchant vessels by Allied war vessels, would be the adoption by all the American republics concerned of measures providing for the exclusion of belligerent submarines along the lines of the

measures already adopted by seven of the American republics; a circular telegram suggesting such action has already been forwarded to our missions in the twelve republics concerned.

I recommend, therefore, (a) the adoption of measures looking to the internment for the duration of the war of belligerent merchant vessels which have sought refuge in the waters of the American republics, and (b) the continuance of efforts already initiated in order to secure uniformity of action in excluding belligerent submarines from the waters of the American republics.

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740.00111A.R.-N.C./110

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, June 15, 1940.

MY DEAR PROFESSOR FENWICK: In reply to your letter of May 31, I share your favorable opinion regarding the decision of the Inter-American Neutrality Committee to change the rules of procedure so as to permit a majority of the members, instead of the full membership, to discuss problems presented to the Committee and to adopt recommendations by a majority vote of the whole membership.

This procedure appears to me all the more desirable in view of the absence of Señor Jimenez. While I hope that Señor Jimenez will be able to return and that if he does not do so the Costa Rican Government will appoint a substitute, the question of what should be done, if neither of these possibilities takes place, is one the consideration of which can well be deferred.

Sincerely yours,

SUMNER WELLES

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740.00111A.R.-N.C./134

*Memorandum by the Legal Adviser (Hackworth) to the Under Secretary of State (Welles)*

[WASHINGTON,] June 19, 1940.

MR. WELLES: I see no objection to discussing with the Argentine and Brazilian Governments the possible internment of belligerent merchant vessels, although I think that it should be borne in mind that the term "internment" in the international sense applies only to war vessels or auxiliary vessels. If it should be decided that belligerent merchant vessels should be required to leave within a specified time or be interned, I think that it would be necessary to obtain authorization from the Congress. While Collectors of Customs are now authorized to withhold clearances in certain classes of cases, the circumstances under which they may act are specified by law. The authority is not broad enough to justify the action here in contemplation.

GREEN H. HACKWORTH

740.00111A.R.-N.C./112 : Telegram

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

RIO DE JANEIRO, June 21, 1940—3 p. m.

[Received 3:30 p. m.]

296. For the Under Secretary from Fenwick. Neutrality Committee expects to dispose of current business by the end of next week. Argentine and Mexican members leaving but with the understanding that they will return at call of chairman if important new business arises. Remaining four members can hold sessions under new rules of procedure. No formal recess being taken. Would suggest that invitation to chairman of the Committee to attend coming consultative meeting of Foreign Ministers<sup>92</sup> as observer would be received appreciatively by the Committee. [Fenwick.]

CAFFERY

710.Consultation(2)/446

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, July 2, 1940.

DEAR MR. WELLES: Your letter of June 22nd is here, crossing in the mails mine of the 24th, preceded by my cable of the same date,<sup>93</sup> containing some suggestions, rather extreme ones, in regard to the Havana Meeting.

In the meantime the tentative agenda of the Havana Meeting is here and I note with interest that under the head of Neutrality (2) it is proposed to examine in the light of present circumstances the standards of neutrality set forth in the General Declaration of Neutrality adopted at Panama. In that connection you may be interested to see the text of a project that I submitted to the Committee about May 15th<sup>94</sup> but which was opposed by a majority and got no further than the committee minutes. My purpose in submitting the project was merely to have it serve as a sort of protest against the invasion of Belgium and Holland. At that time I did not realize fully the sudden change that had come about in American public opinion.

My feeling for the past six weeks has been that the Committee can do little more than await developments in the attitude of the American

<sup>92</sup> See pp. 180 ff.<sup>93</sup> None printed.<sup>94</sup> Entitled "Consulta as to the Future Competence of the Inter-American Neutrality Committee", printed in *Minutes of the Sessions Held by the Inter-American Neutrality Committee*, Appendix A, Law and Treaty Series No. 15, p. 101.

Republics towards the war. Our functions as a "Neutrality" Committee are interpreted so strictly by some of our members that there is little that we can do for the moment that is of any practical value. Yet I feel that the Committee is of great importance as a symbol of Inter-American unity, and that the principle which it represents of cooperative work by the twenty-one states through a small advisory body ought to be kept alive by enlarging the functions of the Committee to meet new conditions. The problem is, how to do this without duplicating the functions of the Pan American Union or encroaching upon the field of "political" questions.

Thus far the Committee has confined its activities to making recommendations upon specific problems submitted to it. I proposed two months ago that it undertake research work into the larger problems of neutrality and that it prepare a "code" of neutral rights and duties. That was before the invasion of Holland and Belgium, which undermined the foundations of neutrality and made us all feel that the future of neutrality was too uncertain to make research study profitable. Would it now be feasible to suggest to the Havana Meeting that the Committee be permitted to undertake a long-range study of the "Causes of war and the conditions of peace",—an analysis and exposition of the problem of peace from the point of view of the American States, showing the particular interest of each of them in the problem and what bases for agreement exist among them. The Committee for the Study of the Organization of Peace in the United States has been working along similar lines for the past eight months, only without special reference to Latin America. The suggestion is no doubt premature, since the Havana Meeting will doubtless want the Committee to continue as a Neutrality Committee for the duration of the war. But there is no harm in keeping in mind the possibility of enlarging the functions of the Committee when the proper time comes.

The latest recommendation of our Committee was the one on Radio Communications, submitted on June 22.<sup>95</sup> No questions of principle were involved in the recommendation, and the regulations suggested were more or less obvious. But there was nothing more that we could do under the circumstances. We have still the question of automatic contact mines to dispose of, and in my next letter I will explain why the topic has been so long on our hands.

Two of our members, Podestá Costa of Argentina, and Herrera of Venezuela, will be at the Havana Meeting. Their presence will be sufficient to keep the Committee in touch with the points of view ex-

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<sup>95</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix E, pp. 51 ff. Document erroneously dated January 22.

pressed at the Meeting and to explain our work to the Meeting, without the necessity of having Dr. Mello Franco attend at [*as*] "observer".

[Here follows information on Mr. Fenwick's personal activities.]

Sincerely yours,

CHARLES G. FENWICK

740.00111A.R.-N.C./116: Telegram

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

RIO DE JANEIRO, July 4, 1940—1 p. m.

[Received July 5—8: 44 a. m.]

331. Referring my despatch No. 1685, September 5, 1939.<sup>96</sup> The President<sup>97</sup> signed a decree as follows amending the Brazilian neutrality law to provide for the detention of belligerent merchant vessels taking refuge in its ports in line with the Neutrality Committee's recommendations regulating the Security Zone:

"Article 1. The following rules are hereby incorporated into decree law number 1561 of September 2, 1939:

Article 18 (*a*). If a merchant vessel of belligerent flag, fearing hostile acts on the part of the enemy, seeks refuge in Brazilian ports or waters, or if calling there remains there for an unusually and unnecessarily long time, the Brazilian authorities shall take measures to detain the vessel and prevent it from navigating without special authorization.

Article 18 (*b*). While the merchant vessels covered by the foregoing paragraph remain in Brazilian ports as detained vessels the Brazilian authorities will take the following measures without prejudice to other measures that may be deemed suitable:

(*a*) Place the vessel under surveillance, with a guard either on board or else:

(*b*) Determine the port or anchorage in which the vessel should remain;

(*c*) Render the vessel incapable of leaving while under detention;

(*d*) Prohibit the use of the vessel's means of communication;

(*e*) Place the officers and crew at liberty. However, their stay in Brazil will remain subject to the provisions of the laws governing immigration and the admission of aliens and they shall be subject to those measures that may be prompted by the preservation of neutrality or the safety of the state;

(*f*) Exempt the vessel from port dues and taxes.

Article 2. Contrary provisions are revoked."

CAFFERY

<sup>96</sup> Not printed.

<sup>97</sup> Getulio Vargas.



740.00111A.R.-N.C./119

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

WASHINGTON, July 8, 1940.

MY DEAR MR. SECRETARY: I have the honor of sending to you the enclosed copies of the recommendation on telecommunications,<sup>98</sup> formulated by the Inter-American Neutrality Committee and transmitted by the Committee to the Governments of the American Republics through the medium of the Pan American Union.

I beg to remain [etc.]

L. S. ROWE

710.Consultation(2)/446

*Memorandum by the Acting Secretary of State to the Chief of the Division of the American Republics (Duggan)*

[WASHINGTON,] July 11, 1940.

MR. DUGGAN: I think the suggestion contained in the first paragraph on page 2 of Professor Fenwick's letter<sup>99</sup> deserves very serious consideration. I do not, however, favor in the slightest degree the suggested resolution enclosed with his letter.

Please be kind enough to have drafted for my signature some appropriate reply.

740.00111A.R.-N.C./135

*Memorandum by Mr. Philip W. Bonsal of the Division of the American Republics to the Chief of the Division (Duggan)*

[WASHINGTON,] July 14, 1940.

MR. DUGGAN: Attached is the current file with reference to the Declaration of Panama. It is significant, I believe, that this subject was not mentioned by any of the higher officers of the Department in the course of recent conversations with regard to the Habana meeting. It may fairly be assumed that we do not propose to offer anything on this subject. The war situation has changed to such an extent since the formulation of the Neutrality Committee's recom-

<sup>98</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix E, p. 51.

<sup>99</sup> Of July 2, p. 322.

mendation on the Declaration and particularly since the 10th of May<sup>1</sup> that any action of a positive nature on the part of the American republics might injure our friends and help our potential enemies.

There are, however, two matters related to the Declaration to which we may wish to give some attention at the Meeting: (1)—the treatment to be accorded to belligerent merchant vessels which have abandoned for the time being the normal channels of trade and have sought refuge in the ports or waters of the American republics; (2)—the desirability of excluding belligerent submarines from the ports and waters of the American republics.

I have discussed the first of these topics with Mr. Hackworth. He tells me that although the President of the United States has the power, in individual instances, to control and to restrain the movements of belligerent merchant vessels, additional legislation would be needed in order to enable him to intern such merchant vessels as a class merely because they were seeking refuge in our ports. Although I do not believe that we wish to present anything at Habana on this subject, I presume that we would be willing to support a resolution under item 2 of Chapter I of the Agenda to the effect that the Meeting recommends to the Governments of the American republics the desirability of adding to their standards of neutrality a provision restricting the freedom of action of refuged merchant vessels. It is of interest, in this connection, that the President of Brazil on July 4 signed a decree providing for the detention of refuged merchant vessels of belligerents in accordance with a portion of the recommendation of the Neutrality Committee on the Declaration of Panama. A copy of this decree is attached.<sup>2</sup>

With regard to the question of belligerent submarines, we have adopted measures excluding them from our ports. We have also encouraged the other American republics to adopt similar provisions.<sup>3</sup> At the present time, 14 of the 19 republics, including the United States, which have sea coasts, have enacted laws or decrees to this effect. The attitude of Argentina has been negative; we know nothing about the point of view of Colombia, Peru, Costa Rica, and Haiti which are the other republics understood not to provide for the exclusion of belligerent submarines. Informal discussion of this matter at Habana may be profitable.

PHILIP W. BONSAI

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<sup>1</sup> Germany invaded Holland, Belgium, and Luxemburg on May 10. France signed armistice terms on June 22.

<sup>2</sup> Published in the *Diario Oficial*, July 5, 1940, as Decree Law No. 2360, July 3, 1940, p. 12771.

<sup>3</sup> See vol. I, pp. 776 ff.

710.Consultation(2)/446

*The Acting Secretary of State to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, July 24, 1940.

MY DEAR PROFESSOR FENWICK: With reference to your letter of July 2, it is my hope that I will, in the relatively near future, have an opportunity to discuss with you the various interesting points which you raise with regard to the work of the Inter-American Neutrality Committee.

It is my opinion that your thought that the Committee at some future time might be charged by the American republics with a long-range study of the problem of peace from the point of view of the Western Hemisphere deserves very serious consideration. I am inclined, at the same time, to agree with you that this question would probably not come within the scope of the current Meeting at Habana.

[Here follows paragraph on private matter.]

With cordial personal regards,

Sincerely yours,

SUMNER WELLES

740.00111A.R-N.C./136

*Memorandum by the Assistant Chief of the Division of the American Republics (Briggs) to the Under Secretary of State (Welles)*

[WASHINGTON,] August 14, 1940.

MR. WELLES: Professor Fenwick spent the afternoon of August 12 in the Division talking over the work of the Inter-American Neutrality Committee with me and with Mr. Notter<sup>4</sup> and Mr. Bonsal.

We were able to point out to Professor Fenwick that the Habana Meeting had laid out certain work for the Committee including (a) the drafting of a preliminary Project of Convention dealing with the juridical effects of the Security Zone and (b) the drafting of a Project of Inter-American Convention covering all the principles and rules generally recognized in matters of neutrality. It was also indicated that the Meeting authorized the Committee, even though it is permanent in nature, "to hold periodical meetings and to adjourn for a specific time" without prejudice of course to the calling of extraordinary sessions in case of necessity. This provision was very much in accordance with Professor Fenwick's views.

Professor Fenwick indicated that he will leave New York for Rio on or about August 30. He feels confident that Dr. Mello Franco of

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<sup>4</sup>Harley A. Notter, divisional assistant, Division of the American Republics.

Brazil, Ambassador Fontecilla of Chile, Dr. Herrera of Venezuela and Dr. Podestá Costa of Argentina will be available for a resumption of the sessions of the Committee about the middle of September. He expressed some doubt as to the plans of the Costa Rican and Mexican members, Drs. Jimenez and Cordova, respectively. (It is planned to make informal inquiry regarding whether the two last mentioned delegates will return to Rio. The Habana Meeting provided that the Committee may function with the attendance of a minimum of 5 out of its 7 members so that it appears probable that regardless of whether the Mexican and Costa Rican members arrive in Rio at the same time as the other members, no time will be lost.) It is Professor Fenwick's idea that the Committee will be in session for a period of 6 to 8 weeks and will then adjourn to a specific date; he believes that there should be two regular sessions yearly.

Professor Fenwick laid great stress on the fundamental change in the concept of neutrality following the invasion of Holland and Belgium on May 10. If I understood him correctly, his view now is that the problem confronting the American Republics is the protection of their "defensive neutrality" rather than a scrupulous adherence to their traditional rights and duties as neutrals. In this connection, I believe it would be desirable, should you have an opportunity to do so, for you to go over with Professor Fenwick the position which we assumed in regard to the Argentine proposal of "non-belligerency".<sup>5</sup>

ELLIS O. BRIGGS

740.00111A.R.-N.C./136½

*Memorandum by the Assistant Chief of the Division of the American Republics (Briggs)*<sup>6</sup>

[WASHINGTON,] August 14, 1940.

The subject of the attached letter<sup>6a</sup> was discussed with Professor Fenwick; as you are aware, Argentina is very anxious to do whatever may be possible to establish its position that foodstuffs for civilian populations are not Contraband of War. Under the present circumstances, Professor Fenwick believes, and I agree with him, that there is nothing the Inter-American Neutrality Committee could do to advance this position. According to Professor Fenwick, the Committee itself realizes this and the inquiry which it addressed to the American Republics through the Pan American Union was merely to satisfy the pressure to "do something."

E. O. BRIGGS

<sup>5</sup> See vol. I, pp. 743 ff.

<sup>6</sup> Addressed to the Under Secretary of State (Welles) and the Legal Adviser (Hackworth).

<sup>6a</sup> Presumably letter of June 26 from the Director General of the Pan American Union (Rowe) to the Secretary of State, not printed.

740.00111A.R.—N.C./115

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

WASHINGTON, August 16, 1940.

MY DEAR DR. ROWE: I have the honor to refer to your letter of June 26,<sup>7</sup> with which you transmitted the text of a cable communication of June 24, 1940 received from Dr. Afranio de Mello Franco, Chairman of the Inter-American Neutrality Committee, an English translation of which reads as follows:

“For the purpose of complying with clause 3 of the resolution of Panama on Contraband of War, I beg you to request the American Governments to be good enough to communicate to this Committee, at the earliest possible moment, their points of view on the subject, particularly relative to the classification of commodities within absolute or conditional contraband.”

Following a careful consideration of the question of Contraband of War, the conclusion has been reached that the Government of the United States does not have at this time any points of view which it could usefully communicate to the Inter-American Neutrality Committee and that it maintains the position expressed in the resolution entitled “Contraband of War” which was adopted by the Meeting of the Ministers of Foreign Affairs of the American Republics held at Panama in 1939.

Sincerely yours,

SUMNER WELLES

740.00111A.R.—N.C./152

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, October 21, 1940.

[Received October 30.]

DEAR MR. WELLES: On my arrival here in Rio on October 2nd I found only three other members of the Committee present, so that, under the terms of the resolution taken at Havana,<sup>8</sup> we were unable to begin official work. But our Chairman Dr. Mello Franco promptly cabled to Dr. Podestá Costa in Buenos Aires, asking him if he could not join us promptly and enable us to hold formal meetings.

<sup>7</sup> Not printed.

<sup>8</sup> See Department of State, *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21–30, 1940, Report of the Secretary of State* (Washington, 1941), pp. 14, 17, 59, 67.

It appears now that the Argentine government has appointed in place of Dr. Podestá Costa the new ambassador from Argentine to Brazil, Snr. Labougle, and I understand that he is to arrive very shortly, so that we can begin on November 1st as scheduled.

The Venezuelan government is, I am informed, making a new appointment in place of Dr. Herrera, but I have not as yet heard the name of the substitute. I regret very much the loss of Dr. Herrera, because his judgment was always sound and his views clear and convincing. Apparently Costa Rica is not yet ready to make an appointment in place of Snr. Jimenez; but that need not prevent the Committee from getting down to work.

Among the problems before us are the following:

1) We were asked by the Havana Meeting to prepare the draft of a convention dealing with the juridical effects of the Security Zone and the measures which the American states may be disposed to take in cooperation in order to obtain respect for the Zone.

2) We were asked to study the project presented by the Uruguayan delegation at Havana on the Extension of Territorial Waters. In that connection could you be so good as to ask Mr. Duggan to forward to me any observations, which the Department made at Havana, together with the views of the Department that may have been formulated since that time.

3) The problem of food stuffs and other raw materials as contraband, which was put before us by the Meeting at Panama, is still awaiting further discussion, after we have received from the various governments an answer to inquiries sent to them by the Committee last Spring. Conditions have changed so much since October, 1939, that I doubt if even the States which were most interested in the problem at that time are now very eager to obtain an answer.

4) Then there is the larger and more comprehensive task, assigned to us by the Havana Meeting, of preparing a draft convention covering the whole field of the law of neutrality.

This is of course an undertaking which, if carefully carried out, would take us two or three years, depending upon the amount of time we are prepared to give to it. I see no reason why the Committee should not divide up the work into various sections and assign one or more sections to each of its members, so that the preliminary work can be done away from Rio de Janeiro if so desired. I have worked up a rather elaborate classification of the various subjects coming within the general field, and I hope that we can spend some time in clarifying the inter-relation of the various topics before we proceed to undertake the study of them by individual assignment.

With warm personal regards,

Sincerely yours,

CHARLES G. FENWICK

740.00111A.R.-N.C./152

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, November 1, 1940.

MY DEAR PROFESSOR FENWICK: I was delighted to receive your letter of October 21 regarding the work of the Inter-American Neutrality Committee. I note that Dr. Podestá Costa's place is to be taken by Señor Labougle, the new Argentine Ambassador at Rio. I have always had the highest regard and esteem for Dr. Podestá Costa, and I hope that this change will not affect your work unfavorably.

I understand that Señor Jimenez, the Costa Rican member of the Committee, was recently in Caracas on his way to Rio, where I assume he has now arrived.

I am asking Mr. Duggan and Mr. Hackworth to assemble and make available to you any material which they may have concerning the project presented by the Uruguayan delegation at Habana regarding the extension of territorial waters.<sup>9</sup>

Your program for handling the work of preparing a draft convention covering the whole field of the law of neutrality appears to me a wholly logical one, and I shall be interested in learning of developments. If there is any way in which the Department can be of assistance to you in this matter, please let me know. It is a source of real satisfaction to the Secretary and to me that you are taking such an important, constructive part in the work of the Committee.

With cordial personal regards,

Sincerely yours,

SUMNER WELLES

740.00111A.R.-N.C./154

*The Acting Chief of the Division of the American Republics (Bonsal) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, November 16, 1940.

MY DEAR PROFESSOR FENWICK: In further reply to your letter of October 31 [21], and with particular reference to the project presented by the Uruguayan Delegation at Habana on the Extension of Territorial Waters, I take pleasure in transcribing for your personal information the following statement prepared by Mr. Hackworth on this subject:

"It seems to me that Professor Fenwick should endeavor to prevent any definite recommendation by the Neutrality Committee for the acceptance of the 25-mile belt. I say this for the following reasons:

<sup>9</sup> See *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State*, pp. 16, 67.

"The question as to the width of the belt of the territorial waters is one which, as Professor Fenwick knows, has given rise to much discussion, and while the United States, Great Britain, and a number of other countries adhere to the 3-mile rule, certain other countries have claimed jurisdiction for certain purposes to a greater extent but without uniformity, as for example, in connection with fisheries, enforcement of customs laws and regulations, etc. These claims have not been recognized by countries adhering to the theory of the narrower belt. United States customs enforcement officers are authorized to board vessels within 12 miles of our shores when they are suspected of being engaged in smuggling, but prior to the adoption of the 18th amendment to the Constitution, the exercise of such jurisdiction was, for the most part, confined to American vessels. In order to take care of the complaints of foreign governments with respect to the boarding of their vessels outside the 3-mile limit, conventions were entered into with various countries, beginning with Great Britain in 1924,<sup>10</sup> containing reciprocal provisions regarding the boarding of vessels within one hour's sailing distance from the shore under certain conditions. Some of these conventions declared the intention of the parties to uphold the principle of 3 marine miles as the limit of territorial waters while others declared that the parties retained their rights on the question of extent of territorial jurisdiction.

"The Anti-Smuggling Act of 1935<sup>11</sup> gives the President authority to declare customs enforcement areas on the high seas adjacent to American waters for the purpose of dealing with hovering vessels engaged in smuggling operations, but this act can hardly be regarded as a criterion for general purposes since it relates only to smuggling and has not been put to any international test.

"The subject of territorial waters was discussed at The Hague Conference in 1930<sup>12</sup> for approximately a month after more than two years' preparation by the League of Nations for the conference, resulting in failure of agreement. If the American Republics should be able to come to an agreement on the subject there is no assurance that their claim of territorial jurisdiction would be acquiesced in by other Powers but there is every reason to believe that it would not be respected by Powers whose interest came in conflict with the rule as laid down. Moreover, it would require a considerable amount of study to determine how our interests would be affected by a rule different from that to which we are now accustomed. It is certain, however, that the fisheries industry would be prejudiced in waters adjacent to the coasts of other countries.

"... there is little reason for supposing that a 25-mile belt would necessarily be more desirable than one of a greater or lesser width. So many factors need to be considered, such as narrow straits, channels of navigation, historic bays, waters surrounding islands, etc. etc., that the matter does not lend itself to decision in an arbitrary manner."

Mr. Hackworth is of the opinion, in which I concur, that this is probably not a matter which lends itself to satisfactory determination

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<sup>10</sup> See *Foreign Relations*, 1924, vol. I, pp. 157 ff.

<sup>11</sup> Approved August 5, 1935; 49 Stat. 517.

<sup>12</sup> See *Foreign Relations*, 1930, vol. I, pp. 204, 207, 213, 214, 223.



at the present time. It does not appear that the Department expressed any views on this question at Habana other than to suggest that it be referred for consideration to the Committee of Experts on the Codification of International Law.

With cordial personal regards,  
Sincerely yours,

PHILIP W. BONSAI

740.00111A.R.-N.C./153½

*The American Member of the Inter-American Neutrality Committee  
(Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, November 27, 1940.

[Received December 2.]

DEAR MR. WELLES: Many thanks for your letter of November 1st and the encouragement it gives me to continue with the work of the Committee.

May I submit a brief report of our proceedings to date?

At the opening session of the Committee on November 13, which was attended by the Argentine, Mexican<sup>13</sup> and Chilean members in addition to the Chairman and myself, sub-committees were appointed to deal with the two important tasks assigned to us by the Havana Meeting, namely, the preparation of a preliminary draft convention on the Security Zone and the preparation of a draft convention on the law of neutrality.

In connection with the draft convention on the law of neutrality, obviously a task running over several years, I thought it well to start things going by introducing into the minutes an "analytical draft" of a project which I had prepared in advance. The object of this analytical draft is merely to serve as a guide to our studies on the subject. It does no more than outline in a general way the topics to be considered, without in any way suggesting solutions. I enclose a copy of it,<sup>14</sup> with emphasis upon the fact that it is merely a preliminary survey.

Within a few weeks I shall follow up this survey draft with a more detailed draft upon specific topics. These specific topics can then be assigned for study and report to the individual members of the Committee. For the moment everyone is disposed to have me do as much of the work as I am willing to do; to which I have no objection, in as much as it enables me to organize the work in a way that I think will prove most effective.

You know the climate down here at this season, already 90° and 10° more yet to come, to which humidity is to be added. So I am try-

<sup>13</sup> Salvador Martínez Mercado.

<sup>14</sup> Not printed.

ing to get the Committee off to a good start and have it show the twenty-one American Governments that it can do the job assigned to it. I keep insisting that the Committee is a symbol of the unity of America and must demonstrate that the American States can cooperate effectively by such means.

As for the draft convention on the Security Zone, I have prepared a tentative draft of my own for discussion by the sub-committee, and I shall forward it to you by the next air-mail, so that Mr. Hackworth, Mr. Bonsal, and others can criticise it and make suggestions. My own interpretation of the action of the Havana Meeting in this matter was that a number of American States wanted to postpone taking action on the recommendation of the Committee with regard to the zone, and the easiest way to do that was to provide for the drafting of a "preliminary project" which would have to travel a long way before it could reach the stage of requiring action. But be that as it may, the Committee must do its part in setting the machinery in motion.

Some weeks ago the Government of Brazil called the attention of the Committee to the fact that under the broad terms of its recommendation on Internment, if strictly interpreted, it would be necessary to intern British officers then present in Brazil in various commercial capacities. In consequence the Committee has given an "interpretation" of its recommendation, excluding such persons from the application of its terms. These interpretations are to be forwarded to the Pan American Union, to be transmitted by it to the various Governments for their information. I have written to Mr. Bonsal about another question in connection with this same recommendation, which was too minor a matter to trouble you with it.

In view of certain comments made by the Navy and Treasury Departments upon the recommendation of the Committee upon the subject of Telecommunications, which were forwarded to me by Mr. Bonsal, I have asked the Committee to give an informal "interpretation" of the appropriate paragraphs of the recommendation. If you think it advisable, I suggest that the Department make a formal inquiry on the points in question. But if that is not deemed desirable, the Committee will forward its "interpretation" to the Pan American Union without reference to the source of the inquiries made concerning the meaning of the particular provisions. My preference for a formal inquiry from the Department is merely in order that we may be able to show the American Governments that the Committee is prepared to act promptly in regard to particular problems which could not have been foreseen, or were not foreseen, at the time the recommendation was adopted.

Before interpreting the recommendation on Telecommunications the Committee is asking the advice of a group of "experts", among

them being Lt. Commander Graves, our Naval Attaché here in Rio. I shall forward to Mr. Bonsal the results of our discussions in the matter.

With warm personal regards,  
Sincerely yours,

CHARLES G. FENWICK

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740.00111A.R.-N.C./153½

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, December 5, 1940.

MY DEAR PROFESSOR FENWICK: I was pleased to receive your letter of November 27 with its report of the current proceedings of your Committee. All of us here appreciate the time which you have devoted to keeping us up to date on these very important questions. Your own work in giving a constructive and practical direction to the work of the Committee places us all in your debt.

I can fully appreciate the difficult circumstances under which your Committee is now working. Its continued activity, however, appears to me most important. Your analytical draft of a project of an Inter-American convention on the principles and rules of neutrality is indeed a most stimulating indication of the magnitude of the task which confronts you.

The question which you raise as to the making of a formal inquiry by the Department concerning certain points regarding telecommunications is being given careful consideration by Mr. Hackworth, and I will let you know once a decision has been reached.

With warm personal regards,  
Sincerely yours,

SUMNER WELLES

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740.00111A.R.-N.C./162½

*The American Member of the Inter-American Neutrality Committee (Fenwick) to the Under Secretary of State (Welles)*

RIO DE JANEIRO, December 14, 1940.

DEAR MR. WELLES: In order to keep you in touch with the work of our Neutrality Committee I am enclosing herewith a copy of a preliminary draft of the convention on the Security Zone, which the Committee was instructed by the Havana Meeting to prepare.

The draft was submitted to the Committee yesterday by a subcommittee consisting of Sr. Martinez Mercado and myself; and it is obviously nothing more than a first stage in the preparation of the final draft. As you will observe, I followed closely the recommen-

dition of the Committee submitted last April 27th,<sup>15</sup> eliminating superfluous argumentation from the *Considerando* and making the Articles more concise.

The draft emphasises the need of an independent determination of the facts in the case of a violation of the Zone, to determine which belligerent took the initiative; and it suggests that the Neutrality Committee might be the appropriate body to pass upon the facts and give an opinion. It would then be for the Governments, after consultation, to decide what measures to adopt under the circumstances.

Discussion in the Committee yesterday centered upon the "measures of international cooperation" which the Havana Meeting asked the Committee to propose;<sup>16</sup> but the suggestions were of the vaguest character. The problem is to find sanctions of a "pacific character" which will nevertheless indicate that the American Republics intend that the Zone be respected by the belligerents.

Our Committee is proceeding on the assumption that the American Republics want us to draft a convention, whether or not they choose to ratify it after it has been drafted. We are not unaware, of course, of the practical conditions with which a number of the American Governments are confronted.

Under separate cover I am sending to Mr. Bonsal the interpretations given by the Committee to certain questions which he submitted to me from the Navy and the Treasury Departments. These questions, not having been formally submitted to the Committee by the Department, were answered without reference to their origin.

In respect to the Neutrality Code, which the Committee was asked by the Havana Meeting to prepare, I am undertaking to draft a series of articles dealing, one by one, with the topics included in the Analytical Draft which I enclosed in my letter of November 27th. I shall forward these separate sections to you as they are completed.

I might add, in respect to the draft on the Security Zone, enclosed herewith, that no action is likely to be taken by the Committee before the end of January. One of our members is leaving next week for three weeks absence on account of health, and we shall be for the time without a working quorum.

With warm personal regards,

Sincerely yours,

CHARLES G. FENWICK

P. S. Needless to say the Committee will welcome criticisms and suggestions in respect to the enclosed draft, allowance being made for the fact that the draft is of the most tentative character.

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<sup>15</sup> Printed in *Special Handbook prepared by the Pan American Union*, Appendix F, p. 57. See also letter from the American Member of the Inter-American Neutrality Committee to the Under Secretary of State, May 3, *ante*, p. 301.

<sup>16</sup> See *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State*, pp. 14, 59.

[Enclosure]

*Preliminary Draft of the Convention on the Security Zone*<sup>17</sup>

## THE GOVERNMENTS OF THE AMERICAN REPUBLICS

*Considering:*

1) that the Declaration of Panama, approved October 3, 1939, solemnly asserts that "as a measure of self-protection, the American Republics, so long as they maintain their neutrality, are as of inherent right entitled to have those waters adjacent to the American continent, which they regard as of primary concern and direct utility in their relations, free from the commission of any hostile act by any non-American belligerent nation, whether such hostile act be attempted or made from land, sea or air";

2) that the basis of this "inherent right" is the fundamental law of self defense, universally recognized in the relations of states as well as of individuals, which must take new forms to meet the new conditions presented by the present war;

3) that the assertion of the right claimed by the American Republics in respect to the Security Zone was made necessary not only by the establishment by the belligerents of war zones from which neutral ships have been excluded except at the risk of destruction without warning, but by the adoption by the belligerents of methods of warfare which have practically closed the highways of neutral commerce with many nations of Europe and have resulted in heavy losses to neutral shipping;

4) that in consequence of these unlawful acts of the belligerents the American Republics have been forced to segregate their own continental waters from the theater of war and to adopt measures for the protection of their own inter-American communications and assure to themselves the possibility of peaceful intercourse on this continent;

5) that the American Republics, in fixing the limits of the Security Zone established by the Declaration of Panama, were not claiming thereby any corresponding extension of territorial waters, but were seeking to ensure the safety of coastal towns and of local shipping as well as the protection of inter-American communications in the normal maritime routes of commerce and trade between the countries of America; the waters of the undisputed possessions of non-American states being expressly excluded from the zone;

6) that the American Republics recognize the necessity on their own part of taking measures to prevent their neutral ports from being made bases of operations by the belligerents, whether through the un-

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<sup>17</sup> A notation on the original indicates that the Spanish text was entered in the minutes of the Neutrality Committee for December 13, 1940.

lawful use of those ports by the belligerents themselves or through the acts of individual persons acting in the interest of the belligerents; and that in order to attain better this end they propose to keep a vigilant watch over all merchant vessels entering and leaving their ports and harbors so as to prevent as far as possible any contacts between such vessels and belligerent warships on the high seas;

7) that the American Republics, while acknowledging the right of self-defense which each belligerent may have in repelling an unprovoked attack by the other, do not intend to waive their claim to the Security Zone by leaving the decision as to the necessity of self-defense to the arbitrary determination of the belligerents, but propose to determine that issue for themselves by an independent investigation of the facts relating to a violation of the Zone and an official determination by their own authorized body of the responsibility for the said violation;

8) that the American Republics, while seeking, in accordance with the terms of the Declaration of Panama, to secure the observance of the Security Zone by joint representation to the belligerents of the reasonableness of the claim made in respect to the Zone, nevertheless are determined to use the means at their disposal, of a pacific character and within their rights under international law, in order to express their condemnation of acts of hostility that may be committed in violation of the Zone;

*Have Resolved to conclude the following Convention:*

I—The American Republics, in accordance with the terms of the Declaration of Panama, consider the waters included within the limits of the said Declaration as a "security zone" free from the commission of any hostile act by any non-American belligerent nation, whether such act be attempted or made from land, sea, or air.

These waters are defined as follows: All waters comprised within the limits set forth hereafter except the territorial waters of Canada and of the undisputed colonies and possessions of European countries within these limits. Beginning at the terminus of the United States-Canada boundary in Passamaquoddy Bay, in 44° 46' 36" north latitude, and 66° 54' 11" west longitude;

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

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

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

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

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

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

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

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

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

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

II—Within the waters of the said Security Zone it is forbidden to exercise any belligerent activity or commit any hostile act, such as attack, capture, pursuit, visit or search of neutral vessels, laying of mines, cutting of cables, or any other operation of war, whether put into effect from land, sea or air, except only such measures as may be taken by a belligerent to resist an attack or operations begun without the Zone and continued within it without break in the continuity of the action.

III—The American Republics, in their character as neutral states, shall adopt, within their respective jurisdictions, the measures at their disposal both to prevent belligerent warships from using their neutral ports or their territorial waters as bases of naval operations by making repairs or by obtaining fuel and other supplies in excess of the limitations imposed by international law, and to prevent merchant ships, whether of belligerent or of neutral flag, from making use of their neutral ports to give assistance to belligerent warships whether during the time the said warships are in port or later when they are on the high seas.

IV—In the event of a violation of the Security Zone, in whatever manner it may come about, the American Republics shall make a joint investigation of the facts attending the said violation in order to determine which of the belligerents took the initiative in the said violation. To this end, the respective diplomatic officials of the American states resident in the country nearest to the scene of the violation shall, to the extent of their ability, collect the facts with regard to the violation and transmit them to their respective Governments as soon as possible, to the effect that the said Governments, in their turn, may place the facts at the disposal of the Inter-American Neutrality Committee, without delay. The Governments of the said country nearest to the scene of the violation of the Zone shall also on its part collect the facts with regard to the violation, in so far as the means at its disposal permit, and shall transmit them promptly to the Inter-American Neutrality Committee. The Committee, having before it the information thus submitted to it, shall forward to the Governments of the American Republics its opinion on the case.

V—The American Republics, having received the report of the Inter-American Neutrality Committee in respect to a violation of the Security Zone, shall consult, as promptly as possible, with regard to the opinion of the Committee and with regard to the measures to be taken in order to maintain the integrity of their right to the protection of the zone. Such consultation shall be without obligation on the part of any one of the American Republics in respect to the acceptance or approval of any such measures as may be proposed for the enforcement of the zone.

VI—The American Republics, acting in the light of their conclusions in respect to the report of the Inter-American Neutrality Committee, shall undertake to secure redress for the violation of the zone by one or more of the following measures :

- 1) they shall protest collectively to the belligerent which they consider to be guilty of the violation of the zone ;
- 2) they shall refuse to admit to their ports the particular warships or airships guilty of the violation ;
- 3) they shall refuse to admit to their ports all warships or airships of the belligerent responsible for the violation ; provided, however, that denial of admission to port shall not prevent assistance of a purely humanitarian character being given to the crew of the said ships.
- 4) . . . . .
- 5) . . . . .
- 6) . . . . .

740.00111A.R.—N.C./162a

*The Under Secretary of State (Welles) to the American Member of the Inter-American Neutrality Committee (Fenwick)*

WASHINGTON, December 27, 1940.

MY DEAR PROFESSOR FENWICK: I have received your letter of December 14 enclosing a copy of a preliminary draft of a convention on the Security Zone. I appreciate your thoughtfulness in furnishing me with the background contained in your letter regarding this matter.

The draft in question will be studied in the Department as promptly as possible. We will of course bear carefully in mind your emphasis of the fact it is of the most tentative character.

With warm personal regards,

Sincerely yours,

SUMNER WELLES



ESTABLISHMENT OF THE EMERGENCY COMMITTEE FOR  
THE PROVISIONAL ADMINISTRATION OF EUROPEAN  
COLONIES AND POSSESSIONS IN THE AMERICAS  
UNDER THE ACT OF HABANA <sup>1</sup>

710.Consultation(2)A/1

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

WASHINGTON, August 15, 1940.

MY DEAR MR. SECRETARY: The Act of Habana approved at the Second Meeting of the Ministers of Foreign Affairs of the American Republics, provides that each of the American Republics shall appoint as soon as possible a representative on the emergency committee which is entrusted with certain duties in case it becomes necessary to undertake the provisional administration of European colonies and possessions in the Americas.

The aforesaid Act does not designate a central depository charged with keeping a record of the appointments made by the individual governments to the emergency committee, nor does it set forth the method by which these appointments shall be communicated to the other governments concerned.

In view of this circumstance and of the numerous precedents which entrust such purely administrative functions to the Pan American Union, I beg to inquire whether it will be agreeable to the Government of the United States of America to transmit to the Union the name of its representative appointed to membership on the above mentioned emergency committee, with the understanding that the Union shall communicate each appointment to the other American Republics, without prejudice, of course, to the direct communication of this information between the governments.

I beg [etc.]

L. S. ROWE

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<sup>1</sup> Act of Habana concerning the provisional administration of European colonies and possessions in the Americas, *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941), pp. 75-77; Executive Agreement Series No. 199, or 54 Stat. (pt. 2) 2491; see also section entitled, "Second Meeting of the Foreign Ministers of the American Republics, held at Habana July 21-30, 1940," *ante*, pp. 180 ff.

710.Consultation(2)A/1

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

WASHINGTON, August 28, 1940.

MY DEAR DR. ROWE: I have your letter of August 15, 1940 concerning the appointment of the Emergency Committee for the Provisional Administration of European Colonies and Possessions in the Americas for which provision is made in the "Act of Habana" approved by the Second Meeting of the Ministers of Foreign Affairs of the American Republics.

I am glad to inform you that the Honorable Sumner Welles, Under Secretary of State, has been designated as the representative of this Government on the Emergency Committee. It is noted that you plan to communicate each appointment to the other American Republics, and I shall be glad if you will inform the other governments, members of the Pan American Union, of the appointment of the representative of this Government. I shall look forward to receiving from you information concerning the appointments made by the other American Republics.

Sincerely yours,

CORDELL HULL

710.Consultation(2)A/1 : Circular telegram

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

WASHINGTON, August 28, 1940—8 p. m.

Mr. Welles has been designated as the representative of this Government on the Emergency Committee for the Provisional Administration of European Colonies and Possessions in the Americas for which provision is made in the "Act of Habana". This Committee is to function until the convention adopted at Habana goes into effect.

Please take an early opportunity to inform the Minister of Foreign Affairs of the country to which you are accredited of Mr. Welles' appointment and express the hope that the Committee may be established at an early date.

HULL

710.Consultation (2) A/28

*Memorandum by the Chief of the Division of International Conferences (Kelchner)*<sup>2</sup>

[WASHINGTON,] October 24, 1940.

The Government of Ecuador has just appointed Captain Alfaro as its representative on the Emergency Committee for the Provisional Administration of European Colonies and Possessions in the Americas. This appointment is the fourteenth and, therefore, in accordance with the Act of Habana, the Committee is now constituted.

There is attached herewith a list of the present members of the Emergency Committee. I understand that the Pan American Union is making an appropriate announcement.

WARREN KELCHNER

[Annex]

## EMERGENCY COMMITTEE FOR THE PROVISIONAL ADMINISTRATION OF EUROPEAN COLONIES AND POSSESSIONS IN THE AMERICAS

Argentina	
Bolivia	Señor Dr. Don Luis Fernando Guachalla, Minister at Washington.
Brazil	Senhor Doutor Mauricio Nabuco
Chile	
Colombia	
Costa Rica	Dr. Don Luis Fernández Rodriguez, Minister at Washington.
Cuba	Señor Dr. Pedro Martínez Fraga, Ambassador at Washington.
Dominican Republic	Señor Don Andrés Pastoriza, Minister at Washington.
Ecuador	Señor Capitán Colón Eloy Alfaro, Ambassador at Washington.
El Salvador	Señor Dr. Don Hector David Castro, Minister at Washington.
Guatemala	Señor Dr. Don Adrian Recinos, Minister at Washington.
Haiti	Mr. Elie Lescot, Minister at Washington.
Honduras	Señor Dr. Don Julian R. Caceres, Minister at Washington.
Mexico	
Nicaragua	
Panama	Señor Dr. Don Jorge E. Boyd, Ambassador at Washington.

<sup>2</sup> Addressed to the Secretary of State and to the Under Secretary of State (Welles).

Paraguay	
Peru	Señor Don Manuel de Freyre y Santander, Ambassador at Washington.
United States	The Honorable Sumner Welles, Under Secretary of State.
Uruguay	
Venezuela	Señor Dr. Don Dógenes Escalante, Ambassador at Washington.

[This Emergency Committee did not actually function. Upon the declaration of war against the United States by Germany and Italy, the Department of State took action to have the membership reconstituted with diplomatic representatives in Washington to replace those who were no longer in this country. The powers and functions of the committee were transferred to the Inter-American Commission for Territorial Administration which was set up in accordance with the Convention signed at Habana, July 30, 1940, which became effective January 8, 1942 (Treaty Series No. 977; 56 Stat. 1273.) Pending designation of new members, the members of the Emergency Committee became members of the new commission.]

## THE INTER-AMERICAN FINANCIAL AND ECONOMIC ADVISORY COMMITTEE

[For the establishment of the Committee, see *Foreign Relations*, 1939, vol. v, pp. 42 ff. For the work of the Committee in 1940, see the following sections in this volume: The Inter-American Development Commission, pp. 374 ff.; Unperfected Convention for the Establishment of an Inter-American Bank, Signed May 10, 1940, pp. 346 ff.; Participation of the United States in the Inter-American Maritime Conference, Held in Washington, November 25–December 2, 1940, pp. 414 ff.; and Inter-American Coffee Agreement, Signed at Washington November 28, 1940, pp. 380 ff. The minutes of the Committee are contained in Pan American Union, *Actas de las sesiones del Comité consultivo económico financiero interamericano* (Washington, 1939–1945, 18 vols., mimeographed), the minutes for 1940 being contained in volumes II–VIII.]

UNPERFECTED CONVENTION FOR THE ESTABLISHMENT OF AN INTER-AMERICAN BANK, SIGNED MAY 10, 1940 <sup>1</sup>

710.Bank/36

*The Secretary of State to the Chairman of the Inter-American Financial and Economic Advisory Committee (Welles)*

WASHINGTON, March 13, 1940.

MY DEAR MR. CHAIRMAN: I acknowledge receipt of your letter of February 16, 1940,<sup>2</sup> transmitting for the consideration of my Government a resolution adopted by the Inter-American Financial and Economic Advisory Committee<sup>3</sup> on February 7, 1940 recommending to the Governments of the American republics the establishment of an Inter-American Bank. You request that the Committee be informed, before March 15, 1940, whether the Government of the United States finds any fundamental objection which in its opinion would prevent it from signing the proposed Convention relating to the establishment of such institution, and state that the Committee will take into consideration any objections that may be presented and will take action with respect to them as soon as possible, so that on April 14, 1940 the definitive project may be deposited in the Pan American Union for signature by the Governments of the American republics.

I take pleasure in informing you that the Government of the United States, having studied the project in question and not finding any fundamental objection, is prepared to sign the proposed Convention on April 14, 1940, believing that the establishment of an Inter-American Bank would be a step of major importance in the development of inter-American financial and economic cooperation.

My Government has been enabled, because of the location in Washington of the Inter-American Committee, to follow the proceedings of the Committee and its Subcommittees in every detail and through its delegate to make frequent comments and suggestions during the

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<sup>1</sup> See also Pan American Union, *Organization and Activities of the Inter-American Financial and Economic Advisory Committee* (Washington, 1941, mimeographed), pp. 1-2 and Appendices IV and V; *Comité Consultivo Económico Financiero Interamericano, Manual de su organización y actividades, 1939-1943* (Washington, n.d.), pp. 77-79; Department of State *Bulletin*, March 16, 1940, pp. 305-306; *ibid.*, May 11, 1940, pp. 512-525.

<sup>2</sup> Not printed.

<sup>3</sup> See section entitled "Establishment of the Inter-American Financial and Economic Advisory Committee," *Foreign Relations*, 1939, vol. v, pp. 42 ff.

course of the Committee's deliberations. The United States delegate will, of course, remain free to make further comments and suggestions with regard to the Inter-American Bank proposal during the subsequent sessions of the Inter-American Committee and its Subcommittees which consider the drafting of the definitive project.

Faithfully yours,

CORDELL HULL

710.Bank/199a

*The Secretary of State to President Roosevelt*

WASHINGTON, July 3, 1940.

THE PRESIDENT: The undersigned, the Secretary of State, has the honor to lay before the President, with a view to its transmission to the Senate to receive the advice and consent of that body to ratification, if his judgment approve thereof, a convention for the establishment of an Inter-American Bank.

There is also enclosed a copy of a memorandum prepared by the experts of this Department describing in some detail the proposed Inter-American Bank.

Respectfully submitted,

CORDELL HULL

[Enclosure 1]

PRESIDENT ROOSEVELT TO THE SENATE OF THE UNITED STATES

To the end that I may receive the advice and consent of the Senate to ratification I transmit herewith a convention for the establishment of an Inter-American Bank. This convention has been signed on behalf of the Governments of the United States, Bolivia, Brazil, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, and Paraguay, and remains open to the adherence of others of the American republics.

I also transmit for the information of the Senate a report on the convention made to me by the Secretary of State.

It is my opinion that the establishment of an Inter-American Bank would be a step of major importance in the development of Inter-American financial and economic cooperation and the economic implementation of the good neighbor policy. It has been apparent for some time that there has existed a wide zone of economic and financial activity among the American republics for which the existing machinery of cooperation has been inadequate.

The Bank, generally speaking, is designed to promote a fuller development of the natural resources of the Americas, to intensify economic and financial relations among the American republics, and to mobilize for the solution of economic problems the best thought and experience in the Americas. Its organization, purposes, and powers

are provided for in detail in the charter and by-laws of the Bank which are annexed to the convention and are integral parts of it.

Since it is envisaged that the proposed Bank would be set up under a Federal charter granted by the United States, I, in accordance with the terms of the convention, request that the Congress issue such a charter. A bill embodying such charter and additional enabling provisions to permit the participation of the Government of the United States in the Bank is transmitted herewith. This bill was drafted by experts of the Departments of State and Treasury, the Federal Loan Agency, and the Board of Governors of the Federal Reserve System.

[Enclosure 2]

#### MEMORANDUM

The present project for the establishment of an Inter-American Bank is the result of several months of intensive work in the Inter-American Financial and Economic Advisory Committee and is the outcome of many years of discussion of the desirability of creating such an institution. The First International Conference of American States discussed the matter of providing adequate inter-American banking facilities, and on April 14, 1890, adopted a resolution recommending that the governments grant liberal concessions to facilitate inter-American banking and especially such as might be necessary for the establishment of an international American bank. This resolution was approved by a vote of 14 to 0, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, the United States, and Venezuela all indicating their concurrence. The Secretary of State, James G. Blaine, in transmitting the resolution to President Harrison indicated his approval of passage of a law by the United States incorporating such an inter-national American bank, and President Harrison transmitted the resolution and letter of Secretary Blaine to the Congress for appropriate action.

The Second International Conference of American States on January 21, 1902, recommended that a powerful inter-American bank be set up in New York, Chicago, San Francisco, New Orleans, Buenos Aires, or any other important mercantile center and that it be assisted in every manner compatible with the internal legislation of each of the American republics. This resolution was signed by Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, the United States, and Uruguay.



The provision of inter-American banking facilities, especially in view of the dislocations occasioned by the European war, was discussed at length at the First Pan American Financial Conference which met from May 24 to 29, 1915.

In 1933, the Seventh International Conference of American States, upon the initiative especially of the delegations of Peru and Uruguay, unanimously adopted a resolution recommending the creation of an inter-American bank to establish and promote inter-American credit and the interchange of capital, to collaborate in the reconstruction of national monetary conditions, and to perform such other tasks as the Third Pan American Financial Conference might entrust to it. The Third Pan American Financial Conference did not take place, and the Eighth International Conference of American States in 1938 considered a number of resolutions which had been presented to the Seventh Conference and to the Inter-American Conference for the Maintenance of Peace, which took place in 1936. It resolved to request the Pan American Union to study the possibilities of establishing an organization to carry out the purposes envisaged.

In 1939, the Meeting of the Foreign Ministers of the American Republics at Panamá adopted a resolution creating the Inter-American Financial and Economic Advisory Committee to study, among other things, the need, form, and conditions for the establishment of an inter-American banking institution. Later in the same year the First Meeting of Finance Ministers of the American Republics at Guatemala recommended to the urgent attention of the Inter-American Financial and Economic Advisory Committee a study of the desirability of creating such a bank.

The Inter-American Financial and Economic Advisory Committee began its work in Washington on November 15, 1939, and immediately turned its attention to the matter of an inter-American Bank. After several months of intensive effort in which the delegates representing the twenty-one American republics were assisted by a group of experts from the United States Departments of State and Treasury, the Board of Governors of the Federal Reserve System, and the Federal Loan Agency, the Inter-American Committee on February 7, 1940 adopted a resolution recommending to the governments of the American republics the establishment of such a bank and submitted for their consideration drafts of a convention, charter, and by-laws for its establishment. Comments and suggestions were received from a number of the governments and were carefully studied, and on April 16, 1940 the Inter-American Committee approved the final texts mentioned above.

The charter and by-laws of the proposed institution, which are annexed to the Convention and are integral parts of it, provide in

detail for its organization, purposes, and power. The Bank is to be an intergovernmental organization. All of the shares are to be subscribed by governments of the American republics, and none of the shares may pass to others than governments of the American republics. The minimum number of shares to be subscribed by each of the American republics in order to participate in the Bank is specified in section 2-B of the by-laws; this schedule is based upon the foreign trade of each of the American republics in the year 1938. According to this schedule the United States is in group H with Argentina and Brazil; the members of this group are required to subscribe to a minimum of 50 shares, or \$5,000,000 each. The liability of shareholding governments on their shares is limited to the issue price thereof.

Voting among participating nations is distributed as follows, in accordance with section 2-H of the by-laws: 20 votes for each government for its minimum shares and 1 vote for each additional share which it may subscribe. Important decisions require a four-fifths vote.

The directors of the Bank are all to be appointed by the shareholding governments and are to be responsible to them alone. Generally speaking, moreover, the Bank may take no action which may affect a particular nation until after that nation has been given an opportunity to object to, or has given its consent, approval, or guaranty to the operation. This safeguard of the interests of individual nations is inherent in the entire plan and appears throughout the drafting. In addition, it is specifically provided in section 5-C that:

“The operations of the Bank shall at all times be conducted in conformity with the laws of the territory where the Bank is acting and, so far as possible, be conducted in conformity with the policies of the participating government directly concerned.”

The powers with which it is proposed to endow the projected institution are specified in section 5-B of the by-laws. In general it may be said that the Bank is given rather broad powers, subject to restrictions which will be mentioned immediately below, to engage in all usual banking operations. In keeping with the intergovernmental character of the institution, it is specified that all extensions of credit by the Bank, either direct or indirect, must be to a participating government or to a fiscal agency, central bank, political subdivision, or national of a participating government with the guaranty of that government, or, in the case of extensions of credit having a maturity not exceeding two years to any such fiscal agency, central bank, political subdivision, or national, which may be made without government guaranty, only if the government thereof does not make a timely objection. In this way, and in accordance with the provisions of section 5-C of the by-laws, which was quoted above, special care

has been taken to ensure to each country the ability to bar any activity of the Bank within its territory which such country may deem undesirable.

While the purposes and powers of the projected Bank have been stated in fairly broad and elastic terms, as is both customary and essential in the organic laws of such institutions, discussions during the drafting of the convention and by-laws indicated that it was the intention of the Inter-American Financial and Economic Advisory Committee to complement existing financial institutions rather than to provide a substitute for them.

In view of the intergovernmental character of the Bank, arising especially from the fact that all the participants are sovereign governments, article II of the convention would grant to the proposed Bank certain rights, privileges, immunities, and exemptions which would permit the Bank to carry on any operations to which the governments concerned have indicated no objection without being liable to subsequent unilateral action against the Bank by any of the governments. Special care has been taken in the drafting to concede such rights, privileges, immunities, and exemptions which are essential to the proper functioning of the Bank without permitting abuses to occur. Thus article II, A and D, of the convention permits legal action in regard to adjudicated claims against the Bank and its depositors. Similarly, article II C specifically excludes general non-discriminatory taxation, such as income taxation, upon individuals dealing with the Bank from any tax exemption accorded by the convention. Moreover, article II B assures the Bank that, where exchange restrictions or controls exist, it shall be accorded facilities for transferring out from a country, on the most favorable basis, amortization, interest, and other returns only from loans and investments of funds to which the government concerned had not previously made the timely objection which it is privileged to make.

It is provided that the convention shall come into force when ratifications of five of the signatory countries which have agreed to subscribe for at least a total of 145 shares of the stock of the Bank have been deposited with the Pan American Union, and that each party shall remain bound under the convention for one year after it ceases to participate in or to be in any way obligated to the Bank.

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[The Convention for the Establishment of an Inter-American Bank was signed at Washington on May 10, 1940, by the United States, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, and Paraguay, and on May 13 by Brazil. It was laid before the President by the Secretary of State on July 3, 1940, and sent by the President to the Senate on July 5, 1940. The Convention was withdrawn from the

Senate by President Truman on April 8, 1947. For the text of the Convention, see Department of State *Bulletin*, May 11, 1940, pp. 512-522; or Executive K, 76th Congress, 3d Session. For President Truman's request for withdrawal, see Executive M, 80th Congress, 1st Session. For the Senate Resolution returning the Convention, see *Congressional Record*, April 17, 1947, vol. 93, pt. 3, p. 3583.]

PROGRAM PROPOSED BY THE UNITED STATES FOR  
INTER-AMERICAN ECONOMIC COOPERATION

610.0031/37

*Memorandum by the Assistant Secretary of State (Berle) to the Under  
Secretary of State (Welles)*

[WASHINGTON,] May 24, 1940.

MR. WELLES: Should the result of the present fighting be German domination of Europe, we must expect that German dominated trade delegations will appear in various Latin American countries very soon, for the purpose of working out barter arrangements.

If these barter arrangements are consummated, country by country, the German bloc will be able to put such pressure on any one country as virtually to compel it to accept any terms offered, economic and perhaps also political.

The obvious answer to this is an immediate agreement between the twenty-one republics that commercial negotiations shall be carried on not by individual countries but by all of them in bloc. It will be recalled that this proposal was made by Colombia at the Lima Conference,<sup>1</sup> and that this project was referred to the Pan American Union for study.

I suggest, accordingly, that the Inter-American Economic Committee<sup>2</sup> take up a proposal for a joint agreement as to any trade arrangements with Germany, Italy, or Russia—or, possibly, with any countries outside the American hemisphere.

I suggest that, immediately, plans are drawn by which the necessary amounts of money are made available for the time being to purchase certain amounts of exports from countries which live on such exports, these commodities to be pooled and stored, and handled much as we handle our own surplus commodities. In this last regard I am inclined to think legislation may be necessary, and I believe that we should promptly ask the Inter-Departmental Committee on Eco-

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<sup>1</sup> See *Foreign Relations*, 1938, vol. v, pp. 1 ff. For text of Colombian proposal, see Department of State, *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. 159.

<sup>2</sup> The Inter-American Financial and Economic Advisory Committee; see bracketed note, p. 345.

conomic Policy to take charge of drafting such legislation. Included in the powers of the pool should be the power to use the commodities for relief, for preparedness, or for other purposes.

The set-up should obviously be for a limited period of time: say two years.

A. A. BERLE, JR.

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610.1131/308½

*Memorandum by Mr. Emilio G. Collado of the Division of the American Republics*<sup>3</sup>

[WASHINGTON,] June 10, 1940.

#### AN ECONOMIC PROGRAM FOR THE AMERICAS

In the last several weeks all sorts of plans and programs have been advanced within the Department and within the Government for attacking the economic problem which the international situation is causing in the American Republics. The present memorandum will attempt to measure the extent of the problem, summarize briefly a number of the proposals which have been set forth, and suggest a plan for attacking the entire problem.

##### *The Extent of the Problem*

During the period 1935 to 1938 the total exports of the twenty other American Republics averaged just under two billion dollars a year. Of the total, about 7 percent consisted of trade among the twenty other American Republics, about 32 percent consisted of exports to the United States, about 55 percent was ultimately destined for Europe, less than 2 percent went to each of Japan and Canada, and the small remainder was shipped elsewhere. It will readily be seen that, under present international circumstances, the greatest concern of the other American Republics is with the \$1,069,000,000 worth of products which during this four-year period were shipped, on the average, annually to Europe. This figure also highlights the fact that while the United States was much the largest individual market for the products of the other American Republics, with England taking only slightly over one-half as much as the United States, Europe as a whole constituted a much larger market than the United States.

Turning to the individual commodities exported, it is found that 20 leading commodities or groups of commodities constitute 88 per-

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<sup>3</sup> Addressed to the Chief of the Division of the American Republics (Duggan), to the Assistant Secretary of State (Berle), and to the Under Secretary of State (Welles).

cent of the total exports of the other American Republics. The following paragraphs will discuss each of these 20 leading commodities or groups in a summary fashion.

*Petroleum.* Petroleum is the greatest export of the other American Republics, amounting in 1938 to \$317,000,000 and 33,000,000 tons. Statistical analysis is complicated by the fact that a large percentage of Venezuelan oil is shipped to the Netherlands West Indies where it is refined and reshipped. Nevertheless, it appears that about one-sixth of the total, or perhaps \$50,000,000 worth of petroleum, was shipped from the other American Republics to the United States, either directly or via the Netherlands West Indies. Practically all of the rest was shipped to Europe. The principal countries of origin were Venezuela (79 percent), Peru (8 percent), Colombia (6 percent), and Mexico (5 percent).

In view of the fact that practically no petroleum is imported into the United States except from the other American Republics and from the Netherlands West Indies, and the United States is in fact on an export basis, it would not appear practicable greatly to expand imports of petroleum into the United States from the other American Republics to make up for the loss of European markets.

*Coffee.* Coffee is the second most important export of the other American Republics, amounting in 1938 to 26,000,000 bags valued at \$234,000,000. The principal countries of origin were Brazil (57 percent), Colombia (21 percent), Venezuela (5 percent), and several Central American countries.

The United States is, of course, by far the largest market, taking \$134,000,000 worth of the total. Imports into the United States from countries outside of this Hemisphere are very small. In view of this situation, the possibility of diverting exports of the other American Republics from Europe to the United States (amounting to almost \$100,000,000) is small. Two suggestions have been offered for increasing the use of coffee in the United States: One is to try to induce blenders to use more coffee and less other substances in blending coffee; the other is to develop the use of coffee in the production of plastics. Neither of these possibilities would appear to hold out much hope for the immediate future.

*Meats.* The other American Republics in 1938 exported 725,000 tons of meats valued at \$124,000,000. The principal countries of origin were Argentina (80 percent), Uruguay (10 percent), Brazil (9 percent), and Chile (1 percent).

The United States imported but 5 percent of the total—mainly in the form of canned meats. Most of the remainder went to the United Kingdom, with small amounts to several other European countries. Imports into the United States of meats and meat products from nations outside of this Hemisphere have consisted principally of hams

from Central Europe. Latin America is not in a position to supply this demand.

*Sugar.* In 1938 the other American Republics exported 23,000,000 bags of sugar valued at \$116,000,000. The principal countries of origin were Cuba (86 percent), Dominican Republic (7 percent), Peru (5 percent), and Haiti (1 percent).

The United States imported about \$80,000,000 worth, or 72 percent of the total. Most of the remainder went to the United Kingdom.

*Copper.* In 1938 the other American Republics exported 484,000 tons of copper valued at \$107,000,000. The principal countries of origin were Chile (76 percent), Peru (13 percent), Mexico (8 percent), and Cuba (3 percent).

Of the total, 35 percent or over \$30,000,000 worth was shipped to the United States, most of the remainder going to Europe and Japan. The United States imported about 30 percent of its requirements from nations other than the American Republics—16 percent from Canada and 14 percent from Europe and Africa. There is apparently no reason why imports from Europe and Africa could not be replaced by either Latin American or domestic copper.

*Wool.* Exports of wool from the other American Republics in 1938 amounted to 215,000 tons valued at \$92,000,000. The principal countries of origin were Argentina (52 percent), Uruguay (37 percent), Chile (6 percent), Peru (3 percent), and Brazil (2 percent).

Of the total, but \$8,000,000, or 8 percent, came to the United States, the remainder being shipped to Europe and Japan. In addition to its imports from the other American Republics, the United States imported in 1938 about \$15,000,000 worth, mainly from British Dominions in the Far East. In view of British war time regulations the United States has recently taken substantially larger quantities of wool from South America and it is believed that additional supplies could be obtained to replace those formerly imported from elsewhere. Wool presents a product which the United States imports from the other American Republics that might well be increased substantially.

*Cotton.* In 1938 the other American Republics exported 384,000 tons of cotton, valued at \$67,000,000. The principal countries of origin were Brazil (70 percent), Peru (18 percent), Mexico (5 percent), and Argentina (5 percent).

Only \$2,000,000 worth or 2 percent of the total was exported to the United States, approximately 80 percent to Europe, and 17 percent to Japan. The United States also imported about \$7,000,000 worth of cotton from other sources, over \$3,000,000 from Egypt consisting of the long staple variety. The Peruvian cotton constitutes a possible but not particularly acceptable substitute for the Egyptian variety.



The United States, of course, has tremendous stocks of the short staple variety.

*Metals other than Copper and Tin.* These metals were exported from the other American Republics in 1938 in the amount of 2,700,000 tons valued at \$73,000,000. Principal countries of origin were Mexico (64 percent), Bolivia (9 percent), Peru (8 percent), Cuba (6 percent), Chile (5 percent), and Argentina (4 percent).

Of the total, 42 percent or \$31,000,000 worth was exported to the United States, and most of the rest went to Europe. Some \$21,000,000 worth of similar products was imported into the United States from countries outside of this Hemisphere and consists in large measure of Manganese from the U. S. S. R. In case of necessity this might be obtained from Cuba and Brazil, but a greater organization of the Brazilian industry would be necessary in order to permit this diversion.

*Hides and Skins.* Exports from the other American Republics of hides and skins amounted in 1938 to 237,000 tons valued at \$63,000,000. The principal countries of origin were Argentina (50 percent), Brazil (19 percent), and Uruguay (13 percent).

The United States took \$15,000,000 worth, or 24 percent of the total, and most of the rest went to Europe. The United States also imported \$20,000,000 worth of these products from other parts of the world.

It is believed that imports of goat and sheep skins from the other American Republics might be stimulated, but calf skins are not available to supply United States demands.

*Wheat.* In 1938 the other American Republics exported 2,000,000 tons of wheat valued at \$61,000,000, the principal countries of origin being Argentina (98 percent) and Uruguay (2 percent). None is imported into the United States, which is a large wheat exporter. The largest market is Brazil, which takes 48 percent of the total, and most of the rest goes to Europe and Japan.

*Linseed.* In 1938 the other American Republics exported 1,300,000 tons of linseed valued at \$60,000,000, Argentina supplying 95 percent of the total and Uruguay the remainder. The United States took 26 percent or over \$15,000,000 worth and most of the remainder went to Europe. Imports into the United States from other than this Hemisphere are negligible.

*Corn.* In 1938 the other American Republics exported 2,700,000 tons of corn valued at \$59,000,000, Argentina exporting 95 percent of the total and Brazil most of the remainder. None was shipped to the United States, which is on an export basis except in years of drouth.

*Nuts, Waxes, Oils, Chicle, and Extracts.* In 1938 the other American Republics exported 768,000 tons of these products valued at

\$38,000,000. The principal suppliers were Brazil (71 percent), Argentina (12 percent), and Mexico (7 percent). Of the total, 52 percent was destined to the United States and most of the rest to Europe. The other American Republics constituted only 17 percent of the total supply for the United States of such products. The Philippines and China led with large shipments of coconut oil and tung oil.

The large and growing uses of such vegetable and nut oils in industry in the United States make this one of the most profitable fields to explore.

*Nitrate.* Chile in 1938 exported 1,500,000 tons of nitrate valued at \$31,000,000, about 40 percent of the total coming to the United States and most of the rest being shipped to Europe and Japan. The United States imports no other nitrates.

*Cereals* (except wheat, corn, and linseed). The other American Republics in 1938 exported 975,000 tons of these products valued at \$31,000,000. The principal countries of origin were Argentina (63 percent), Brazil (17 percent), and Chile (14 percent).

Imports of such products into the United States consist chiefly of barley malt and hops. A few million dollars worth of these might be imported if Chile, the principal producer, expanded its crops.

*Bananas.* In 1938 the other American Republics exported \$28,000,000 worth of bananas, all of the Caribbean countries entering into the trade. The principal market was the United States, which took 79 percent, and Europe took an additional 15 percent. In view of the extensive organization of the banana trade, it would not appear possible to increase imports of bananas into the United States.

*Tin.* In 1938 the other American Republics exported 28,000 tons of tin valued at \$25,000,000. Bolivia accounted for 95 percent of the exports, practically all of which went to Europe. During the same year the United States imported \$44,000,000 worth of tin, largely from the Far East.

*Cabinet Woods, Lumber, and Quabrocho [Quebracho].* In 1938 the other American Republics exported \$22,000,000 worth of these products, Argentina constituting the principal supplier (57 percent), followed by Brazil (21 percent), Mexico (12 percent), and Chile (5 percent). The United States took approximately one-quarter of the total and Europe about 50 percent. There is very little opportunity for increasing imports into the United States from the other American Republics.

*Cacao.* In 1938 the other American Republics exported 206,000 tons of cacao valued at \$22,000,000. The principal countries of origin were Brazil (57 percent), Venezuela (14 percent), Ecuador (13 percent), Dominican Republic (9 percent), and Costa Rica (4 percent).

The United States took two-thirds of the total, practically all of the remainder going to Germany and the Netherlands. The United States also imports about \$8,000,000 worth of cheap grade cacao from Africa for use in mixing with the higher grade cacaos obtained in Ecuador and Venezuela. Increase of imports into the United States would be a matter more of increasing production of the cheaper grades of cacao in the other American Republics than of purchasing the higher grades now shipped to Europe.

*Fibers.* The other American Republics in 1938 exported 153,000 tons of fibers valued at \$9,000,000, Mexico being the principal country of origin (60 percent), followed by Cuba (14 percent), Chile (11 percent), Haiti (7 percent), and Brazil (6 percent).

The United States took almost two-thirds of the total and most of the remainder went to Europe. The possibilities of increasing the imports of certain fibers such as Java, sisal, and kapok jute from India, Manila hemp, and silk, all of which might be produced in the other American Republics, are great.

*Summary of Principal Products Exported by the other American Republics to Europe.* The following table summarizes the amounts of the principal products of the other American Republics which have in the past been destined to Europe, statistics being based on 1938 figures:

	<i>Millions of Dollars</i>		<i>Millions of Dollars</i>
Petroleum -----	250	Corn -----	50
Coffee -----	100	Nuts, waxes, oils, chicle and extracts -----	18
Meats -----	110	Nitrate -----	18
Sugar -----	25	Cereals except wheat, corn, and linseed -----	28
Copper -----	60	Bananas -----	4
Wool -----	75	Tin -----	24
Cotton -----	60	Cabinet woods, lumber, and quabrocho -----	11
Metals other than copper and tin -----	40	Cacao -----	7
Hides and skins -----	40	Fibers -----	3
Wheat -----	25		
Linseed -----	40		
		<b>Total</b>	<b>998</b>

The discussion above indicates that exports might be diverted to the United States, in substitution for United States supplies formerly obtained elsewhere, in the following amounts: Wool, \$12,000,000; cotton, \$2,000,000; metals other than copper and tin (chiefly manganese), \$6,000,000; hides and skins, \$8,000,000; cereals (chiefly barley malt), \$2,000,000; and a small amount of cacao. In addition, a suitable development of a tin smeltery, of nut and vegetable oils, and of fibers in the other American Republics might permit the importation into the United States of much larger quantities of these materials. There is

also considerable room for development of rubber and mandioca flour for import into the United States. Even without the development of new productive capacity, but with the construction of a tin smeltery, probably \$75,000,000 worth of additional imports into the United States might be developed.

*The Dynamic Character of the Production and Exports of the Other American Republics.*

There has been presented above a fairly extensive summary of the export trade of the other American Republics by principal commodities, with an indication of the great extent to which the other American Republics have been dependent upon European markets for a number of these commodities, and the rather small immediate possibility of diverting their exports to the United States.

This analysis has of necessity been on a static basis, using figures of earlier years. It must be emphasized that this alone is not sufficient to give an adequate view of the entire problem. Some mention has already been made of the possibility of increasing supplies of such products as rubber, tin, nut and vegetable oils, and fibers which could find a large market in the United States.

In addition, there are many other trends in the production and trade of the individual American Republics which must be taken into account. Thus Haiti has been making extensive efforts to develop its coffee industry, although coffee is a product in which there certainly exists a great supply relative to the world demand. Similarly, Paraguay, after a number of years of warfare, is attempting to develop production and exports of a number of products of which Hemispherical surpluses already exist. Any attempt to lay out a solution to the economic problem confronting the other American Republics must take into account the interest and aspirations of each of the individual nations, and it will be necessary to direct developmental efforts in the more backward nations as far as possible into production of commodities which may be absorbed in the United States or in the other American Republics.

*Assumptions Underlying an Economic Program for the Americas.*

The above analysis has indicated the extent to which the other American Republics are dependent upon European markets for their products. Of the \$1,069,000,000 worth of products which the other American Republics shipped annually to Europe over the four-year period, 1935 to 1938, only about \$75,000,000 worth is directly susceptible of diversion to the United States unless new production, rubber, tin, and so forth, is developed. It is probable that another similar amount of trade between the other twenty American Republics might be developed, but this leaves a large volume of the products of the

other American Republics—at least \$900,000,000 worth a year—dependent on markets in Europe and elsewhere.

The possible types of solution to the problem thus presented by the international situation lie in :

1. Diversion of United States purchases to the other American Republics,
2. Development of trade among the other American Republics,
3. Development of production in the other American Republics of goods marketable in the United States,
4. Limitation of production in the other American Republics of those goods of which large surpluses exist,
5. Indirect aid in the form of public works and other developmental expenditures,
6. Temporary assistance to cushion the immediate shock—this assistance had best be in the form of credits to the monetary authorities and central banks of the other American Republics, (5 and especially 6 are not in themselves permanent solutions to the problem)
7. Acquisition of stocks of the products of the other American Republics for eventual disposal outside of the normal trade channels in the United States.

Judgment as to what types of solution it is recommended be embodied in an economic program for the Americas must be conditioned by assumptions as to the character of the international situation which must be faced. Regardless of the outcome of the conflict in Europe, it is clear that the character of international trade of the principal country or countries of Europe will be greatly changed from that previously followed by such nations as Great Britain and France. If Germany is successful, there arise questions as to what type of a peace will result and what will be the character of the economic institutions of Europe. At the one extreme, there may be a powerful centralized unit aggressive in the military, political and economic senses. At the other extreme, there might be a policy directed towards maximizing the economic well-being of Europe through more liberal trade and financial policies. It has been indicated that Dr. Schacht<sup>4</sup> has been preparing plans for this type of an economic reconstruction.

Obviously, we must adopt an inter-American economic program closely linked with our domestic, economic and defense programs, and calculated to permit this Government to resist economic and military aggression if necessary but to cooperate economically if European policy is directed in more liberal channels. The following programs summarize a number of proposals which are current, and attempt to arrange them in a unified program.

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<sup>4</sup>Hjalmar Schacht, President of the Reichsbank, 1933-39; German Minister of Economics, 1934-37; Minister without portfolio in 1940.

*An Economic Program for the Americas.*

*Direct Trade Arrangements.* 1. It is the opinion of Mr. Hawkins of TA<sup>5</sup> that there exists a considerable range of items in which this Government could make tariff concessions under the trade agreements act, and that such concessions would be of significance in encouraging imports from the other American Republics. TA is proceeding to study this question closely, and it is suggested that such efforts be pushed as rapidly as possible.

2. In view of the competitive dangers and weakening bargaining position of twenty-one separate nations producing in many cases similar commodities, it may be desirable for the twenty-one American Republics to agree to consult with one another to determine whether a unified front and collective negotiation should be adopted in individual cases where an overseas power approaches any one country in trade negotiations which partake of economic aggression. There is attached a memorandum<sup>6</sup> on this subject suitable for submission to the Inter-American Financial and Economic Advisory Committee. This memorandum has already been cleared in RA,<sup>7</sup> TA, EA,<sup>8</sup> and by Mr. Berle, and is pending further clearance in its policy aspects.

It will be recognized that such an agreement is not of itself sufficient to bind together the Americas in an economic sense. It will have to be supplemented by alternative direct aid and assistance to counteract economic advantages which may be offered the individual countries by the outside powers.

3. The possibilities should be explored of increasing trade among the other American Republics, especially by diverting purchases of individual nations which formerly were made outside of the Hemisphere to others of the American Republics. This matter is already being studied in subcommittees I and II of the Inter-American Financial and Economic Committee.

*Financial Assistance to Bridge Emergency Situations.* The effective operation of the entire program being described would obviate most if not all of the necessity for taking care of emergency situations. While the proposed program were being put into effect, however, there would probably arise a number of situations in which immediate financial assistance would be the only practical remedy. In such category is the two million dollar credit just extended to the Central Bank of Peru by the Export-Import Bank. This type of assistance may also be useful in smoothing over and taking care of difficulties of timing in the operation of other phases of the program.

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<sup>5</sup> Division of Commercial Treaties and Agreements.

<sup>6</sup> Not attached to file copy.

<sup>7</sup> Division of the American Republics.

<sup>8</sup> Office of the Adviser on International Economic Affairs.

Such assistance could be extended by: (1) Stabilization fund—The Secretary of the Treasury has indicated that he is averse to using the fund for such purposes and has indicated that, while he is warmly sympathetic to cooperative action to maintain the economic structure of the Americas, other methods must be found.

(2) The Export-Import Bank—The Export-Import Bank is able within the limitations on its credit extensions to fulfill this need and has already extended several credits of this type. It is possible that the present funds of the Bank are sufficient to carry it through with this type of credits and with development credits until the first of the year. Moreover, it seems certain that Congress will be available for quick legislative action if such be necessary. Nevertheless, it is suggested that consideration be given to increasing the funds of the Export-Import Bank by \$200,000,000.

(3) Specific appropriation—The Secretary of the Treasury has suggested the possibility of requesting Congress to appropriate funds specifically for this purpose. This would have the advantage of obtaining funds for the specific purpose and with the character of the operations fully recognized by the Congress and the public. It may not be as feasible politically to obtain this type of legislation as to increase the funds of the Export-Import Bank, and it is suggested that the policy-making officials of the Government determine whether one of these approaches, or both, should be adopted.

I am continuing to explore this point with Dr. Harry White and other officials of the Treasury Department, whose views in general coincide with those expressed in this memorandum and those of officers of the Department.

*Commodities.* It is clear that any policy for attacking the immediate and anticipated situation of the American Republics will fail unless provision is made for absorbing the large quantities of commodities produced in the other American Republics which have been in the past marketed in Europe, and the markets for which have been greatly reduced and in many cases changed considerably in character. It is recommended that legislation be prepared which would enable the Government of the United States to acquire such commodities in such amounts as may be necessary to relieve the immediate situation and that arising during the next year or so. The earlier sections of this memorandum have indicated the types of commodities which are produced in quantities considerably greater than the consumption of this Hemisphere.

The appropriations for the acquisition as to strategic materials, and the corporations for defense and the acquisition of strategic materials now before the Congress, would take care of a small part of this program insofar as it concerns such strategic materials. It will be

noted, however, that the above lists of the principal exportable surpluses of this Hemisphere include many products not of direct military concern. It is suggested that steps be considered to create an additional Latin American commodities corporation under the Reconstruction Finance Corporation to permit the acquisition of stocks of such commodities. This suggestion is made in full realization of the fact that the acquisition of stocks of commodities in great quantities without some control over the quantities produced may be expected to lead to increased production of commodities in which there is already a world overproduction and of commodities in which there may be hemispherical overproduction if the course of world events results in closed or restricted overseas markets. This problem is further discussed below.

There is attached a draft prepared by Mr. Stinebower<sup>9</sup> of legislation amending the RFC Act to permit the carrying out of such a policy. It should be noted that this was submitted with a memorandum indicating a number of difficulties which such a proposal might face.

It is suggested that if both defense and Latin American commodity corporations are created, that the latter take care of all purchases from the other American Republics, in turn reselling strategic materials to the defense corporations. The corporation would be authorized to sell or transfer products required only for the purpose of aiding the Government of the United States in its national defense program or for free distribution to persons in the United States receiving emergency relief benefits or for emergency relief in foreign countries. It might be desirable to include the power to resell such products outside of the American Republics.

*Commodity Agreements.* In addition to such relief as may be afforded by the purchase of surplus commodities, in the field of several commodities produced in the American Republics there would appear to lie room for beneficial commodity agreements. Coffee comes immediately to mind as a commodity in which agreement, especially between the producing nations, might be of real benefit. A coffee conference is now being carried on in New York.<sup>10</sup>

Discussions are also in progress which may lead to an agreement between the United States and Argentina with respect to corn.<sup>11</sup> Other commodities may offer greater or less opportunity for the conclusion of successful agreements.

*Developmental Cooperation.* The measures suggested above have been directed particularly towards maintaining the economies of the other American Republics at their present level of activity. It must

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<sup>9</sup> Leroy D. Stinebower, Assistant Adviser on International Economic Affairs; draft not attached to file copy of this document.

<sup>10</sup> See pp. 380 ff.

<sup>11</sup> See pp. 484 ff.



not be overlooked that the economic situation of a great number of the other American Republics has not in recent years been very satisfactory. There consequently exists a great field for developmental work of a character designed to improve the economic situations of the other American Republics. Moreover, this developmental work may profitably be directed towards facilities for the production of those products which are specifically important in connection with our own defense needs. Reference is made to such products as rubber, tin and Manila hemp. With respect to rubber and tin on the one hand, it must be conceded that the announcement of a great Latin American developmental program with special preferences designed to make such a development commercially feasible may impede the rapid accumulation of stocks from existing producers in the Far East. On the other hand, the granting of preferences that may be needed to render Latin American production commercially feasible may require a semi-permanent departure from our existing trade principles.

Institutions that cooperate in this development work include:

1. The Export-Import Bank and the RFC. It was indicated above that the Export-Import Bank may have sufficient funds to last until January, but that it would probably be desirable to request an increase in its funds to \$400,000,000. The Export-Import Bank should proceed immediately to cooperate in the carrying out of numerous broad development projects. In this connection, it will be remembered that Mr. Jones<sup>12</sup> has agreed in principle to carrying out the Brazilian steel project.

2. Inter-American Development Commission.<sup>13</sup> The Inter-American Development Commission, which is designed to encourage the development of just such non-competitive production as this memorandum has indicated, has just been organized under the Chairmanship of the Under Secretary of Commerce, Mr. Edward Noble. The work of this Commission must be encouraged in every possible way.

3. Inter-American Bank.<sup>14</sup> The Inter-American Bank would, of course, constitute the best institution for inter-American cooperation in developmental projects and planning, as well as in shorter term monetary and exchange assistance to the monetary authorities of the American Republics. The convention for the establishment of the bank has been signed by the United States, Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Mexico, Nicaragua and Paraguay. Appropriate enabling legislation has been drafted and is being considered by Mr. Jesse Jones, who will be in charge of steering the latter

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<sup>12</sup> Jesse Jones, Federal Loan Administrator.

<sup>13</sup> See pp. 374 ff.

<sup>14</sup> See pp. 346 ff.

before Congress. The report of the Secretary to the President and the Presidential message to the Senate<sup>15</sup> relating to the convention have already been prepared and are awaiting the decision to proceed. I am informed by Mr. Warren Pierson<sup>16</sup> that Mr. Jones intends to proceed as soon as his defense appropriations have been acted on by the Congress.

*Ultimate Hemispherical Trade and Production Organizations.* All of the measures listed above are steps which would be effective in meeting particular situations. None, or even all of them together, are a complete defense against total economic aggression by one aggressive European power. In the event that the Americas are faced with the alternative of defense against ruthless economic aggression or economic subordination to Europe, the ultimate organization for economic defense would take the form of a unit trading entity which would undertake to market the entire production of the Americas and to negotiate with such markets as it dealt with for such imports in payment as were deemed appropriate.

Such an organization would take the form of a trading corporation controlled by a council with advisory committees for each of the American Republics. It would purchase the surplus production—surplus, that is, in the hemispherical sense—by making dollar funds available against warehouse certificates and would dispose of products thus purchased in any one of several ways. First of all, it would attempt to bargain with the outside world to dispose of such products as would command favorable terms of trade. It would accumulate strategic materials in the amount that such stocks were deemed necessary. It would make surplus commodities available for relief distribution, both within the United States and perhaps within the other American Republics.

Unquestionably it would be necessary in some manner to block the dollar proceeds so that their use by the other American Republics would be supervised by the corporation. A part of these funds might be authorized for expenditure for purchases within the United States, and another part debited against imports from overseas nations resulting from trading operations of the corporation. Mr. Dudley Wood of the Department of Commerce has worked out many of the details of a plan for a Pan American trading corporation of this character.

It is obvious that such a corporation would only be a step preliminary to a further control of the production of the Hemisphere. It has been pointed out by Messrs. Stinebower and Feis<sup>17</sup> that purchases of the surplus commodities of the Hemisphere either on an uncontrolled

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<sup>15</sup> *Ante*, p. 347.

<sup>16</sup> President, Export-Import Bank.

<sup>17</sup> Herbert Feis, Adviser on International Economic Affairs.

or a quota basis would inevitably lead to an increase in the production of products which may be surplus in an hemispherical sense unless some measure of control is imposed. This difficulty is accentuated by the natural desire of those nations of the Americas which are least favorably situated in the economic sense to develop their economy. This problem was touched on above. The only ultimate solution to the problems which would thus arise would be the establishment of an hemispherical marketing and production controlled organization, which would be empowered to make the necessary decisions as to how much production of individual commodities would be permitted and in what directions individual nations would be encouraged to develop. All this work would entail an infinite number of political, as well as economic, problems, but the situation would have to be faced, allowing as much room for self-determination by the individual nations as possible.

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610.1131/309½

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

[WASHINGTON,] June 12, 1940.

MR. WELLES: In connection with Mr. Collado's memorandum of June 10 entitled "An Economic Program for the Americas", may I suggest that the time has come to head up consideration of this matter with some high-ranking officer of the Department.

Practically every governmental agency is at work on plans for hemisphere economic defense. In addition, there are a number of private groups at work, including one headed by Nelson Rockefeller. Within the Department, Messrs. Berle, Feis and Pasvolsky<sup>18</sup> all seem to be working on this question without consultation or collaboration between them. This Division is endeavoring to help them and all others.

In order that the efforts on this important subject can be coordinated and disciplined, I think that one of the higher officers in this Department should be authorized to take this under his control, parceling out the work as he sees fit in order to prevent duplication. Moreover, in order to head off some of the half-baked ideas which are now circulating, I think that this Department should take the initiative in rounding out a program.

LAURENCE DUGGAN

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<sup>18</sup> Leo Pasvolsky, Special Assistant to the Secretary of State.

610.1131/311½

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

[WASHINGTON,] June 14, 1940.

MR. WELLES :

MACHINERY FOR PLANNING AND CARRYING OUT HEMISPHERE  
ECONOMIC DEFENSE

(1) An Interdepartmental Committee under the Chairmanship of Dr. Berle, and consisting of representatives of the Departments of Treasury, Commerce, and Agriculture, the Federal Loan Agency, the Tariff Commission, and the Board of Governors of the Federal Reserve System. (The Federal Reserve may be especially useful since Chairman Eccles has his large staff working specifically on this problem. It will be recalled that the Federal Reserve cooperated splendidly in preparing the Inter-American Bank Project.)

(2) It should be the function of this Committee to coordinate the planning being done throughout the various Departments, to recommend in the immediate future a plan of action with the details specifically worked out, to prepare any necessary legislation, and to undertake the responsibility of carrying through the program. It is suggested that in order to relieve Dr. Berle of any details incident to the work of the proposed Interdepartmental Committee that some officer of the Department be appointed Secretary thereto, in much the same way as Mr. Stinebower is Secretary to the Executive Committee on Commercial Policy.

(3) Within the Department of State it is suggested that RA, EA, and TA select representatives to work with Dr. Berle.

LAURENCE DUGGAN

610.1131/312½

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*President Roosevelt to the Secretary of State*

WASHINGTON, June 15, 1940.

MY DEAR MR. SECRETARY: I am anxious to get in specific form from the several departments that are concerned with our economic relations with Latin America, the combined judgment of the Secretaries of the Departments of State, Treasury, Agriculture and Commerce relative to the action which this government should take. I am enclosing a copy of one of the many memoranda I have received relating to this subject.<sup>19</sup>

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<sup>19</sup> For text, see *History of the Office of the Coordinator of Inter-American Affairs* (Washington, Government Printing Office, 1947), pp. 279-280. Authorship accredited to Nelson A. Rockefeller, *ibid.*, pp. 4-5.

Inasmuch as the matter is of great urgency I request that you report to me not later than Thursday, June 20.

I wish you would take the initiative in calling this group together.  
Very sincerely yours,  
FRANKLIN D. ROOSEVELT

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610.1131/312½

*The Acting Secretary of State, the Secretary of the Treasury (Morgenthau), the Secretary of Agriculture (Wallace), and the Secretary of Commerce (Hopkins) to President Roosevelt*

WASHINGTON, June 20, 1940.

MY DEAR MR. PRESIDENT: In response to your letter of June 15, 1940, asking for the combined judgment of the Secretaries of State, Treasury, Agriculture, and Commerce as to means of strengthening inter-American economic relations, the following specific proposals are submitted:

We are in agreement that it has become imperative for the United States to supplement its military defense program with effective and decisive action in the field of economic defense. To this end we recommend the adoption and execution of a joint economic program for the Western Hemisphere. The objectives of such an economic program should be:

(1) The safeguarding and strengthening of the economy of the Western Hemisphere, coordinate with the defense of the territorial integrity of the political divisions comprising the area.

(2) The maintenance and expansion of the incomes and purchasing power of producers in the Western Hemisphere.

The problem is rendered especially acute by the fact that all of the countries of the Hemisphere are producers and exporters of raw materials and basic foodstuffs in quantities far in excess of the present consumption demand of the area. Bound as are the American Republics by close ties of inter-American solidarity, it is most appropriate that they should immediately consult with one another as regards the protection of their economies from the repercussions of the international situation. As circumstances permit, other countries, similarly situated, should be invited to participate in such consultation and in whatever cooperative arrangements may result therefrom.

The following lines of action are specifically recommended:

A. The Government of the United States should propose to the governments of the other American Republics the creation by mutual agreement of an appropriate inter-American organization which would have the means and the authority for dealing, by joint action, with certain basic problems involved in their trade relations with non-American countries. The proposal should envisage the establishment

of an Inter-American Trading Corporation, with strong central direction, with an organization appropriate for achieving the desired objectives, and with control equitably distributed among the participating countries. It should be contemplated that the Corporation should from the outset operate as an effective agency for joint marketing of the important export staples of all of the American Republics.

B. Without waiting for the Inter-American cooperative plan above outlined to be established and at work, and with a view to facilitating the negotiation and effectuation of the plan, the Government of the United States should immediately and vigorously undertake to deal with the various pressing problems, including the handling of critical commodity situations. Existing powers and facilities are not adequate for this purpose. It is therefore recommended that the Congress be requested to authorize the RFC for a period of one year to utilize or organize a corporation or corporations to purchase and dispose of certain products of the American Republics. There is attached a draft of legislation amending the RFC Act in this sense.

C. Vigorous action by the agencies concerned should be undertaken as rapidly as possible in the broad field of development in some American Republics of new industries and production. In addition, appropriate agencies of the United States Government should be directed to give immediately further attention to such questions as the extension of new credits and of cooperation, when desired by other American Republics, in the strengthening of their monetary systems. When and as it may be found necessary and advisable, increased attention should be given to the problem of existing foreign indebtedness of some Latin American countries.

Faithfully yours,

[File copy not signed]

[Enclosure]

#### SUGGESTED LEGISLATION

Section 5 (*d*) of the Reconstruction Finance Corporation Act, as amended, is hereby amended by adding at the end thereof the following paragraph:

The Corporation is authorized and directed, for a period of one year from the effective date of this Act, when requested by the President, to utilize or organize a corporation or corporations for the purpose of acquiring, carrying, and distributing emergency surplus products of the Western Hemisphere, and to subscribe for the non-assessable stock thereof, and to make loans to any such corporation or to any other corporation organized to assist it, or necessary to such program. The commodities acquired under this Act may be sold or transferred for any purpose approved by the President. Loans made by the Reconstruction Finance Corporation under the provisions of this paragraph may be on such terms and conditions and with such maturities as the Corporation may determine. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance

Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by \$1,000,000,000.

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[The program for Inter-American economic cooperation was announced by the President in a statement released by the White House on June 21. See Department of State *Bulletin*, June 22, 1940, pages 675-676.]

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710.FEAC/184

*Statement To Be Made Orally by Mr. Welles at the Meeting of the Inter-American Financial and Economic Advisory Committee of July 11, 1940*<sup>20</sup>

In accordance with my remarks of last week,<sup>21</sup> I shall this afternoon make a strictly confidential statement as to the direct action which the United States proposes immediately to take on its part in order to deal with the pressing economic problems which the disturbances of international relations have brought in recent months to the nations of this hemisphere. The disruption of the channels of trade and the loss of foreign markets has meant a loss of foreign exchange and of purchasing power which has placed a strain on the economies of all the nations of this hemisphere. Not only must the economic activity of the hemisphere be maintained at the levels already achieved, but the productive capacity of the area and the standard of living of its populations must be increased in order to satisfy the legitimate aspirations of the several nations. It is the opinion of the Government of the United States that, in order to attain these ends, the nations of the Western Hemisphere should join together in a comprehensive program of vigorous economic cooperation, including measures for effective joint action with respect to the export products of the American republics, for the development of a healthy orientation and greater diversity of production within the hemisphere and for the avoidance of undue fluctuations in rates of exchange and the strengthening of monetary and exchange systems and institutions.

The United States has already utilized its existing agencies to enter into cooperative arrangements with a number of the American republics in connection with programs for the development of their national economies, and to assist their central banks in monetary and

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<sup>20</sup> A confidential statement concerning the program for Inter-American economic cooperation given to the session of the Inter-American Financial and Economic Advisory Committee, July 11, 1940. Not printed in the Committee's minutes. See Pan American Union, *Actas de las sesiones del Comité consultivo económico financiero interamericano* (Washington, 1939-1945, 18 vols., mimeographed), vol. vi, p. 836.

<sup>21</sup> See *ibid.*, pp. 802-804 and 822-823.

exchange matters. Moreover, progress has already been made in this Committee in forging tools to carry out certain phases of economic cooperation on an inter-American basis. This Committee has recently created the Inter-American Development Commission to carry out the work of planning and promoting the development of productive facilities in the American republics, and it prepared the framework for the establishment of an Inter-American Bank to foster cooperation in the spheres of long term development and of money and foreign exchange. The Government of the United States is taking steps to implement the Inter-American Bank Convention and urges that the Governments of the other American republics cooperate so that this important institution may be placed into operation as rapidly as possible.

Useful as these organizations can be in the long run, there remains the immediately pressing situation confronting the American republics as a result of the curtailment and change in character of important foreign markets. It would seem obvious that the American republics should endeavor to resume the normal current of trade with Europe as soon as possible. Thoughtful policy would not suggest either a boycott on the part of Europe or a blockade on the part of the Americas. At the same time, it is recognized that trade to be sound must exclude politics or political interference and that the parties to the trade should have equal bargaining power.

In order to place itself in a position to cooperate effectively with the other American republics in dealing with the immediate economic problems facing the Western Hemisphere, the Government of the United States is now taking steps to obtain legislation enabling the Export-Import Bank to extend both the volume and character of its operations. When such legislation has been enacted the Government of the United States will be in a position, through the Export-Import Bank, to expand cooperative efforts with other American nations in the fields of long term development, and monetary and exchange matters. In addition, the proposed legislation would broaden the scope of Export-Import Bank activities to enable it to carry out a wide range of transactions including operations directly involving the important commodities of the hemisphere. Among other things, the Export-Import Bank would be in a position to assist in the temporary financing and storage of export products until they can be marketed in an orderly fashion, and in some cases it is possible that eventual repayment may be made if necessary in commodities.

With such additional facilities at its command, the United States will be in a position to cooperate actively in the development of commodity agreements with a view to assuring the nations of this hemisphere equitable terms of trade with the rest of the world.



In order that rapid action may be taken to alleviate pressing economic situations in the Western Hemisphere, and that sound development programs may be undertaken it is of the greatest importance that the nations of the hemisphere make known to the Inter-American Financial and Economic Advisory Committee their pressing needs and the plans which they have prepared for economic development. This will permit the Committee to cooperate speedily and effectively with the governments in dealing with such needs and programs.

## THE INTER-AMERICAN DEVELOPMENT COMMISSION <sup>1</sup>

710.Dev.Com./22

*The Under Secretary of State (Welles) to the Secretary of Commerce  
(Hopkins)*

WASHINGTON, April 18, 1940.

MY DEAR MR. SECRETARY: The Inter-American Financial and Economic Advisory Committee,<sup>2</sup> which as you will recall is in permanent session in Washington, has adopted a resolution to create a special five-member commission to encourage the establishment and development of enterprises of mixed United States and local ownership and management to stimulate production in the other American republics of non-competitive goods suitable for sale in United States markets. Mr. Dudley P. K. Wood of your Department cooperated extensively with members of the Committee in drafting the resolution. In my opinion, the opportunity for practical accomplishment on the part of this commission is considerable.

As provided by the terms of the resolution, three of the members of the commission have been selected by the Inter-American Committee from a list of candidates proposed by the other American republics. They are:

Mr. Renato Azevedo,  
Lloyd Brasileiro,  
17 Battery Place,  
New York, New York.

Mr. Carlos Campbell del Campo,  
Commercial Counselor of the Chilean Embassy,  
Washington, D. C.

Mr. J. Rafael Oreamuno,  
Ex-Consul General of Costa Rica in New York;  
Ex-Envoy Extraordinary and Minister Plenipotentiary of  
Costa Rica,  
Washington, D. C.

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<sup>1</sup> See also Pan American Union, *Organization and Activities of the Inter-American Financial and Economic Advisory Committee* (Washington, 1941, mimeographed), p. 2 and Appendices VI and VII; *Comité Consultivo Económico Financiero Interamericano, Manual de su organización y actividades, 1939-1943*, (Washington, n. d.), pp. 89-98.

<sup>2</sup> See bracketed note, p. 345.

The Government of the United States is obligated to designate the remaining two members, one from American governmental officials and the other from American business men who are particularly interested and experienced in inter-American trade and financial affairs.

After giving careful attention to the matter, the Department would like to submit to the President the names of Mr. Edward Noble, the Under Secretary of Commerce, as the official member, and of Mr. G. W. Magalhaes of the Westinghouse Electric Company as the non-official member. I should greatly appreciate an indication at your earliest convenience of whether you would approve these nominations.

Sincerely yours,

SUMNER WELLES

710.Dev.Com./24

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, April 29, 1940.

MY DEAR MR. PRESIDENT: Upon the receipt of your memorandum of April 15, written in reply to my letter to you of April 13<sup>3</sup> I wrote to Harry Hopkins asking if he would approve my recommendation to you of the names of Mr. Edward Noble, Under Secretary of Commerce, as the official member, and of Mr. G. W. Magalhaes, of the Westinghouse Electric Company, as the non-official member of the commission set up by the Inter-American Financial and Economic Advisory Committee to encourage the establishment and development of enterprises of mixed United States and local ownership and management to stimulate production in the other American republics of non-competitive goods suitable for sale in United States markets.

I recommended the name of Mr. Magalhaes because of the fact that I knew him well when he was President of the American Chamber of Commerce in Cuba and because of my belief that he would be very well qualified to assist in this work.

I have today received a letter<sup>4</sup> from Harry Hopkins saying that he is entirely in accord with my recommendation to you of these two appointments.

Will you let me know if these two new suggestions are satisfactory to you.<sup>5</sup>

Believe me

Faithfully yours,

SUMNER WELLES

<sup>3</sup> Neither printed.

<sup>4</sup> Not printed.

<sup>5</sup> The letter carries the notation: "SW OK FDR."

710.Dev.Com./36

*The Executive Secretary of the Inter-American Development  
Commission (McClintock) to the Secretary of State*

WASHINGTON, July 30, 1940.

Attention: Mr. Laurence Duggan, Chief  
Division of American Republics

MY DEAR MR. DUGGAN: The Inter-American Development Commission at its meeting on June 26 formally authorized me to undertake the necessary steps for the establishment of advisory committees to the Inter-American Development Commission in the various countries of Latin America affected by the work of the Commission. Under authority of resolution 13 of the Inter-American Financial and Economic Advisory Commission, which resolution created the Inter-American Development Commission, it is mandatory that advisory sub-committees be established in each of the twenty-one American republics. The Commission has thought it best initially to set about the establishment of such sub-committees in only the Latin American republics directly affected by the two initial projects under development by the Commission.

In the motion authorizing the Executive Secretary of the Commission to carry out the necessary arrangements to achieve this end, it is stated that the advisory committee shall be made up of five-man bodies, with the recommendation that two members be representatives of the local Latin American government and of the United States diplomatic mission in the respective country concerned, and that the other three members be local business men, to be chosen through the joint action of the United States diplomatic representatives and the government of the interested Latin American republic.

The work of the Inter-American Development Commission, involving its two initial projects—one the mandioca project in Brazil and the other the retail goods project in Central and South America, will initially involve the following countries: Brazil, Argentina, Chile, Peru, Guatemala, and Mexico. It is our thought that the advisory sub-committee first to be established should be in Brazil, as the mandioca project is now under way in that country and, furthermore, the technical committee of the retail goods project, which will leave New York around September 15, will call at Brazil as the first country on its itinerary.

I am approaching the Brazilian Ambassador in Washington requesting that he ask his Government to designate a representative to sit on the advisory sub-committee, and the Commission would appreciate your passing on word to the American Ambassador in Rio de Janeiro asking that he designate one of his staff to serve in a simi-

lar capacity. While the Commission believes it best to leave to the judgment of yourself and the chief of mission in whatever country is concerned the choice of the American representative for the sub-committee, it is the Commission's recommendation that in the case of Brazil, Mr. Walter J. Donnelly, American Commercial Attaché, be designated to sit on the committee, if this is consistent.

The Commission would further appreciate your instructing the American Ambassador in Rio to collaborate with the appropriate officer of the Brazilian Government so that the three other members of the committee may be chosen as expeditiously as possible. The Commission has in mind that the three business members should represent, as far as possible, business, industry, and agriculture, if outstanding men can be secured to act in such capacity from these three categories.

The Commission wishes to emphasize that the members of the sub-committee to be chosen should be active and outstanding men in their respective fields, as the work of the Commission will very largely depend, within the Latin American countries themselves, on the effectiveness of the sub-committee representing it.

It will be appreciated if airmail could be used in handling these transactions, as it is important that the Brazilian sub-committee be established at once. As soon as word is received from the American Embassy in Rio as to the membership of the committee, we would appreciate your advices so that the Commission might formally recognize the sub-committee and commence direct negotiations with it.

Sincerely yours,

JOHN C. McCLINTOCK

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710.Dev.Com./36

*The Executive Secretary of the Inter-American Development  
Commission (McClintock) to the Secretary of State*

WASHINGTON, July 30, 1940.

Attention: Mr. Laurence Duggan, Chief  
Division of American Republics

MY DEAR MR. DUGGAN: This has reference to my letter to you of even date concerning the subject of establishing advisory sub-committees to the Inter-American Development Commission in the different Latin American countries and particularly having reference to the establishment of an advisory committee in Brazil.

The Commission proposes to establish a similar advisory committee in Argentina and will appreciate your making the same

arrangements with our Ambassador in Buenos Aires as will be done with our Ambassador in Rio de Janeiro.

I am writing the Argentine Ambassador in Washington asking that he inform his Government to designate an appropriate official to meet with our representative in Buenos Aires for the purpose of choosing three business men members of the advisory committee, and I am informing Ambassador Espil that this matter is being handled by airmail through your Department.

Sincerely yours,

JOHN C. McCLINTOCK

710.Dev.Com./36

*The Acting Secretary of State to the Ambassador in Argentina  
(Armour)*<sup>6</sup>

No. 342

WASHINGTON, August 9, 1940.

SIR: There are enclosed copies of two letters dated July 30, 1940,<sup>7</sup> and of one dated July 31, 1940,<sup>8</sup> from the Executive Secretary of the Inter-American Development Commission which was created by Resolution XIII of the Inter-American Financial and Economic Advisory Committee, regarding the establishment of advisory subcommittees in various of the American republics directly affected by the two initial projects under development by the Development Commission.

You are requested to select a member of your staff to form a part of the local subcommittee to be established in Buenos Aires. The Department understands that the Executive Secretary of the Development Commission has already communicated with the Argentine Embassy at Washington regarding the selection by the Argentine Government of its official representative to sit on this subcommittee. The Argentine representative and the officer designated by you should choose by mutual agreement the three local business men who would complete the subcommittee.

There is also enclosed a copy of the minutes of the meeting on June 26, 1940 of the Development Commission<sup>9</sup> in which the first two projects to be considered are described.

Very truly yours,

SUMNER WELLES

<sup>6</sup> Similar instructions were sent on the same date to the Ambassador in Brazil as No. 814 and to the Ambassador in Chile as No. 218.

<sup>7</sup> *Supra.*

<sup>8</sup> Not printed.

<sup>9</sup> Not attached to file copy.

710.Dev.Com./57a

*The Secretary of State to Certain American Diplomatic Officers*<sup>10</sup>

WASHINGTON, November 29, 1940.

SIRS: The Inter-American Development Commission on November 25, 1940 adopted resolutions constituting two members of the Commission, Mr. J. Rafael Oreamuno and Mr. G. W. Magalhaes, a mission to South America for the purpose of setting up the advisory committees in each of the South American countries called for under Resolution XIII of the Inter-American Financial and Economic Advisory Committee which created the Inter-American Development Commission. The members of this mission will arrive in Rio de Janeiro, December 11 by steamship and will subsequently visit the capitals of all of the South American republics. There are enclosed copies of the minutes of the meeting of the Inter-American Development Commission of November 25, and of an article describing the Development Commission by its Executive Secretary, Mr. John C. McClintock.<sup>11</sup> The Development Commission has agreed that the representatives of the Commission will visit Asuncion, La Paz and Quito in addition to the capitals mentioned in the Resolution.

Please extend to the representatives of the Inter-American Development Commission all appropriate assistance which will help them in consummating the purpose of their trip. The Development Commission has also requested that the missions prepare lists of leading citizens of the respective countries who might serve on the country advisory committees to be established by Messrs. Oreamuno and Magalhaes. It is the thought of the Development Commission that the country advisory committees should consist of five members selected from leading industrialists, merchants, bankers and professional men.

Information regarding the proposed visit to the nations of South America of the representatives of the Development Commission has been brought to the attention of the members of the Inter-American Financial and Economic Advisory Committee and the chiefs of the missions in Washington of the South American republics.<sup>12</sup>

Very truly yours,

For the Secretary of State:

SUMNER WELLES

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<sup>10</sup> This circular instruction was sent to the American representatives in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Panama, Paraguay, Peru, and Venezuela, at the request of Nelson A. Rockefeller, Chairman of the Inter-American Development Commission.

<sup>11</sup> Neither printed.

<sup>12</sup> See Department of State *Bulletin*, November 30, 1940, pp. 464-465.

INTER-AMERICAN COFFEE AGREEMENT, SIGNED AT  
WASHINGTON NOVEMBER 28, 1940<sup>1</sup>

561.333D3/9

*The Secretary General of the Third Pan American Coffee Conference (Aguilar) to the Secretary of State*

NEW YORK, June 14, 1940.

[Received June 15.]

MY DEAR MR. SECRETARY: The Third Pan-American Coffee Conference is currently in session at the Waldorf Astoria Hotel in New York City, with representatives of fourteen coffee producing countries participating. Various problems facing the producing nations are under consideration with particular attention being given the situation of coffee caused by the loss of European markets.

At its Plenary Session of this morning the Conference instructed the Secretary General to convey its greetings to the Secretary of State and to inform him that in view of the expressed interest of the United States Government in the economic well-being of the Latin-American nations and the increasing significance of Panamericanism, the Conference would welcome the presence at its sessions of an Observer designated by the Department. Such an Observer, it is felt, would give the Conference the benefit of the views of the State Department and might be helpful in apprising the State Department of the progress of the Conference.

Accordingly, I am pleased to extend the most cordial invitation to you to designate such an Observer.

With my best wishes [etc.]

ROBERTO AGUILAR

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561.333D3/14 : Telegram

*The Secretary of State to the Secretary General of the Third Pan American Coffee Conference (Aguilar)*

WASHINGTON, June 17, 1940.

In response to your letter of June 14, 1940, the Department of State has designated Mr. Paul C. Daniels, Foreign Service Officer, to attend the Third Pan-American Coffee Conference as its observer.

CORDELL HULL

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<sup>1</sup> See also Pan American Union, *Organization and Activities of the Inter-American Financial and Economic Advisory Committee* (Washington, 1941, mimeographed), pp. 2-3 and Appendix VIII; *Comité Consultivo Económico Financiero Interamericano, Manual de su organización y actividades, 1939-1943* (Washington, n.d.), pp. 99-102. See also bracketed note, *ante*, p. 345.



561.333D3/24

*The President of the Third Pan American Coffee Conference (Mejía)  
to the Chairman of the Inter-American Financial and Economic  
Advisory Committee (Welles)*

[Translation]

NEW YORK, June 21, 1940.

DEAR SIR: The Third Pan-American Coffee Conference, profoundly alarmed by the fall in the prices of the product and by the possibility of the prolongation of the European war, which automatically deprives those coffees produced in other continents of their usual markets, tending to divert them to the American market in a quantity of approximately three million bags, respectfully requests of your Committee, through you, that it consult with the Government of the United States as to whether that Government would be in a position to cooperate with this Conference in the regularization of the imports of coffee into the United States market, avoiding increase in imports of non-American coffees.

I urge that you express to the Committee that the Conference believes of fundamental importance for the continuation of its work an indication of the possibility of this cooperation, which would permit the negotiation of agreements tending to improve the economic situation and consequently the purchasing power of the American nations which produce coffee.

Yours [etc.]

MANUEL MEJÍA

561.333D3/25

*The Secretary of State to the President of the Third Pan American  
Coffee Conference (Mejía)*

WASHINGTON, June 24, 1940.

MY DEAR MR. MEJÍA: I have received, by reference from the Honorable Sumner Welles, Chairman of the Inter-American Financial and Economic Advisory Committee, your letter to him of June 21, 1940 inquiring whether the United States Government would be in a position to cooperate with the Third Pan American Coffee Conference in the regularization of imports of coffee into the United States market, avoiding increase in imports of non-American coffees.

Your inquiry has been the subject of consultation between representatives of the various interested Departments and agencies of the United States Government, and in accordance with their conclusions I am pleased to inform you that the Government of the United States understands the reasons for the request that you have made and is sympathetic with that request, and that this Government would be

willing to cooperate with the Third Pan American Coffee Conference in taking the necessary steps, which may involve recommendation of action to the Congress of the United States, to implement a plan of control over the production and marketing of coffee.

It will be understood, of course, that this willingness to cooperate is dependent upon the ability of the United States Government to approve the nature and the details of the coffee control program which would be devised. In this connection, this Government would desire to be officially represented in the negotiations of any control program for coffee, and also to be represented on any body which would be established to administer the plan so set up. I should also point out that the United States Government has always taken the position, in connection with the negotiation or discussion of international commodity agreements, that an essential provision of any such agreement is a recognition of the need for protection of the legitimate interests of consumers as well as of producers, and it would expect that any coffee agreement would contain such a provision.

As you will be aware, the United States Government is currently giving consideration to questions of a broad program for economic cooperation in the western hemisphere.<sup>2</sup> I should hope that as this program develops and crystalizes it would be found that any arrangement with respect to coffee which might be adopted as a result of the Third Pan American Coffee Conference would be of such a nature that it could be coordinated with the larger program which the countries of this hemisphere may be able to work out.

Sincerely yours,

CORDELL HULL

561.333D3/43

*Memorandum by Mr. Paul C. Daniels of the Division of the American Republics*

[WASHINGTON,] July 3, 1940.

THIRD PAN AMERICAN COFFEE CONFERENCE

REPORT ON ACTIVITIES UP TO JULY 3, 1940

1. *Reasons for calling the Conference.*

As a result of the war in Europe important coffee export markets for the coffee producing countries of the Americas were totally cut off. This condition not only represented a loss in itself, but led to greatly increased competition in the marketing of coffee in the United States. This in turn has brought about a disastrous decline in coffee prices in the United States market. It was primarily with a view

<sup>2</sup> See pp. 353 ff.

to ameliorating this situation that the Third Pan American Coffee Conference was convened in New York City on June 10, 1940. Fourteen coffee-producing countries were represented by delegates at the Conference. The complete list of delegates is attached hereto (enclosure no. 1).<sup>3</sup>

### *2. Preliminary Sessions of the Conference.*

The earlier sessions of the Conference were devoted to the organization of committees, discussion of coffee propaganda and an advertising campaign, and the possibility of excluding from the United States non-American coffees, which are generally of the "robusta" variety instead of "arabica". Committees were established to deal with the following subjects: vital problems of the coffee industry; propaganda; freight rates and marine transportation; inferior coffees; and statistics. A complete list of the committees established on these subjects is attached (enclosure no. 2).<sup>3</sup> With respect to the question of excluding "robusta" coffees, a letter was addressed to the Inter-American Financial and Economic Advisory Committee in order to ascertain the views of the United States Government on this matter. It was only after it had become clear that this solution was not practicable that the Conference embarked upon a serious discussion of the possible establishment of quota controls for the American coffee-producing countries.

### *3. United States invited to send Observer.*

Pursuant to a written invitation extended by the Conference in a letter dated June 14, 1940 Mr. Daniels proceeded to New York to be present at the Conference in the capacity of Observer on behalf of this Government. He was present at the meeting on June 18 and all subsequent meetings to date. By being present at the Conference it was possible to establish and maintain close contact with all of the delegates, and it is believed that this gesture of support and sympathy on the part of the United States Government was well received by the Conference.

### *4. Attitude of the Coffee Trade.*

The coffee trade in New York may be said to be, generally speaking, in complete sympathy with the broader objectives of the Coffee Conference. At the same time, concern has been manifested lest any control measures instituted might have the unfortunate effect of interfering with normal trade requirements, procedures, and established channels for doing business. All seem to agree, however, that a reasonable increase in the price of coffee is an objective which would be

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<sup>3</sup> Not printed.

of benefit not only to the coffee-producing countries but also to the United States itself. The foregoing observations are based on numerous conversations with many representatives of the coffee trade, including the following people:

- Mr. W. F. Williamson, Secretary-Manager, Associated Coffee Industries of America;
- Mr. P. R. Nelson, Vice Chairman, Associated Coffee Industries of America, (Ruffner, McDowell & Burch, Inc.);
- Mr. S. A. Schonbrunn, Treasurer, Associated Coffee Industries of America, (S. A. Schonbrunn & Co., Inc.);
- Mr. C. A. Mackey, President, New York Coffee and Sugar Exchange;
- Mr. J. A. Medina, President, Green Coffee Association of New York;
- Mr. Berent Friele, American Coffee Group;
- Mr. Voelbel, Standard Brands Corporation, (Chase and Sanborn Coffee).

A call was made on Mr. Bernhard Schaefer, Schaefer-Klaussmann Co., Inc., but he had just left to proceed to Colombia.

##### 5. *Discussion of quotas on coffee.*

The discussions of the Conference relating to the establishment of a total quota on coffee imports into the United States, and the allocation of this quota among the various producing countries, entered a serious phase following the receipt of the letter of June 24, 1940 addressed to Sr. Manuel Mejía, President of the Conference, by the Secretary of State (enclosure no. 3).<sup>5</sup> This letter set forth the willingness of the United States to cooperate in making effective a plan to improve the coffee market, contingent on certain stated conditions. Practically speaking, the whole time of the Conference from that time on was consumed in arguing the advantages and disadvantages of various plans proposed for allocating quotas among the producing countries. It soon became apparent that it would be impossible to establish a general and uniform basis for arriving at a fair quota for each country. This was true because of the fact that in the different producing countries different conditions exist. Among the more important considerations brought out in the course of the discussions may be mentioned the following:

(1) In view of the loss of European markets, many of the delegates felt that consideration should be given to the total coffee production of each country, rather than to its previous exports to the United States.

(2) At the same time, certain countries (e. g. Colombia) in the past had exported to the United States a much higher percentage of their production than others, (e. g. Costa Rica and Venezuela).

<sup>5</sup> *Supra.*

(3) The types of coffee are different, and American consumers desire a certain percentage of Brazilian coffees as well as the mild coffees from the other countries. This factor has led Brazil to insist on retaining approximately 60 per cent of the American market.

(4) The dependence of the national economies of the different countries on coffee production varies widely. Some depend almost entirely on coffee, such as El Salvador, and for others, such as Venezuela, coffee is relatively unimportant at present.

(5) Recent trends in exports of coffee to the United States, particularly during the last nine-month period, in some cases differ materially from shipments over the last five-year average.

Because of the foregoing considerations some of which are of more importance to some countries and others to other countries, a variety of different plans was presented to the Conference representing different points of view. Lengthy arguments ensued, and for several days no agreement was reached. Compromises were elaborated based on arbitrary re-allocations of amounts, but up to Saturday, June 29, no solution had been reached. At the meeting held on that date a subcommittee of three was appointed (Penteado of Brazil, Parga of Colombia, and Alfaro of El Salvador) to thrash out the differences and submit a report to a plenary session to be held on July 2.

#### 6. *Agreement of July 2.*

On the morning of July 2 the subcommittee submitted its report. After some discussion the plan submitted by the subcommittee was approved unanimously by the delegates to the Conference. Thereupon a resolution ("Acuerdo") was drafted embodying the approved plan and expressing the agreement of the delegates to submit the plan to their respective governments with the recommendation that it be accepted. A copy of this document is attached (enclosure no. 4).<sup>6</sup> The plan provides for total imports into the United States of 15,900,000 bags of 60 kilos, allocated among the producing countries in accordance with the agreement reached. This total is appreciably larger than the annual consumption of coffee in the United States, which has been estimated as being approximately 15,000,000 bags, although greater estimates have been heard.

#### 7. *United States control over coffee imports.*

No provision is made in the agreement of July 2 for the enforcement by the United States of import quotas on coffee. In the case of colonial coffees, it is of course the unanimous desire of the delegates to the Conference that the United States impose an import quota on such non-American coffees in the amount stated, namely, 353,000 bags. It had apparently been the general understanding that the cooperation of the

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<sup>6</sup> Annex, below.

United States would likewise be requested in implementing the quota system with respect to American coffees also. In view of the lack of clarity on this point inquiries were made on July 2 of the Colombian delegation, Sr. Mejía and Dr. Parga, as to whether in their view the United States Government should impose import quotas on coffee, in accordance with the approved plan. Dr. Parga stated specifically that such procedure would not appear to be desirable; that many of the countries felt that it would be unwise in principle for the United States to impose import quotas on American coffees; and that they felt it would be preferable to have the quotas handled exclusively as export quotas. In response to the observation that it might be difficult to impose quotas on non-American coffees and refrain from imposing them on American coffees, Dr. Parga referred to the provisions of the immigration act under the terms of which citizens of the American republics are exempt from the immigration quotas imposed on other foreigners. He said if that distinction could be made in the case of human beings, why not in the case of coffee beans? No effort was made at that time (July 2) to argue that point further.

Late the same night it became possible to get in touch with Sr. Penteadó and the same question was discussed with him. Sr. Penteadó took quite the opposite view from that expressed by the Colombian delegation and said that not only did he think that cooperation by the United States in imposing import quotas on all coffees was desirable, but that unless this were done he thought it quite likely that Brazil would be unable to go ahead with the plan. He was urged to get in touch with Sr. Mejía immediately in order that this point might be discussed between them. On July 3 Sr. Penteadó telephoned Mr. Daniels and stated that he had discussed the matter with Mejía and that the latter was sending a cablegram to Bogotá to obtain the views of his Government. Sr. Penteadó kindly stated that he would report further after hearing again from Mejía.

#### 8. *Immediate outlook.*

The next meeting of the Conference is to be on Saturday, July 6, at ten a. m. in the offices of the Pan American Coffee Bureau, 120 Wall Street, New York. The hope has been expressed at a previous meeting on July 2 that by that time favorable replies would have been received by all of the delegates from their respective governments. If so, the agreement could be duly formalized and turned over to the Pan American Coffee Bureau for administration.

However, there seems reason to doubt that all the governments will be able to reply so promptly to the questions submitted to them. Furthermore, it is possible that a few of them may withhold approval, possibly Guatemala and Haiti.

With respect to United States cooperation, if Brazil and other countries prevail upon Colombia (and possibly others) to withdraw objections to the imposition of quotas by the United States, it would seem desirable for the Conference to take formal action in this sense before adjournment. In view of the strong position taken by Sr. Penteadó in this matter, there seems reason to believe that the Conference may take some action to invite the active cooperation of the United States in the administration of the quota system. Consideration is now being given in the Department to the best procedure which might be followed in bringing this question before the United States Government. At the same time, the legal questions involved are being investigated and the proposed quotas are being compared with the latest statistics in the Department of Commerce.

[Annex]

*Resolution No. 7*

The Third Pan American Coffee Conference

RESOLVES

That the delegates present at this Conference bring to the attention of their principals, and recommend the acceptance of the following points:

1: The plan of export quotas to the United States set forth below, in bags of 60 kilos:

	<i>Bags</i>		<i>Bags</i>
Brazil -----	9,322,000	Ecuador -----	180,000
Colombia -----	3,200,000	Guatemala -----	500,000
El Salvador -----	600,000	Haiti -----	275,000
Costa Rica -----	210,000	Honduras -----	15,000
Cuba -----	80,000	México -----	450,000
Nicaragua -----	195,000	Others -----	353,000
Venezuela -----	400,000		
Santo Domingo -----	120,000	Total -----	15,900,000

2: The necessity of intensifying the campaign in favor of coffee consumption in the United States with the contribution of all the American producing countries and the convenience of all of them joining the Pan American Coffee Bureau.

3: To charge the Pan American Coffee Bureau with the development of the proposed system of export quotas and the study of a plan of minimum prices and the form of controlling them.

4: To request, while the foregoing points are being resolved, the appointment of representatives of the countries not associated with the Bureau, in order that they may participate in the discussions and the resolutions reached by the Pan American Coffee Bureau. Said

delegates shall have the same rights as those corresponding to the representatives of the countries associated with the said Bureau.

5: The agreement or plan of export quotas shall have a duration of one year, in the form and from the date as regulated by the Pan American Coffee Bureau.

6: To seek an early reply, in order to be able to close the Conference on Friday, July 5.

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561.333D3/45

*Memorandum by Mr. Paul C. Daniels of the Division of the  
American Republics*

[WASHINGTON,] July 8, 1940.

THIRD PAN AMERICAN COFFEE CONFERENCE

REPORT ON ACTIVITIES FROM JULY 4, 1940 TO JULY 6, 1940  
(CLOSING DATE)

In continuation of my report of July 3, 1940, reporting on the activities of the Third Pan American Coffee Conference up to July 3, 1940, there are reported below further developments up to and including July 6, 1940, the closing date of the Conference.

As indicated in section 8 of the report of July 3, a plenary session of the Coffee Conference was held on July 6 in the offices of the Pan American Coffee Bureau, 120 Wall Street, New York. At this meeting the quota plan of July 2 was discussed and argued at great length. The delegates of a number of the countries stated that the plan was acceptable. Among the remaining delegates, the following reservations or points of view merit specific mention:

*Brazil*

In accepting the plan, Sr. Penteado said that it should not be for more than one year, and that Brazil felt that its percentage of the United States market should subsequently be increased to 60 per cent from the 58 per cent (approximately) participation provided for in the plan. He added that Brazil wished the United States to cooperate effectively in making the plan successful.

*Cuba*

The Cuban delegate, Sr. Alberto Ortega, said that under his instructions he was unable to accept the plan for the reason that the Cuban quota of 80,000 bags represented a decrease of 26,000 bags from Cuba's 1939 exports to the United States, while the quotas for many other countries were larger than their 1939 shipments to the United



States. He said Cuba wanted last year's shipments to the United States as a quota.

#### *Nicaragua*

Nicaragua has consistently sought a quota of not less than 200,000 bags, but will accept the quota of 195,000 bags provided under the plan if all the other governments accept the plan.

#### *Ecuador*

The delegate had received no instructions, but thought that Ecuador would probably accept the plan.

#### *Guatemala*

No instructions had been received.

#### *Mexico*

No instructions had been received.

#### *Puerto Rico*

Puerto Rico expressed no views on the plan, considering that it was a question to be determined by the other delegates since Puerto Rico is within the customs territory of the United States and therefore the quota plan does not apply to it.

#### *Venezuela*

The Venezuelan delegate was not present at this meeting of July 6. After a lengthy exchange of views among the delegates, a resolution was introduced reading as follows:

“The Third Pan American Coffee Conference

#### RESOLVES

“To ratify in all its parts Resolution No. 7<sup>7</sup> approved at the plenary session on July 2, 1940, which establishes a system of export quotas for the United States, and to charge the Pan American Coffee Bureau with its regulation and execution.”

Two difficulties arose in connection with the foregoing draft resolution. In the first place, since some of the delegates lacked instructions, it was deemed necessary to insert the phrase “ad referendum” after the word “ratify”. In the second place, the Brazilian delegate insisted that the resolution contain some indication that the Government of the United States would be involved in the execution of the plan. However, the Colombian delegates (Sr. Manuel Mejía and Dr. Rafael Parga) said that they had no instructions to agree to any plan

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<sup>7</sup> *Supra.*

contemplating Governmental intervention. After a lengthy discussion of this point, the resolution was amended to read as follows:

“The Third Pan American Coffee Conference

RESOLVES

“To ratify *ad referendum* in all its parts Resolution No. 7 approved at the plenary session on July 2, 1940, which establishes a system of export quotas for the United States, and to charge the Pan American Coffee Bureau with its regulation and with establishing contacts with all the interested governments or entities to obtain their approval and execution.”

The Brazilian delegate approved the resolution in that form, with the expressed understanding that the United States Government was an “interested” Government and that therefore the Pan American Coffee Bureau would establish contact with it to obtain its approval and cooperation in executing the plan.

On the other hand, because of the reference to “government” contained in the resolution, the Colombian delegation refrained from voting on it. Sr. Mejía stated, however, that he would consult his principals in Bogotá with a view to seeing if the resolution could be accepted by Colombia in its present form.

The other delegates approved the resolution, with the exception of Cuba, which abstained from voting for the same reason set forth above. It was agreed that the Pan American Coffee Bureau would continue discussing the matter during the coming week, and Sr. Aguilar told me that the Pan American Coffee Bureau would thereupon get in touch with the State Department.

Before the Conference adjourned a number of other resolutions were passed, covering the following subjects:

(1) Requesting increased contributions from the producing countries to the Pan American Coffee Bureau for advertising and propaganda;

(2) Requesting the Pan American Coffee Bureau to establish contact with the interested governments and to inform them of the results of the Conference;

(3) Charging the Pan American Coffee Bureau with continuing its efforts, through the Inter-American Financial and Economic Advisory Committee in Washington, to bring about a restriction on the imports into the United States of coffees of inferior quality;

(4) Expressing thanks to the Associated Coffee Industries of America and other representatives of the trade for their cooperation; and

(5) Expressing appreciation for the sympathetic attitude of the United States Government towards the Conference.

After the adjournment of the meeting on July 6 and the closing of the Conference, I discussed in further detail with Sr. Mejía and Dr.

Parga the question of the Colombian attitude regarding cooperation by the United States Government in making the quota plan effective. Following this discussion Sr. Mejía indicated that he would explore further the possibility of an international agreement on coffee to which the United States would be a party, such agreement to be of an emergency character (possibly for the duration of the war) and subject to termination on suitable advance notice whenever any participating government desires to withdraw. When I last left Sr. Mejía on July 6 he seemed to think that some such formula might be acceptable, and said the matter would be examined very carefully. Dr. Parga, who plans to return to Bogotá on July 11, seemed the more doubtful of the two.

Sr. Mejía said that he planned to remain in New York so long as there was any chance of an agreement being reached.

Since the Pan American Coffee Bureau, 120 Wall Street, New York, has been charged by the Conference with further activities in connection with the proposed quota plan, further information on the general subject can doubtless be obtained from that source. At the same time, as indicated above, Sr. Aguilar of the Coffee Bureau told me that he planned to communicate with the Department in the course of the next week, and would be prepared to come to Washington if necessary.

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561.333D3/30 : Telegram

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

GUATEMALA, July 9, 1940—5 p. m.

[Received 9:15 p. m.]

65. The President today called me in to discuss the resolutions adopted by the Third Pan-American Coffee Conference, particularly resolution 7. He made the following statements to me:

(1) The quota of 500,000 bags proposed for Guatemala is utterly unjust. Guatemala regularly produces and sells more than El Salvador and more in proportion than the quota given, in comparison with those of Brazil, Colombia and Mexico. . . . Guatemala under no circumstances will accept the quota allotted and the Guatemalan delegate has been instructed to withdraw from the Conference.

(2) Guatemala has never become a member of the Pan-American Coffee Office and paid the propaganda quota because it has always been able to sell its entire crop without paying for propaganda. It will not join the Office now. It will accept a quota only if some price guarantee is attached thereto, the more so as any reduction in exports will result in losses to the Government under the coffee export tax.

(3) Guatemala has never had any coffee surplus. It can continue to sell its entire crop unless prevented by artificial restrictions and

is therefore not interested in discussing the disposal of surpluses at Habana. Moreover, it considers that such discussion would probably result in bickerings which would endanger the other work of the meeting.

The President was particularly concerned over the strong recommendation reportedly made by Messrs. Welles and Duggan<sup>8</sup> that this plan be accepted forthwith. He said that the mere publication of the plan locally would result in driving this country commercially into the hands of Germany as soon as commercial relations with Germany can be resumed.

A hasty study indicates that several of the President's points are not valid. However, under the circumstances I should appreciate full instructions regarding the Department's views in order that I may place them before the President.

CABOT

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561.333D3/34 : Telegram

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

WASHINGTON, July 10, 1940—6 p. m.

55. Your 65, July 9, 5 p. m. Please seek an early interview with the President and explain to him that this Government has no comment to make with respect to the share of the coffee quota assigned to Guatemala or any other country under the *ad referendum* agreement reached by the Coffee Conference, and that the remarks attributed to Welles and Duggan constituted endorsement of the control plan in principle rather than the particular allocations provided for in the plan considered by the Conference. The position of this Government is based on a consideration of the interests of the coffee producing countries; naturally there is no intention of urging the producing countries to take any action contrary to their own interests.

However, this Government feels that a fair agreement among the coffee producing countries to control coffee shipments to the United States in order to bring about a more satisfactory price level for coffee would be of benefit to all the interested countries, and this Government would be prepared, if requested, to study the means of effective cooperation in the execution of such a plan.

HULL

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<sup>8</sup> Laurence Duggan, Chief of the Division of the American Republics.

561.333D3/56½

*Memorandum of Conversation, by Mr. Paul C. Daniels of the  
Division of the American Republics*

[WASHINGTON,] July 25, 1940.

Mr. Penteadó<sup>9</sup> called at the Department this morning and stated that yesterday morning a meeting had been held at the Pan American Coffee Bureau in the course of which Señor Aguilar had brought up for discussion a plan providing for the cooperation of the United States in disposing of the surplus coffee production, since if the surplus problem were handled satisfactorily the question of allocating quotas for the United States market would be greatly facilitated. According to Mr. Penteadó, this plan provided for the United States' buying all the coffee surplus for the duration of the war, at the price prevailing in the American market, and then selling so much as possible in non-American markets. Mr. Penteadó said this plan would undoubtedly be objectionable on various grounds, including the following:

1. So long as the war continued, there would be an accumulation of coffee stocks held by the United States.

2. With the accumulation of large stocks, the selling price in non-American markets would be immediately depressed at the termination of the war not only because of the need for disposing of these stocks, but also because the normal European trade of the producing countries would presumably be resumed.

3. In as much as the surplus stocks would be purchased at market value, there would be no check on over-production of coffee in the producing countries.

As an alternative to the above proposal, Mr. Penteadó left with me a rough draft of an alternative plan which he thought would be more acceptable to the United States Government, assuming that this Government was prepared to extend financial assistance in financing the disposal of the surplus coffee. There is attached the draft left by Mr. Penteadó, together with a rough translation which I have made.

I expressed to Mr. Penteadó my personal view that if this Government is to assist in financing the disposal of the coffee surplus, the plan which he proposed seemed to me more reasonable than the one which he said was discussed yesterday at the Pan American Coffee Bureau.

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<sup>9</sup> Financial Attaché of the Brazilian Embassy.

## [Annex—Translation]

1. An inter-American corporation representing the United States and all the coffee producing countries of the Americas would finance, with funds obtained from the Export-Import Bank, the storing of the surplus Latin American coffee production of the 1940 crop, up to a maximum of 8,000,000 bags of 60 kilos (132 pounds) ;
2. Each producing country would receive, for the coffee delivered to the corporation, 60 per cent of its current value on the New York market ;
3. The corporation would be authorized to sell, outside of the United States, the coffee in storage, in an orderly manner, in the minimum period of five years, counting from the termination of the European war, such sales not to exceed 1,600,000 bags per annum ;
4. With the proceeds of these sales the corporation would repay the Export-Import Bank, would pay the storage charges, insurance, et cetera, and would distribute the remainder among the countries producing the coffee which was sold, in the proportion established.

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561.333D3/80

*The President of the Inter-American Financial and Economic  
Advisory Committee (Welles) to the Secretary of State*

WASHINGTON, September 9, 1940.

MY DEAR MR. SECRETARY: AS your Excellency is undoubtedly aware, the Inter-American Financial and Economic Advisory Committee convened in this city, gave its wholehearted cooperation to the Third Pan American Coffee Conference with the object of aiding in arriving at an agreement among the American coffee producing countries, with a view to alleviating the destructive effects with which present conditions confront the coffee industry.

After the close of the Third Pan American Coffee Conference, this Committee directed its efforts towards putting into effect among the participating countries the agreement reached at that Conference.

In the meantime, the Second Meeting of the Ministers of Foreign Affairs of the American Republics, which took place in Havana, directed the Committee to proceed, among other things :

“To cooperate with each country of this continent in the study of possible measures for the increase of the domestic consumption of its own exportable surpluses of those commodities which are of primary importance to the maintenance of the economic life of such countries ;

“To propose to the American nations immediate measures and arrangements of mutual benefit tending to increase trade among them without injury to the interests of their respective producers, for the

purpose of providing increased markets for such products and of expanding their consumption;

“To create instruments of inter-American cooperation for the temporary storing, financing and handling of any such commodities and for their orderly and systematic marketing, having in mind the normal conditions of production and distribution thereof;

“To develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned;

“To establish appropriate organizations for the distribution of a part of the surplus of any such commodity, as a humanitarian and social relief measure.”<sup>10</sup>

In these circumstances, I take pleasure in informing your Excellency that this Committee has undertaken the study of the coffee problem in all the various aspects in which it touches the economy of the Continent, with the purpose of presenting to the interested governments, in the near future, satisfactory solutions covering an agreement on export quotas, both for the United States market and for the rest of the world, and a plan for the “temporary storing, financing and handling” of exportable surpluses of that commodity now held in American countries.

The activities of the Committee should in no way be understood as constituting an obstacle in the way of the Pan American Coffee Bureau in its discharge of whatever functions may eventually fall to it as a result of the resolutions of the Third Pan American Coffee Conference. Quite on the contrary, the Committee will consider with the greatest interest whatever suggestions the Pan American Coffee Bureau may be good enough to offer to the Committee towards the solution of the problem.

The Committee, deeply concerned with the growing dislocation and fall in the price of coffee in the consuming markets, believes that it is urgently necessary to proceed without delay to an application of proper collective measures in order to avoid the disastrous situation which would face the inter-American economy if the producing countries should fail to adopt some common plan to protect this commodity in the world market.

I hasten to advise Your Excellency that the Inter-American Financial and Economic Advisory Committee will receive with the greatest pleasure whatever suggestions Your Excellency's Government may be good enough to offer concerning the important question now before us.

At the same time, I am pleased to inform Your Excellency that the Committee shall also undertake the study of problems in relation to

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<sup>10</sup> *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941), p. 82.

other important commodities of the Americas with a view to finding solutions to these along similar lines.

I trust that the Committee may count upon the valuable collaboration of Your Excellency's Government for the efficacious discharge of this task.

Accept [etc.]

SUMNER WELLES

561.333D3/72: Telegram

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

Bogotá, September 14, 1940—1 p. m.

[Received 5:42 p. m.]

269. For the Under Secretary. I spent 2 hours with President<sup>11</sup> and 2 hours with Minister for Foreign Affairs<sup>12</sup> today. They both expressed their grave concern respecting coffee situation and its repercussions on national economy of Colombia. They declare any overthrow of the Government is utterly impossible but admit there will be great dissatisfaction with the administration, which will hamper its activities in all directions.

They both emphasize that minor producers such as Guatemala, Venezuela, Peru, Cuba and others, in quota conversations have taken unreasonable attitude which in reality demonstrates a lack of continental solidarity and anything Colombia may say to them will be ignored. Therefore, the Minister for Foreign Affairs requests, since it would be most helpful and deeply appreciated here, that you, while in no way exerting coercion, indicate to the aforementioned countries that they should take a more cooperative attitude on "the New York agreement".

While I am uninformed of the negotiations and the conditions in the other countries, I can assure you that the situation here is critical. Therefore, I strongly recommend that every proper assistance be given to the Colombians without delay.

BRADEN

561.333D3/103

*Memorandum by Mr. Paul C. Daniels of the Division of the American Republics to the Under Secretary of State (Welles)*

[WASHINGTON,] September 16, 1940.

MR. WELLES: This afternoon there is to be another meeting of the Coffee Subcommittee at the Pan American Union. Judging by the

<sup>11</sup> Eduardo Santos.

<sup>12</sup> Luis López de Mesa.



experience of the past two or three weeks it is very doubtful that this meeting will produce any results in the direction of unanimous agreement on coffee quotas.

Ambassador Turbay<sup>13</sup> has told Mr. Duggan in strict confidence that Brazil and Colombia would be prepared to give up 100,000 bags jointly from their quotas as fixed at New York if this could bring about a general agreement. So far as I know, no confirmation of this confidential offer has been received from Brazilian sources. If this report is true, I believe it would be very helpful in reaching a solution provided it is not disclosed prematurely.

If, as is anticipated, the meeting this afternoon produces no agreement, you may wish to consider the possibility of presenting a quota plan which in the opinion of this Government would be fair and equitable. Many of the delegates would, I believe, welcome an expression of our views in this sense. If you so desire, I shall submit to you prior to next Thursday a new list of quotas based on the collective judgment of the officials of this Government who have been studying the problem most closely.

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561.333D3/111

*Memorandum by Mr. Paul C. Daniels of the Division of the American Republics to the Under Secretary of State (Welles)*

[WASHINGTON,] September 18, 1940.

MR. WELLES: On my memorandum of September 16 you indicated your willingness to consider the possibility of presenting to the Inter-American Committee a coffee quota plan which in the opinion of this Government would be fair and equitable.

At the meeting of the Subcommittee on Coffee held at the Pan American Union on September 16 the members of the Subcommittee expressed their desire to hear this Government's views on the allocation of coffee quotas for the United States market. This desire was confirmed by the unanimous vote of all the delegates from the producing countries represented on the Subcommittee.

There is accordingly attached a table on which are indicated (in the second column of figures) proposed basic quotas for the United States market. For purposes of comparison the New York quotas are indicated in the first column. It will be observed that the total figure of 15,900,000 bags reached at New York has been retained in the basic quotas for the United States now proposed. Certain changes,

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<sup>13</sup> Gabriel Turbay, Colombian Ambassador.

however, are suggested in the allocation of this total among the producing countries.

The figures in the third column, representing coffee export quotas to markets other than the United States, have been arrived at by subtracting the quotas for the United States market from the figures given in the last column. The figures in the last column represent total exports to the world from each producing country in the year of greatest exports during the six-year period 1934-1939. This procedure, i. e., subtracting quotas for the United States from the total figures given in column 4, was adopted at an earlier meeting of the Coffee Subcommittee and therefore followed in this case. However, the only proposals invited from this Government are those contained in column 2, indicating proposed basic quotas for the United States; the figures for quotas to other markets have merely been included to facilitate appraisal of the whole situation.

The new proposed allocation of the quotas for the United States contained in column 2 has been carefully considered and unanimously approved by the officials who have been studying this problem most closely, namely, Messrs. Mueller and Wheeler of the Department of Agriculture; Mr. Domeratzky of the Department of Commerce; and Messrs. Collado and Daniels of the Department of State.

PROPOSED BASIC QUOTAS IN BAGS OF 60 KILOGRAMS

<i>Exporting Countries</i>	<i>New York Quotas</i>	<i>To United States</i>	<i>To Other Markets</i>	<i>Total*</i>
Brazil.....	9,322,000	9,300,000	7,813,000	17,113,000 (1938)
Colombia.....	3,200,000	3,150,000	1,079,000	4,229,000 (1938)
El Salvador.....	600,000	600,000	527,000	1,127,000 (1937)
Costa Rica.....	210,000	200,000	242,000	442,000 (1937)
Cuba.....	80,000	80,000	62,000	142,000 (1939)
Nicaragua.....	195,000	195,000	114,000	309,000 (1935)
Venezuela.....	400,000	420,000	606,000	1,026,000 (1936)
Santo Domingo..	120,000	120,000	138,000	258,000 (1939)
Ecuador.....	180,000	150,000	89,000	239,000 (1934)
Guatemala.....	500,000	535,000	312,000	847,000 (1936)
Haiti.....	275,000	275,000	327,000	602,000 (1936)
Honduras.....	15,000	20,000	21,000	41,000 (1937)
Mexico.....	450,000	475,000	239,000	714,000 (1936)
Peru.....	-----	25,000	43,000	68,000 (1934)
<b>Total American Countries.....</b>	<b>15,547,000</b>	<b>15,545,000</b>	<b>11,612,000</b>	<b>27,157,000</b>
<b>Other Countries..</b>	<b>353,000</b>	<b>355,000</b>		
<b>Total.....</b>	<b>15,900,000</b>	<b>15,900,000</b>		

\*The figures in this column represent the total exports from each country in the year of greatest exports during the six-year period 1934-1939.

*Note:* The following factors have been considered in arriving at the proposed basic quotas:

1. Average total exports from each country during recent years.
2. Average exports to United States during recent years.

3. Requirements of United States market for special types of coffee.
4. Normal markets for each country's coffee.
5. Abnormal conditions due to war.

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561.333D3/73 : Telegram

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

Bogotá, September 18, 1940—11 p. m.  
[Received September 19—2: 12 a. m.]

279. For the Under Secretary of State. My telegram No. 269, Sept. 14, 1940. Minister for Foreign Affairs telephoned me late this afternoon from President's palace where he stated he has been in more or less continuous Cabinet sessions for last few days on desperate economic situation resulting from coffee depression. He urgently requested me to meet him at the Foreign Office. On my arrival he was anxious to learn whether I had any reply to my telegram under reference, repeated his previous remarks and added:

1. Colombian Government's programs for defense and economic cooperation will be nullified by Congress unless it can be shown that there is the financial wherewithal with which to proceed.

2. The coffee growing countries previously cited and other minor producers would not be asked to make greater or even as great sacrifices as Colombia. In order to take advantage of existing situation some of them are demanding quotas larger than present production.

3. Since any request by Colombia would be ignored, he earnestly begged that the United States call these facts to their attention, simultaneously indicating that if they fail to respond, it would in effect mean they were destroying continental solidarity, defense and economic cooperation.

4. He hoped you could bring this matter up at tomorrow morning's subcommittee meeting and with full Inter-American Economic Consultative Committee<sup>14</sup> in the afternoon, and induce these countries at least to accept and put in operation immediately the New York quota agreement pending negotiation of new accord.

I agreed to telegraph you forthwith, but, since my impression is that Colombia has so far made no quantitative sacrifices, and inasmuch as competitor countries are conceivably making similar accusations against Colombia, I said: As I had repeatedly stated publicly and privately here, the one thing I unequivocally prophesied was that irrespective of developments, all our countries would have to go through

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<sup>14</sup> Reference is to the Inter-American Financial and Economic Advisory Committee.

hell and the only question was in what degree, individually or collectively, we might be able to mitigate impending difficulties.

While, as indicated in last paragraph of my telegram under reference, the situation is critical, nevertheless the Government is floundering in all directions and in my opinion increased economic distress is likely still further to complicate the already delicate political situation.

Please expedite instructions as to what reply I may make.

BRADEN

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561.333D3/81 : Telegram

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

WASHINGTON, September 19, 1940—4 p. m.

191. From the Under Secretary of State. Your 279, September 18, 11 p. m. You may inform the Minister for Foreign Affairs that at this afternoon's meeting of the Inter-American Financial and Economic Advisory Committee I shall call upon all the producing countries to cooperate wholeheartedly in seeking a solution of the desperate coffee situation. At the same time I shall, for the first time, express the views of this Government as to what would be a fair and equitable distribution of coffee quotas for the United States market among the various producing countries. From the very beginning the United States has been actively interested and has manifested a sincere desire to cooperate in any practical steps which may be taken with the least possible delay in meeting this grave situation. I earnestly hope that Colombia as well as all the other countries will respond favorably to this appeal. [Welles.]

HULL

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561.333D3/82 : Telegram

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

BOGOTÁ, September 20, 1940—3 p. m.

[Received 6:40 p. m.]

281. For the Under Secretary. Department's telegram No. 191, September 19. When I delivered your message this morning, the Minister for Foreign Affairs said he had received the quota figures suggested by you which meant 150,000 sack reduction from the New York allotment. He was evidently downcast, therefore I pointed out that the New York allocation of 300,200,000 sacks meant our market absorbing its pre-war high peak amounts of Colombian coffee. Of this he apparently was ignorant and said the reduction under these circumstances was only 50,000 sacks. He noticeably cheered up and expressed deepest thanks for our collaboration.

BRADEN

561.333D3/87 : Telegram

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

BOGOTÁ, September 26, 1940—10 p. m.

[Received 11 : 24 p. m.]

293. Reference telephone conversation Satterthwaite<sup>15</sup> this afternoon. Minister for Foreign Affairs states Colombia requested quota of 3,180,000 bags instead of 3,150,000 not as a matter of quantity but because Congress expected 3,200,000 and may be unwilling to approve any greater cut. However, he will see the President tonight and communicate with me in the morning before I leave for Panama.

BRADEN

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561.333D3/88 : Telegram

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

BOGOTÁ, September 27, 1940—10 a. m.

[Received 1 : 41 p. m.]

296. My telegram No. 293, September 26. Minister for Foreign Affairs points to fact Colombian quota was cut 50,000 sacks from New York allocation as compared with Brazil only 20,000. His Government earnestly hopes Colombian allotment may be increased somewhat, perhaps difference being distributed among other countries since otherwise it will encounter great political and public resistance.

BRADEN

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561.333D3/89 : Telegram

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

WASHINGTON, September 30, 1940—8 p. m.

211. Please express to the Minister of Foreign Affairs my earnest hope that the Colombian Government will find it possible to accept the proposed coffee quota plan now under discussion in the Inter-American Financial and Economic Advisory Committee. In the opinion of this Government the proposed quotas are fair to all the participating countries. Please report by telegraph the current attitude of the Colombian Government toward the proposed coffee agreement.

HULL

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<sup>15</sup> Livingston Satterthwaite, of the Division of the American Republics.

561.333D3/90 : Telegram

*The Chargé in Colombia (Wright) to the Secretary of State*

BOGOTÁ, October 1, 1940—1 p. m.

[Received 7:06 p. m.]

303. Department's telegram No. 211, September 30, 8 p. m. I have just spent half an hour with the Minister for Foreign Affairs and informed him as instructed. The Minister replied that his Government's problems in this particular "were not arithmetical but rather political". While Colombia naturally wished to make the best out of a bad situation he would not under normal circumstances let 50,000 sacks stand in the way of solution; that quantity would neither make nor break Colombia but its loss under present conditions could well create an untenable situation for the administration. . . . When coffee quotas had first been mentioned and the so-called New York agreement was discussed public opinion and specifically that in Congress had been built up to expect a quota of 3,200,000 sacks.

The opposition was endeavoring to sabotage the administration on every turn. It hoped to create economic chaos which would result in political chaos and when the administration had been discredited it would then seek to assume control. The man in the street still supported the Government but was wavering and if this economic chaos came he would cease so to do. There could be but one result.

The fallacy in the opposition's thesis was that once chaos came and they sought to take the reins it would be too late and the United States would suffer as much as Colombia. The best example the Minister could give of the seriousness of the situation was that he yesterday presented to the Chamber of Representatives the Act of Habana.<sup>18</sup> Under normal circumstances projects presented for first debate were never discussed. This one was discussed fully and strangely enough no one had any real opinion in the premises. It was pure talk to filibuster the Government. If this continued the Government could not succeed in getting through any of its important projects.

He hoped the Department would understand that Colombia was not being obstinate or selfish. It simply had its own internal political situation and this was serious. If he could offer to Congress and to the public a quota of 3,180,000 sacks he could justify the 20,000 sack cut amply by averring this was in keeping with the decrease taken by Brazil. He earnestly hoped the Department would do everything possible to help him.

I expressed to the Minister that this Embassy and the Department had from the outset been sympathetic to finding satisfactory solutions

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<sup>18</sup> *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State, pp. 75-77.*

both for Colombia's and other countries' coffee problems. In fact the discussions now in course had resulted in large part from his request to Keith<sup>17</sup> that the Department be approached in the premises. The Ambassador had at all times given him the fullest possible support. Nevertheless both my Government and the governments of other producing countries had their own problems and all had to make equitable sacrifices. The Minister readily recognized all of this but reverted to his previous statements on the political situation.

Quite aside from innate selfishness and weakness I am inclined in large measure to agree with what the Minister says. The Government's position is so delicate that even an insignificant 30,000 sacks might give the opposition ammunition with which to attack it. If the administration gets further bogged down in political recriminations in Congress the mildest result probably will be confusion in many directions.

WRIGHT

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561.333D3/124 : Telegram

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

WASHINGTON, October 5, 1940—1 p. m.

215. With reference to the coffee quota plan now under discussion, the Colombian delegate has stated that his Government will accept the plan provided Colombia receives a quota equivalent to 20 percent of the total quota for the United States market. The present plan provides for Colombian participation in the United States market equivalent to 19.81 percent of the total.

Your earlier reports have made clear the political difficulties faced by the Colombian Government in this as in other matters. It would be interesting to know, however, how the proposed plan is viewed by Colombians more closely associated with the coffee trade. Considering that this slight difference is apparently all that prevents final agreement on the quota plan, is it possible that coffee growers, including those of the Conservative Party, might criticize the Government for failure to conclude an agreement, even one based on 19.81 percent of the United States market. In other words, would the advantages of a coffee agreement in the opinion of coffee growers outweigh the disadvantages of the slight reduction from the 20 percent quota desired by the Government. Please telegraph your best judgment on this point.

HULL

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<sup>17</sup> Gerald Keith, Second Secretary of Embassy.

561.333D3/125 : Telegram

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

BOGORÁ, October 7, 1940—10 p. m.

[Received 11 : 20 p. m.]

313. Department's 215, October 5. Excepting for those closely connected with the Coffee Federation and Government itself Colombians are uninformed on proposed Quota Convention. They only believe they will suffer from any limitations. They will resist and resent every sacrifice and under all circumstances will be critical of the Government.

Since Government is keeping details of these negotiations secret it would be unwise for us to discuss them with private persons closely associated with coffee trade. If we were to do so and it became known disagreeable repercussions might ensue.

In conversation I was able to have with leading American coffee trader in Medellin, October 6, he saw viewpoint of Colombians further complicated by: (1) Question as to whether Government would continue; (2) peso subsidy; (2) [3] fear that quotas would be made retroactive to July 1, 1940; (3) [4] hope situation would be further ameliorated by Export-Import Bank loan to carry stocks.

In conversations with Minister for Foreign Affairs this morning he considered last two points of minor importance. He reiterated statements reported in Wright's telegram No. 303, October 1, emphasizing that unless Colombian Government could convince congressional [omission?] this country was receiving full cooperation from the United States by getting a quota equivalent to 20 percent of total quota for our market he would be blocked not alone on coffee but on entire foreign policy program including defense and Act of Habana.

I pointed to insignificant difference between 19.81 percent and 20 percent; to fact Colombia's proposed quota had only been exceeded in United States purchases during 1938 and 1939, in the latter case by only 2,374 sacks; that it exceeded any 5-year average and was therefore at a peak; and if quota convention failed of accomplishment resulting conditions including dumping could be disastrous.

The Minister frankly recognized validity of all my arguments but declared "it was a matter of principle not to go below 20 percent"; indicated it was perhaps unfair to give "colonies" 300,000 sacks; and he could not justify Brazil with its large production on being reduced 20,000 sacks compared with 50,000 for Colombia.

I said perhaps Brazil had already taken substantial cut at New York whereas I had heard from purely private sources that certain other countries had objected that Colombia then obtained unduly large allotment. I repeated my previous arguments on economic fallacy of de-



stroying accomplishment of convention for a difference of only 0.19 percent.

The conversation finally boiled down to the Minister's declaration that the only defense of any quota which his Government could successfully make would be that Colombia would retain 20 percent of the total United States market.

When I pressed him he admitted that 300,150,000 or even less could be justified and would be accepted if that figure represented 20% of a given total.

The administration's weakness and timidity may induce it arbitrarily to continue adamant on the "principle of 20%" even though it entail a breakdown of negotiations regardless of resulting disaster. While I presently can offer no encouragement I suggest I be kept as fully informed as possible on details of negotiations and particularly concerning manner in which figures were arrived at, quotas given to other countries, why Brazil received smaller reduction than Colombia, and reasons for increases to such countries as Peru which the Minister alleges are ridiculous since they are in excess of their production capacity. This type of information might be helpful.

BRADEN

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[For the text of the Inter-American Coffee Agreement, signed at Washington, November 28, 1940, see Treaty Series No. 970, or 55 Stat. 1143. The Agreement was signed by the United States of America, Brazil, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Peru, and Venezuela; ratification of the United States deposited with the Pan American Union April 14, 1941; Agreement and Protocol proclaimed by the President of the United States April 15, 1941; Agreement effective April 16, 1941, by terms of the Protocol signed April 15, 1941.]

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561.333D3/262 : Telegram

*The Secretary of State to the Chargé in the United Kingdom  
(Johnson)*

WASHINGTON, December 6, 1940—8 p. m.

For Achilles.<sup>18</sup> Netherlands Series No. 9. Please discuss the following immediately with the Netherlands authorities:

Under the terms of the Inter-American Coffee Agreement signed here on November 28 by representatives of the United States and

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<sup>18</sup> Theodore C. Achilles, Chargé d'Affaires near the Governments of Poland, Belgium, Norway, and the Netherlands, established in the United Kingdom.

14 other American Republics (see Radio Bulletin 283), this Government undertakes to limit imports for consumption of coffee from countries not participating in the agreement to a basic annual quota of 355,000 bags of 60 kilograms in any quota year beginning October 1. Coffee entered subsequent to October 1, 1940 will be charged against the first year's quota. The figure of 355,000 bags is larger than the average imports, approximately 338,000 bags, supplied by non-participating countries in the 2-year period preceding October 1, 1940.

If this Government allocates the 355,000 bag quota among non-participating countries, the share for the Netherlands (including colonies) would be approximately 68,000 bags, that for the United Kingdom (including colonies) 160,000 bags, and the share for all other countries, 127,000 bags. These figures are based on the percentage shares supplied in the 2-year period preceding October 1, 1940, which are 19, 45, and 36 percent respectively.

Members of the Netherlands Legation, shortly before the signature of the Coffee Agreement, expressed concern to the Department regarding the size of the quota for non-participating countries, indicating a desire for an increase in view of their colonial coffee situation. Although no action can be taken to increase the basic total quota of 355,000 bags for non-participants in relation to the share for participating countries, Netherlands colonial coffee producers could compete for that entire quota, if allocations were not made to individual non-participating countries.

It is the Department's belief that Netherlands coffee producers could probably market more coffee in this country if the quota for non-participants were not allocated, particularly in view of possible shipping difficulties affecting other non-participants.

Under the circumstances, it is believed that the Netherlands Government, in accordance with the provisions of paragraph 7 of Article VI of the trade agreement with the Netherlands,<sup>19</sup> will agree to dispense with an allocation of the coffee quota. Please request a written expression of such agreement from the appropriate officials.

Please expedite this matter as much as possible and inform the Department of the results by telegraph.

For administrative and other reasons the Department would prefer not to make specific allocations to non-participating countries.

HULL

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<sup>19</sup> Signed at Washington, December 20, 1935; for text, see Executive Agreement Series No. 100, or 50 Stat. 1504; see also *Foreign Relations*, 1935, vol. II, pp. 579 ff.

561.333D3/286 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary  
of State*

LONDON, December 21, 1940—3 p. m.  
[Received December 21—11 : 53 a. m.]

From Achilles. Netherlands Series No. 8. Your 9, December 6, 8 p. m., and 10, December 13, 2 p. m.<sup>20</sup> Memorandum dated 19th states, "The Netherlands Government after due consultation with the Governor General of the Netherlands Indies have the honor to inform the Government of the United States that they would prefer that a distribution of the coffee quota intended for non-American coffee producing territories should be dispensed with and that they are, therefore, in this case not availing themselves of their right under paragraph 7 of article VI of the Reciprocal Trade Agreement with the United States of America and the Netherlands to request that such an allotment should be made".

Copy by mail. [Achilles.]

JOHNSON

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<sup>20</sup> Latter not printed.

DISCUSSIONS REGARDING POSSIBLE PURCHASE BY  
NEUTRAL INTERESTS OF GERMAN MERCHANT SHIPS  
WHICH HAD TAKEN REFUGE IN WESTERN HEMI-  
SPHERE PORTS <sup>1</sup>

862.8591/704 : Telegram

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

MEXICO, January 11, 1940—3 p. m.

[Received 9:10 p. m.]

16. This morning's Mexico City newspaper carried a report that the *Tine Asmussen* at Puerto Mexico has been sold to Petroleos Mexicanos. A preliminary check of this information is as follows:

The Foreign Office in answer to an inquiry by the French Legation states that it has no information of any transfer although in a previous conversation with Beteta <sup>2</sup> the French Chargé d'Affaires was told that the Mexican Government was interested in acquiring German tankers in Mexican ports.

Beteta is said to have informed the French Chargé that in the event negotiations went [through?] the French Government would be notified before the purchase was made. Official of Petroleos Mexicanos advises me that the purchase is being negotiated but is not yet closed.

Wohl of W. R. Davis and Company says that the *Tine Asmussen* originally belonged to Norwegian interests; was chartered but not bought by a German interest and the flag changed to German 4 months before the outbreak of the present war in Europe; that Davis then subchartered the vessel. He says that he talked with Davis by telephone this morning and the latter expressed his willingness to concur in the sale and is communicating by telephone or cable with the German interests today.

Please compare the foregoing with the Embassy's telegram 328 of October 18, 7 p. m., and 342 of October 25, 6 p. m.<sup>3</sup>

Lloyd's *Register* carries in additions and alterations of September 4, 1939 the *Tine Asmussen* as owned by Haltermann and Company, Hamburg.

Wohl says that Davis is to telephone him tomorrow regarding his concurrence in the sale.

<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 54-84.

<sup>2</sup> Ramon Beteta, Mexican Under Secretary of State.

<sup>3</sup> Neither printed.

The French Legation expect to talk with Beteta about the matter today and will endeavor to obtain further information for the French Government. The Secretary of the French Legation states that the French and British Governments have already indicated that they would not agree to recognize a change in nationality of German vessels in Mexican ports.

DANIELS

862.852/71

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

No. 10018

MEXICO, February 14, 1940.

[Received February 19.]

SIR: I have the honor to record below a report made to me by the Commercial Attaché relative to the proposed purchase of the *Tine Asmussen*:

"I asked Professor Silva Herzog, Manager of Distribuidora de Petroleos Mexicanos, on February 14th, if he had purchased the German tanker, *Tine Asmussen* from W. R. Davis. He said that the matter stood just where it had been for some time and, consequently, the vessel had not been purchased. He said that the price placed on the tanker by W. R. Davis was 350,000.00 dollars of which 50,000.00 dollars would be paid in cash and the remainder in petroleum products."

Respectfully yours,

JOSEPHUS DANIELS

862.852/82

*Memorandum by the Liaison Officer With the War and Navy Departments (Chapin) to the Assistant Secretary of State (Berle)*

[WASHINGTON,] March 18, 1940.

MR. BERLE: There is attached as of possible interest an outline study<sup>4</sup> of German merchant ships in the Americas based on reports to the present date.

Since September 3, 1939, a total of 93 German merchant ships have been in port in this hemisphere at some period (total gross tonnage 555,754). Forty-nine of the 93 ships are still in port (total gross tonnage 244,695). Seven others are at sea (total gross tonnage 44,805). Twenty-four of the 93 ships have been reported scuttled, or sunk or captured by the British and French Navies (total gross tonnage 169,877).

<sup>4</sup>Not printed.

According to authoritative sources, 4 of the German ships, leaving since October 17, 1939, succeeded in arriving at Norwegian or Spanish ports (total gross tonnage 24,472), and 7 more are reported arrived in home ports in Germany (total gross tonnage 58,283).

One of the German ships has been transferred to an American flag (Honduras) while in an American port (5,356 tons). Nicaraguan negotiations for the purchase of another, the *Stella*, 479 tons, are currently suspended. Only one ship, the *Tacoma*, has been interned, in Uruguay (8,268 tons).

Since the outbreak of the war, almost 26% of the total German merchant ships in this hemisphere (and almost 31% of the total tonnage) has been sunk, captured or scuttled. Germany has retrieved 7½% of the total of 93 ships in her ports (10½% of the total tonnage).

Of the total number of German ships in the Americas since the outbreak of war, not quite 53% of the ships (only 44% of the total tonnage) remains in American ports.

SELDEN CHAPIN

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862.852/82

*Memorandum by Mr. Harley Notter of the Liaison Office to the Chief of the Division of the American Republics (Duggan)*

[WASHINGTON,] March 21, 1940.

TRANSFER OF THE "WESERMÜNDE" TO THE HONDURAN FLAG

MR. DUGGAN: The circumstances surrounding the transfer of this ship to the Honduran flag are in brief the following:

The *Wesermünde* was transferred in 1936 from British ownership (Elders & Fyffes, Limited, i. e. the United Fruit Company) and registry transferred to German registry. Her home port thereafter was Bremen, her flag was German, and her managers were "Union" Handels-und Schiffahrtsgesellschaft m. b. H. There is some uncertainty whether this German manager company may not have become also the owner, but it appears that underneath any company names the United Fruit remained the real owner.

On November 18, 1939 it was reported to the Department from Barranquilla that the United Fruit Company was sending some of its officers, all American, to take the German merchant vessel to the Canal Zone. This telegram was followed the next day by a telegram from Curaçao that the German crew had been discharged by the ship; that the ship would be transferred to the Honduran flag and sailed to Panama by American officers; and that the British Consul had given assurances that the vessel would not be molested (by the British cruiser patrolling outside the harbor of Curaçao, where the ship was, or otherwise).

On January 6, 1940 a telegram from Curaçao reported that transfer of the flag to Honduran nationality had been completed. The new "owner" is the Mayan S. S. Corporation—which is of course understood to be United Fruit Company. The provisional certificate of registry was issued by the Honorary Consul of Honduras in Curaçao. The ship evidently sailed as scheduled for Panama on January 6, without Germans in the crew.

After the transfer of the flag from German to Honduran registry, the *Wesermünde* was renamed the *Chirripo*.

As you no doubt have noted, in referring to this case in my tabulations, I have been careful to say that the ship was transferred to the Honduran flag. It was not a case of purchase. Undoubtedly the British were willing to give assurances that this transfer of flag would not subject the vessel to molestation because of the actual ownership of the vessel by the United Fruit Company,—though for a full two years the vessel (built in 1920) had a German registration and flag.

HARLEY NOTTER

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862.852/84: Telegram

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

MEXICO, April 19, 1940—5 p. m.

[Received 9:06 p. m.]

135. Referring to my despatch No. 10,394 April 11.<sup>5</sup> Sale of SS *Tine Asmussen* confirmed by W. R. Davis Company as effective yesterday. Terms said by manager Dutch Shell Company as \$75,000 one month from date of sale and \$150,000 worth of gasoline to be delivered at Houston, Texas. Platt oil gram price to prevail on date of delivery at Houston. These terms are being checked.

Finance Minister <sup>6</sup> said purchase has been consummated in accordance with principles international law and facts are being communicated to British and French Governments with view to obtaining their position in the matter.

DANIELS

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862.8591/942

*The Consul at Veracruz (Cochran) to the Secretary of State*

No. 119

VERACRUZ, April 23, 1940.

[Received April 25.]

SIR: I have the honor to refer to despatch no. 97 from this office, dated April 2, 1940,<sup>5</sup> reporting that the German tanker *Tine Asmaus-*

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<sup>5</sup> Not printed.

<sup>6</sup> Eduardo Suárez.

sen, which had been anchored for some time in the bay of Coatzacoalcos, had been bought by Mexico.

The local daily newspaper, *El Dictamen*, today carries a short news item from Coatzacoalcos, dated April 22, reporting that the Mexican flag was raised on the vessel at 3 o'clock that day and that it had been given the name of *Juan Casiano*. It is reported that the new Mexican tanker is the largest of the ships belonging to Petroleos Mexicanos. It is believed that the implications of this transfer of the title of a German ship are well known to the Department.

Respectfully yours,

WILLIAM P. COCHRAN, JR.

862.852/89

*The Consul at Veracruz (Cochran) to the Secretary of State*

No. 122

VERACRUZ, April 26, 1940.

[Received May 1.]

SIR: With further reference to the sale to Mexico of the German tank vessel *Tine Asmussen*, now re-christened the *Juan Casiano*, reported in despatches nos. 97 and 119 from this Consulate, dated April 2 and 23, 1940,<sup>7</sup> I have the honor to inform the Department that, according to an additional article appearing in the daily *Diario del Istmo* of Coatzacoalcos, on April 23, 1940, this vessel is to be operated only in the Gulf, and that the purchase price was 650,000 pesos (rather than the 200,000 dollars previously reported), which was delivered in cash to the German Embassy in Mexico City at the time of transfer of the title.

From an employee in the German Consulate in this port, I learn that the Germans in Mexico rather hope that the British or French will seize or sink this ship, believing that Germany will be the gainer therefrom in goodwill and sympathy in Latin America. (As the Department is aware, the British and French are reported to have announced that they would refuse to recognize such transfers of German ships during the period of the present war.)

Respectfully yours,

WILLIAM P. COCHRAN, JR.

862.852/90

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

No. 10528

MEXICO, April 30, 1940.

[Received May 2.]

SIR: In continuation of my despatch No. 10492 of April 24, 1940<sup>8</sup> concerning the purchase of the SS *Tine Asmussen* by the Mexican

<sup>7</sup> Despatch No. 97, April 2, not printed.

<sup>8</sup> Not printed.



Government, I have the honor to quote below from a report dated April 29, 1940 submitted by the Commercial Attaché:

"I asked the Minister of Finance today about the terms of the sale of the S S *Tine Asmussen* to the Mexican Government, and he replied confirming the terms as reported to the Department in telegram No. 135 of April 19—5 p. m.

"He denied that this tanker was to be used exclusively in coastwise service, and stated emphatically that it would be despatched in regular ocean service as circumstances required.

"He added that the purchase by the Mexican Government was made for cash from W. R. Davis Company, which had purchased the vessel from the German owners paying for it in blocked marks."

Respectfully yours,

JOSEPHUS DANIELS

P. S. The Counselor of the Embassy <sup>9</sup> yesterday saw the Secretary of the French Legation, who told him that in so far as he knew neither the British nor the French Governments had agreed to the transfer of the *Tine Asmussen*, or had relinquished their right to seize it. However, they had been given to understand that the ship would be used in the coastwise service, and had made no further protest when its transfer to Mexican registry was announced. W. R. Davis, he said, was the seller of the ship, and would receive about \$300,000 for it—one-half in cash and the balance in petroleum; the German owners to be paid in blocked marks by W. R. Davis.

The German Legation here took the position that Germany was really doing a great favor to Mexico and to W. R. Davis by permitting the sale of the ship in getting no cash for the vessel, but merely liquidating part of the debt to W. R. Davis. He said that this aspect of the matter, i. e., no cash to Germany, made it easier for the British and the French to let the matter pass without much comment. He emphasized, however, that he did not know whether they would be given any assurances that the ship's transfer would be respected by them.

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<sup>9</sup> Pierre de L. Boal.

PARTICIPATION OF THE UNITED STATES IN THE INTER-AMERICAN MARITIME CONFERENCE, HELD IN WASHINGTON, NOVEMBER 25 TO DECEMBER 2, 1940<sup>1</sup>

710.Maritime Transportation/155a : Telegram

*The Secretary of State to the Ambassador in Panama (Dawson)*<sup>2</sup>

WASHINGTON, November 9, 1940.

165. The Inter-American Maritime Conference which convenes in Washington November 25, 1940 under the auspices of the Inter-American Financial and Economic Advisory Committee, will afford an opportunity for the representatives of all the American republics to discuss the problems now affecting shipping in the Western Hemisphere. The shipping interests of the United States have responded wholeheartedly to the invitation to name representatives to attend in a consultative capacity and many groups have designated high-ranking officials. The United States delegates are Mr. Henry F. Grady, Assistant Secretary of State, and Mr. Max O'Rell Truitt, Commissioner of the Maritime Commission.

Please impress upon the appropriate officials of the Government to which you are accredited the importance of the Conference and express the hope that all the American republics will take full advantage of the opportunity afforded for the attendance of shipping experts.

For your information, the Government to which you are accredited has designated the Ambassador in Washington.

HULL

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<sup>1</sup> For the proceedings of the sessions of this Conference, see Pan American Union, Congress and Conference Series No. 34: *Proceedings of the Inter-American Maritime Conference* (Washington, 1940), 2 vols.; see also Pan American Union, *Organization and Activities of the Inter-American Financial and Economic Advisory Committee* (Washington, 1941, mimeographed), pp. 3-5 and Appendix IX; *Comité Consultivo Económico Financiero Interamericano, Manual de su organización y actividades, 1939-1943* (Washington, n. d.), pp. 80-88; and Department of State, *Inter-American Maritime Conference, Report of the Delegates of the United States* (Washington, 1941).

<sup>2</sup> The same, *mutatis mutandis*, November 9, to the other American diplomatic missions in the American Republics.

CONVENTION BETWEEN THE UNITED STATES AND CERTAIN OTHER AMERICAN REPUBLICS TO CREATE AN INTER-AMERICAN INDIAN INSTITUTE

[This convention was opened for signature at Mexico City from November 1 to December 31, 1940, and signed for the United States November 29, 1940. For the text of the convention, see Department of State Treaty Series No. 978, or 56 Stat. (pt. 2) 1303.]

CONVENTION BETWEEN THE UNITED STATES AND OTHER AMERICAN REPUBLICS FOR NATURE PROTECTION AND WILDLIFE PRESERVATION IN THE WESTERN HEMISPHERE

[For the text of the convention, signed at Washington, October 12, 1940, see Department of State Treaty Series No. 981, or 56 Stat. (pt. 2) 1354.]

DISPUTE BETWEEN GUATEMALA AND THE UNITED  
KINGDOM REGARDING BRITISH HONDURAS (BELIZE)<sup>1</sup>

714.44A15/1043

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

[WASHINGTON,] January 8, 1940.

The British Ambassador<sup>2</sup> called to see me this morning at my request.

The Ambassador started the conversation by saying that he had been gratified by his reception in Chicago which he thought had been peculiarly cordial, and he was particularly struck by the fact that Colonel Robert McCormick of the *Chicago Tribune* had called upon him and had also spent some time in talking with him.

I told the Ambassador that I wanted to ask him whether he had received any reply from his Government as yet in connection with the British-Guatemalan dispute over the boundary between Guatemala and British Honduras. The Ambassador said that immediately after our last conversation on this subject, he had telegraphed his Government urging a prompt communication with the Guatemalan Government and that in response to this telegram he had received from his Foreign Office a draft of the arbitral submission which the British Government proposed to submit to Guatemala. The Ambassador said that he had made certain changes in the text of this draft in accordance with the last conversation he had had with me on this subject and had then returned it to his Government again urging a prompt communication with Guatemala. The Ambassador further said that he had urged his Government at the same time to inform the Guatemalan Government without delay that Great Britain was going to agree to arbitration and that the President of the United States had agreed to designate the umpire on the arbitral tribunal and to permit the decision as to the exact text of the arbitral submission to be a matter to be taken up subsequently, as soon as the British Foreign Office had reached a decision on that point.

I told the Ambassador that I was decidedly disquieted with regard to this continued delay inasmuch as, I reminded him, he and I had dis-

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<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 173-226.

<sup>2</sup> The Marquess of Lothian.

cussed the matter in August of 1939 and up to the present moment the Government of Guatemala had never received any official communication on the subject from the British Government, and I was very much afraid, I said, that some hasty and intemperate declaration on the subject might be made by some official of the Guatemalan Government which would only complicate the situation and render a friendly and judicial settlement more difficult. I further said that rumors were coming to me that malcontents in Mexico and in Guatemala intended to utilize this issue as a means of stirring up trouble in Central America, and that it seemed to me that since the British Government had now positively agreed upon arbitration as the solution, it would be the better part of wisdom for the Government of Great Britain to advise the Guatemalan Government accordingly and prevent any unnecessary trouble from arising. The Ambassador replied that he agreed heartily with this point of view and would telegraph immediately to his Government insisting upon a prompt solution.

S[UMNER] W[ELLES]

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714.44A15/103 : Telegram

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

GUATEMALA, January 12, 1940—noon.

[Received 2: 10 p. m.]

1. The British Minister<sup>3</sup> informs me:

(1) That he has just received a telegram saying that Mr. Welles had expressed his fears to the British Ambassador regarding the possibility of a Mexican filibustering expedition against Belize. The telegram added that Mr. Welles had urged an early presentation by the British of their proposals.

(2) That this telegram had been the first indication which he had received that among the proposals under consideration that providing for arbitration would be chosen for presentation. The Minister added that the delay in presentation appeared to be due to difficulty in connection with the terms of reference. I emphasized that unrestricted arbitration appeared to offer the best means of securing a solution of the problem just and honorable to both sides.

(3) That he had received a request from the President for some action in connection with this problem which the latter could mention in his Presidential message to Congress on March 1.

(4) That he hoped his telegram plus that from Washington might jog the proposal out of the law lords' unfinished business basket.

CABOT

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<sup>3</sup> John Hurleston Leche.

714.44A15/106

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

[WASHINGTON,] January 12, 1940.

The British Ambassador called to see me today at his request. The Ambassador handed me a letter and a note, copies of which are attached herewith,<sup>4</sup> dealing with the proposed arbitration of the controversy between Guatemala and Great Britain. I expressed to the Ambassador my appreciation of the interest which he had taken in this matter and urged that this communication be conveyed to the Guatemalan Government as quickly as possible. The Ambassador said he thought the British Minister in Guatemala would be able to convey the communication within the next ten days. I asked the Ambassador if he had any objection to my informing the American Minister in Guatemala that this proposal was on the way and the Ambassador replied that he would be very happy if I did so.

S[UMNER] W[ELLES]

714.44A15/106

*The British Ambassador (Lothian) to the Under Secretary of State  
(Welles)*

WASHINGTON, January 12, 1940.

MY DEAR MR. UNDER SECRETARY: With reference to your letter of November 15th, 1939<sup>5</sup> with regard to the proposed arbitration with Guatemala, I am instructed to inform you that His Majesty's Government deeply appreciate the willingness of the President of the United States to nominate an American citizen who they understand will be of high judicial experience to act as umpire of an eventual *ad hoc* tribunal. They are now about to make their offer to the Guatemalan Government and they propose at the same time to inform the Guatemalan Government that His Majesty's Government understand that the President of the United States will be willing to nominate an umpire for such a tribunal.

With reference to your letter of December 8th, 1939,<sup>6</sup> I am enclosing for your information the terms of reference which His Majesty's Government propose for the suggested tribunal. You will see that these terms of reference will empower the proposed arbitral tribunal to effect a settlement of all the issues involved in the event that there

<sup>4</sup> *Infra*.<sup>5</sup> *Foreign Relations*, 1939, vol. v, p. 189.<sup>6</sup> *Ibid.*, p. 192.

had not been compliance with Article VII of the 1859 Treaty.<sup>7</sup> I am informed that these proposed terms will be presented shortly to the Guatemalan Government. I should be glad if you would keep them confidential until I have informed you that the communication of them to that Government has actually been made.

Believe me [etc.]

LOTHIAN

[Enclosure]<sup>8</sup>

In order that there shall hereafter be no possibility of any misunderstanding, His Majesty's Government desire to reiterate the view which they have adopted at all times hitherto that the dispute is one arising solely out of the Anglo-Guatemalan Convention of 1859 and in particular out of Article 7 thereof. His Majesty's Government are therefore prepared to submit this dispute to arbitration, in accordance with the proposals which have been set out above, for a final determination by the arbitrators of the following issues, viz:

(1) Is there still any practicable method by which the original obligations laid down in Article 7, viz. "With the object of practically carrying out the views set forth in the preamble of the present Convention, for improving and perpetuating the friendly relations which at present so happily exist between the two high contracting parties, they mutually agree conjointly to use their best efforts by taking adequate means for establishing the easiest communication (either by means of a cart-road, or employing rivers, or both united according to the opinion of the surveying engineers) between the fittest place on the Atlantic coast near the settlement of Belize and the capital of Guatemala whereby the commerce of England on the one hand and the material prosperity of the Republic on the other cannot fail to be sensibly increased at the same time that the limits of the two countries being now clearly defined, all further encroachments by either party on the territory of the other will be effectually checked and prevented for the future" can still be effectually carried out?

(2) If the answer to (1) above is in the negative, whether, and if so to what extent, His Majesty's Government are responsible for a failure to carry out the mutual obligations under the said Article 7?

<sup>7</sup> Convention between Great Britain and Guatemala relative to the boundary of British Honduras, signed at Guatemala, April 30, 1859, *British and Foreign State Papers*, vol. XLIX, p. 7.

<sup>8</sup> For complete text of note dated January 29, 1940, from the British Chargé in Guatemala to the Guatemalan Foreign Minister, see Ministry for Foreign Affairs, Republic of Guatemala, *Continuation of the White Book, Controversy Between Guatemala and Great Britain, Relative to the Convention of 1859, on Territorial Matters: The Question of British Honduras*, III (Guatemala, April 1941), p. 133.

(3) If there has been a failure to carry out the obligations imposed by Article 7, by what method, taking into account all the relevant legal and equitable considerations arising out of the said failure, shall His Majesty's Government discharge their obligations in respect of that failure?

(4) It can be clearly seen from the express words of Article VII of the Convention of 1859 that concurrently with the obligations mutually undertaken by the parties thereunder it was stipulated that the limits of the adjoining territories should be clearly defined so as to prevent all further encroachments by either party on the territory of the other. In accordance therefore with the plainly-expressed intention of both parties as shown by the terms of Article 7 of the Convention of 1859, His Majesty's Government think it only right that their present proposals for a settlement of this long outstanding dispute should be made conditional upon the Guatemalan Government consenting to a final delimitation and marking of the boundary between British Honduras and Guatemala to take place in a mutually convenient manner immediately after the tribunal, as selected by the parties, has pronounced its final award.

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714.44A15/103 : Telegram

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

WASHINGTON, January 13, 1940—5 p. m.

1. From the Under Secretary. Your No. 1, January 12, noon. The British Ambassador informed me yesterday that the British Minister in Guatemala will be instructed within the immediate future to inform the Guatemalan Government that the British Government agrees to submit the question to arbitration by a tribunal in which the Umpire will be a citizen of the United States selected by the President of the United States. The suggested terms of reference have been completed and the British Ambassador informs me that these terms of reference will empower the proposed arbitral tribunal to effect a settlement of all the issues involved in the event that there has not been compliance with Article 7 of the 1859 treaty. I am further informed by the Ambassador that the terms of reference suggested by the British Government will be submitted to the Government of Guatemala within the next 10 days.

I suggest that the Minister immediately after his return inform the Minister of Foreign Affairs confidentially of the above. [Welles.]

HULL



714.44A15/112: Telegram

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

GUATEMALA, January 29, 1940—7 p. m.

[Received January 30—12:14 a. m.]

7. For the Under Secretary. The British Minister has just called on me to give me a copy of the British proposals regarding the Belize matter. These proposals arrived here some days ago but were not presented in the Minister's absence.

The proposals definitely restrict the competence of the proposed arbitration to the responsibility of Great Britain for its alleged failure to comply with the obligations of article 7 of the Treaty of 1859. The responsibility if any is limited by the following proposed provision in the terms of reference: "By what method, applying all relevant legal and equitable principles, shall His Majesty's Government now discharge their obligation under that article?" Guatemala is also to consent to a final delimitation of the boundary between Guatemala and British Honduras immediately after the tribunal has pronounced its final award.

These proposals do not seem to carry out the assurances given by the British Ambassador to Mr. Welles as quoted in the Department's telegram No. 1, January 13, 5 p. m., that these proposals will "empower the proposed arbitral tribunal to effect a settlement of all the issues involved in the event that there has not been compliance with article 7 of the 1859 Treaty". The British proposals would definitely seem to rule out from the tribunal's jurisdiction the basic Guatemalan contention that the treaty of 1859 is void due to Great Britain's failure to carry out article 7 thereof.

The second important feature of the British note is the anything but gracious and friendly tone in which it is couched. I am afraid that the President<sup>9</sup> and Foreign Minister<sup>10</sup> will be irritated by some of the harsher phrases used and I am inclined to speculate on the possibility that they were inserted with this object.

I would appreciate instructions at the earliest possible moment in order to know what attitude to assume in the event that the Foreign Minister consults me.

Full text of note by air mail Thursday.

DES PORTES

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<sup>9</sup> Gen. Jorge Ubico.

<sup>10</sup> Carlos Salazar.

714.44A15/113: Telegram

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

GUATEMALA, January 30, 1940—9 p. m.

[Received 11:40 p. m.]

8. My telegram No. 7, January 29, 7 p. m. The British Minister has just furnished the following background for the British proposals regarding the question of Belize.

1. The British proposals are not final but are haggling terms.
2. The Minister's instructions authorize him to accept terms of reference permitting the arbitral tribunal to pass upon the question "in all its aspects".
3. The British do not insist upon excluding the possibility of territorial adjustments but will not accept terms of reference under which Great Britain's basic title to Belize might be impugned.

The British Legation today informed the local newspapers of the proposals but omitted the proposed terms of reference. The Guatemalan first reaction to the proposals does not appear so unfavorable as might have been feared. The Guatemalans appear ready to accept the proposals as a point of departure for bargaining.

The Under Secretary for Foreign Affairs<sup>11</sup> today stated confidentially that Guatemala doubted that an arbitral tribunal would rule that the Treaty of 1859 had lapsed.

DES PORTES

714.44A15/119

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

[WASHINGTON,] January 31, 1940.

The British Ambassador called to see me this morning at his request. I discussed at some length with the Ambassador the questions involved in the communication made by the British Government to the Government of Guatemala indicating its willingness to arbitrate the controversy arising out of the Treaty of 1859. I explained to the Ambassador the difference in the position taken by Guatemala and the position, as I understood it, taken by the Government of Great Britain. I said that while this Government did not, of course, assume to act as an intermediary between the two Governments, nor attempt in any sense to interpret the position taken by the Guatemalan Government towards the Government of Great Britain, it nevertheless trusted that an agreement as to the terms of reference for the arbitration

<sup>11</sup> C. Fernández Cordova.

might be found by both Governments in a friendly spirit. I referred to the many instances occurring in recent months which evidenced the desire of Guatemala to maintain friendly relations with Great Britain, and I said that I trusted that the counterproposal as to the terms of reference which might now be made by Guatemala would receive favorable consideration by the Government of Great Britain.

The Ambassador reiterated to me that his Government was prepared and willing to arbitrate along the lines set forth in his personal letter to me of January 13 [19], but that Great Britain could not submit to arbitration its sovereignty over Belize, but only the question of whether Great Britain had complied with its treaty obligations, and if not, the determination of its liability therefor.

S[UMNER] W[ELLES]

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714.44A15/112: Telegram

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

WASHINGTON, January 31, 1940—11 a. m.

5. Your telegram no. 7, January 29, 7 p. m. Please telegraph at once a report of any significant remarks made by the Foreign Minister with respect to the note presented by the British Minister relating to the Belize question.

In the event of future conversations with the President or the Foreign Minister, it would seem desirable for you to endeavor to get across the idea to them that although they may find unsatisfactory the terms of reference submitted by the British Minister, nevertheless, by using these terms of reference as a basis for discussion the Guatemalan Government might through direct negotiation succeed in improving them to the point where they are satisfactory to it. This will undoubtedly require patience and tact and persistence and the absence of public recrimination, but a mutually satisfactory solution of the entire problem is certainly worth the time and effort of both parties. Of course, this Government will be glad to do what it can appropriately at any time to assist this process of direct negotiation between Guatemala and Great Britain.

Within these limits, and after setting forth the Department's views as indicated, you may say that you feel confident that the Department will be pleased to give its attentive consideration to whatever views the Government of Guatemala may desire to present regarding the British note.

For your guidance and information, I am sure you understand that although this Government will do whatever it can in this matter, it cannot become responsible for carrying the burden of the negotiations

for the settlement of this dispute. This must rest on Guatemala and Great Britain. This Government entered the picture at a time when direct negotiations between the two countries had not attained any progress towards a solution. We were glad informally to urge the British to a reconsideration of their position. We believe that the presentation of a note by the British, however unsatisfactory that note may be to Guatemala, represents a first step forward. Now that the British have presented a proposition in writing, it would seem that the next step is for the Guatemalan Government to examine it and to reply. This Government, however, cannot undertake to argue the Guatemalan case before Great Britain. Guatemala must do that for herself. Our contribution will be an endeavor to keep the negotiations moving forward and to secure full consideration by Great Britain of Guatemala's views.

HULL

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714.44A15/115 : Telegram

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

GUATEMALA, February 1, 1940—4 p. m.

[Received 8:40 p. m.]

9. Department's telegram No. 5, January 31, 11 a. m. The Minister for Foreign Affairs this morning commented that the British note regarding Belize constituted an effort to make it appear that Great Britain sought and Guatemala rejected arbitration of the question. He said the Guatemalan reply would accept the third British alternative for arbitration but would insist that the Treaty of 1859 was void and in view of the tone of the British note would be "strong". The Minister seemed disappointed and indignant at the British note.

In reply I commented as called for in the Department's instruction.

The Minister replied that the British terms were no better than those offered years ago; that Guatemala had for decades asked almost on her knees for a settlement of the matter; that for Guatemala it was not a question of lucre but of national dignity; and that to Great Britain's minimum concession Guatemala would answer with maximum demands.

He referred to the difference in tone between the present British note and that of September when Great Britain wished to keep Guatemala quiet at the Panama Conference.

I suggested that an arbitral decision in favor of Guatemala would be the best possible satisfaction to Guatemala's dignity, but that such an award necessarily implied previous agreement regarding terms of reference. I again urged patient negotiation, and hinted that the British proposals might be subject to modification.

In spite of the Minister's indignation and his evident determination to send a strong reply, it was clear both from his statements and their implication that he did intend to take the proposals as a basis for discussion and to negotiate for their improvement. However, the President returns from a tour of inspection only tomorrow. There is danger that his reaction may be even stronger than the Minister's and that things may be said publicly which will lead to a breakdown in the negotiations.

DES PORTES

714.44A15/117: Telegram

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

GUATEMALA, February 3, 1940—midnight.  
[Received February 4 (?)—5:03 p. m.]

10. Department's telegram No. 5, January 31, 11 a. m. The President this morning informed me that although the British were not acting correctly and were trying to make it appear that Guatemala does not desire arbitration the Guatemalan reply would accept in principle the arbitration proposed by the British note. It would, however, insist that the Treaty of 1859 is void and that the arbitral tribunal should be permitted to pass on this.

The President appeared annoyed by developments but not so indignant as the Foreign Minister. I believe that he is entirely prepared to chaffer for better terms of reference but he seems determined to insist that the tribunal be permitted to pass on the validity the Treaty of 1859.

I repeatedly urged upon him the necessity for patient negotiations and suggested that nothing be said publicly which might jeopardize these.

DES PORTES

714.44A15/129

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

[WASHINGTON,] February 5, 1940.

The British Ambassador called to see me at his request this morning. The Ambassador asked if I had heard from Guatemala as to what the reply of the Guatemalan Government to the British proposal in the boundary dispute might be. I replied that I had received a cable from our Legation in Guatemala City reporting on this subject. The Ambassador said that his Government was deeply grateful to the

United States for the helpful interest it had displayed in the adjustment of this controversy, and that the British Minister in Guatemala City had reported to the British Foreign Office that the Guatemalan reply<sup>12</sup> was far less antagonistic than he had anticipated, due to the friendly, although informal, advice proffered by the United States Government to the Government of Guatemala. The Ambassador said that the Guatemalan Government accepted the proposal for arbitration and for the constitution of the tribunal suggested by the British Government, but insisted that the tribunal have competence to determine whether or not the treaty of 1859 was or was not null and void. The Ambassador said that his Government could not agree to this since this would lay open the question of the sovereignty of British Honduras, but that he believed the first steps had now been taken towards an agreement as to the terms of reference and his Government was hopeful that a satisfactory outcome would be found.

S[UMNER] W[ELLES]

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714.44A15/136

*Memorandum by Mr. Gerald A. Drew of the Division of the American Republics*

[WASHINGTON,] February 24, 1940.

The present phase of the Belize dispute may be said to have originated in June 1939 when this Government transmitted identic memoranda to the British Ambassador in Washington and to the Guatemalan Foreign Office<sup>13</sup> urging the desirability of reaching a settlement of the controversy.

The Guatemalan Government considered raising the Belize question at the Panama Conference in September 1939,<sup>14</sup> but desisted following conversations on the subject with representatives of this Government and upon the receipt of a note from the British Legation in Guatemala that the British Government proposed to resume negotiations as soon as permitted by war-time conditions. Its action at the Panama Conference was confined to making a reservation with regard to its rights in the Belize matter following a similar reservation made by the Argentine delegation on the Falkland Island question.

Following conversations in the Department, the British Ambassador informed us in November that his Government was prepared to

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<sup>12</sup> Dated February 3, 1940; for text, see Guatemala, *Continuation of the White Book*, III, p. 137.

<sup>13</sup> See instruction No. 291, June 8, 1939, to the Minister in Guatemala, and footnote 9, *Foreign Relations*, 1939, vol. v, p. 177.

<sup>14</sup> See *Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics, Held at Panama September 23-October 3, 1939*, pp. 65-66.

accept arbitration by an *ad hoc* tribunal if the President of the United States would agree to designate an American citizen to act as umpire. The President agreed to do this. When this Government learned that the terms of reference to the proposed arbitral tribunal were greatly restricted in their scope, further conversations were held with the British Ambassador in an effort to have them broadened. While assurances were given that the arbitral tribunal would be empowered to effect a settlement of *all* the issues involved in the event that it was found that the British Government had failed to comply with its obligations under the 1859 Treaty which established the boundaries of British Honduras, the terms of reference as actually submitted to the British Government actually excluded the basic title to British Honduras from the arbitration.

The Guatemalan Government accepted the British offer to refer the dispute to arbitration by a mixed tribunal with an American citizen as umpire, but renewed its claim to sovereignty over the disputed territory on the grounds of noncompliance by Great Britain with the 1859 Treaty. There has been no further exchange of correspondence between the two Governments since the Guatemalan reply to the British offer of arbitration.

In a conversation with Mr. Berle<sup>15</sup> on February 14<sup>16</sup> on the subject of the Belize dispute, the British Ambassador referred to the Olney precedent in which it had been "agreed that treaties which had actually been in force for more than fifty years ought not to be questioned".

The precedent which the British Ambassador has in mind is presumably the agreement of 1897 for the arbitration of the boundary dispute between Great Britain and Venezuela.<sup>17</sup> This Government, acting as a friend of the Venezuelan Government, negotiated with Great Britain the draft of a treaty subsequently concluded between the parties in which they agreed to submit the dispute to arbitration. Rule A of the Arbitral Agreement provides:

"Adverse holding or prescription during the period of fifty years shall make a good title. The arbitrators may deem exclusive political control of a district, as well as actual settlement thereof, sufficient to constitute adverse holding or to make title by prescription."

It does not appear that this clause of the Arbitral Agreement would have any direct bearing on the question of validity of the treaty at issue in the Belize dispute. It might, however, be appealed to by the

<sup>15</sup> Adolf A. Berle, Jr., Assistant Secretary of State.

<sup>16</sup> Memorandum of conversation not printed.

<sup>17</sup> See John Bassett Moore, *A Digest of International Law*, vol. I (Washington, Government Printing Office, 1906), pp. 296-297; *Foreign Relations*, 1896, p. 254; *British and Foreign State Papers*, vol. xxciX, pp. 57-64.

British to support their position that the basic title to the territory of British Honduras should not be submitted to arbitration.

In the same conversation the Ambassador expressed the hope that we would urge the Guatemalan Government to accept the British position that the terms of reference of the arbitration should not include the validity of the 1859 Treaty. It is not believed that we should comply with this request. While this Government should do what it can to keep the negotiations alive, it is not believed that it could appropriately assume the responsibility for carrying the burden of the negotiations which should rest on the disputant parties. It is felt that now that agreement has been reached on the method of arbitration, the parties should endeavor by a process of friendly negotiation to reach an agreement on what is to be arbitrated.

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714.44A15/133 : Telegram

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

GUATEMALA, February 26, 1940—11 a. m.

[Received 3 p. m.]

22. The President has requested, in view of the fact that nothing has been heard from the British Minister since the Guatemalan reply of February 3, that I suggest to the Department that Under Secretary Welles take up the Belize matter during his forthcoming visit to London.<sup>18</sup>

DES PORTES

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714.44A15/133 : Telegram

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

WASHINGTON, February 27, 1940—7 p. m.

11. Your no. 22, February 26, 11 a. m. You may inform President Ubico that his suggestion with regard to the Belize negotiations will be transmitted to Mr. Welles.

HULL

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714.44A15/140

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

[WASHINGTON,] February 27, 1940.

Mr. Butler<sup>19</sup> called at my request. He was familiar with the conversations which the British Ambassador has held with Mr. Welles

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<sup>18</sup> For correspondence on the special mission of Mr. Welles to Europe, see vol. I, pp. 1 ff.

<sup>19</sup> N. M. Butler, Counselor of the British Embassy.



and recently with Mr. Berle regarding the dispute over Belize. I told Mr. Butler that we had studied very carefully the suggestion made by the Ambassador to Mr. Berle and had come to the definite conclusion that we were unable to accede to the Ambassador's suggestion.

I told Mr. Butler that we had looked up the provision of the arbitration between Great Britain and Venezuela providing that occupation of a territory for fifty years gave a prescriptive right. I said that we did not see how this had the slightest bearing in a case arising from alleged nonfulfillment of a treaty. Mr. Butler attempted to argue that the Guatemalans were trying to have things both ways. On the one hand, they were denying the validity of the treaty on the ground that it had not been fulfilled, and on the other hand they were maintaining that the treaty prevented application of the same principle used in the British-Venezuelan arbitration. I told him that as far as I knew the principle in the British-Venezuelan arbitration had never been discussed with the Guatemalans.

I then went on to tell Mr. Butler that I can only see the role of the United States to be that of a friendly bystander endeavoring to facilitate discussions between two parties to bring about the termination of a long-standing dispute. We did not wish to take a stand on the merits of the case of either party. I added that we felt that our principal contribution had been in helping to bring about a resumption in negotiations and that now the Guatemalan Government and the British Government were carrying on these direct conversations we saw very little more that we could do at this stage.

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714.44A15/136a : Telegram

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

WASHINGTON, March 2, 1940—1 p. m.

13. After discussion with Mr. Cabot<sup>20</sup> of the suggestion of the British Minister made to you on February 22 regarding the Belize question, the Department would be reluctant to urge or to have you urge any such concrete proposal on either party, since by doing so it would be taking a position that might later cause embarrassment to the American citizen who will act as umpire of the arbitral tribunal.

As the Department sees the situation, both governments have now set forth their maximum pretensions. Both have indicated some willingness to recede from their maximum positions. The British Minister has now indicated to you in effect that his government is disposed

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<sup>20</sup> John M. Cabot, Second Secretary of Legation in Guatemala, on leave in the United States.

to accept a clause in the terms of reference that would seem to go far toward meeting the objections of Guatemala. The Department wonders if the British Minister and Dr. Salazar were to engage in conversation to discuss specific modifications of the terms of reference as proposed by the British Government, there might not be evolved a clause that would be satisfactory to both parties.

If an appropriate occasion should be presented it would be helpful if you could endeavor to elicit from the British Minister some indication of when and how the Guatemalan Government is otherwise to be apprised of the maximum concession which the British Government is prepared to make with respect to the terms of reference.

The Department would appreciate your comment on the foregoing.

HULL

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714.44A15/138 : Telegram

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

GUATEMALA, March 5, 1940—1 p. m.

[Received 3:35 p. m.]

24. The British Minister yesterday presented a reply to the Guatemalan note of February 3. The reply is an "explanation of the attitude of His Majesty's Government which implies no departure from or weakening of their previous point of view". It goes on to say that the proposed terms of reference have been drawn up widely to cover all relevant legal and equitable principles. "They do not see how any claim for a cession of territory could arise in this dispute or be within the jurisdiction of the tribunal. They have however no knowledge of how, if made, such a claim would be put. They would in the circumstances dispute the validity of any such claim and would urge that it was not open to the tribunal to give effect to it". The note adds that the British Government has no intention of going back on the wide terms of reference which have already been submitted and if the Guatemalan Government is of the opinion that a claim for a cession of territory can and should be brought within the scope of the dispute, it will be open to them to bring it forward and seek the ruling of the tribunal upon it. The British Government reserves the fullest liberty to contend that the claim for the cession of territory could not and should not be considered by the tribunal as a proper method, whether in law or equity, of ensuring that it fulfill their obligation, if any, incurred under article 7 of the Treaty of 1859.

The British Minister informed me on March 2 that he had just received a communication from his Government which he believed would satisfy the Guatemalan complaint against the terms of refer-

ence. He did not, however, indicate the terms of this communication or leave his note of March 4 with me.

I was informed by the President yesterday that he considered the new British note most unsatisfactory and that he had lost patience. I repeated the sense of the Department's telegram No. 5, January 31, 11 a. m.

The President stated if the British Minister and the Foreign Minister could get together and discuss the matter man to man, passing over the annoying preliminary discussions which were serving no purpose, something might be accomplished. The British Minister informs me however that he has been instructed not to discuss the matter orally.

This would appear to answer the Department's inquiry contained in the last paragraph of its telegram 13, March 2, 1 p. m.

For my information I would appreciate being informed by the Department if there are precedents in cases of this kind wherein cession of territory has been awarded by an arbitral tribunal.

Text of note by airmail tomorrow.

DES PORTES

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714.44A15/147

*Memorandum of Conversation, by Mr. Gerald A. Drew of the Division of the American Republics*

[WASHINGTON,] March 6, 1940.

Participants: Mr. Butler, Counselor of the British Embassy  
Mr. Briggs<sup>21</sup>  
Mr. Drew

Mr. Butler called to leave a copy of the British note of March 4<sup>22</sup> to the Guatemalan Government on the Belize matter. He had said that he had been instructed to state that this was not intended as a relaxation in any sense of the position of the British Government, particularly with regard to the validity of the Treaty of 1859. Nevertheless, while the new note was not "crystal clear" to him, he hoped it would represent a step forward in the direction of a solution.

Mr. Briggs said that now that the two Governments had formally stated their position in the case, it appeared to us that personal discussions between the British Minister in Guatemala and the Minister for Foreign Affairs with respect to the remaining points of difference would offer the best chance of reaching an agreement satisfactory to

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<sup>21</sup> Ellis O. Briggs, Assistant Chief of the Division of the American Republics.

<sup>22</sup> Not printed.

both governments. Mr. Butler agreed that such personal discussions would be desirable.

In discussing the latest British communication on the subject, Mr. Butler indicated that his own personal view was that the British Government did not intend to exclude from the competency of the arbitral tribunal authority to render an award including territorial compensation in the event that it should be determined that there had not been compliance with article 7 of the 1859 treaty. What it did reserve was the right to argue before the tribunal that territorial cession was not a proper form for the compensation to take. It was pointed out to Mr. Butler that it would be very helpful if just such clarification could be given to the Guatemalan Government in the course of informal conversations.

Mr. Butler volunteered the suggestion that it would be helpful if Mr. Welles, during his visit to London, could find an opportunity to discuss the Belize question with the British Government.

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714.44A15/141 : Telegram

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

GUATEMALA, March 7, 1940—noon.

[Received 2:10 p. m.]

25. My telegram No. 24, March 5, 1 p. m. It is my considered opinion that unless the British Government is willing to enlarge the terms of reference there is grave danger of an immediate breakdown in the negotiations. Please forward this opinion to Mr. Welles. The British Minister is of the same opinion.

DES PORTES

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714.44A15/141 : Telegram

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

WASHINGTON, March 8, 1940—1 p. m.

14. Your 24, March 5, 1 p. m. and 25, March 7, noon. The Counselor of the British Embassy has given the Department a copy of the British note of March 4,<sup>23</sup> and we suggested to him that it would seem to us to be helpful if instructions could be issued authorizing the British Minister in Guatemala to discuss the situation informally with Dr. Salazar. This suggestion will doubtless be conveyed to the Foreign Office. We are also informing Mr. Welles of the foregoing and of the

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<sup>23</sup> Not printed.

substance of your 24 and 25 and are expressing the hope that he may have an opportunity to take up the matter in London.

HULL

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714.44A15/147 : Telegram

*The Secretary of State to the Ambassador in France (Bullitt)*

WASHINGTON, March 8, 1940—1 p. m.

175. For Welles. The British Embassy has furnished the Department with a copy of the British reply to the Guatemalan note of February 3 which was delivered by the British Minister to Guatemala on March 4. A copy of the note will doubtless be made available to you in London. The communication sets forth that the British Government can under no circumstances admit of direct or indirect discussion of its title to British Honduras but that it has no intention of going back on the wide terms of reference which have been submitted. It does not exclude the right of the Guatemalan Government to submit to the tribunal a claim for cession of territory but reserves the fullest liberty to contend that such a claim could not be a proper method to compensate for non-compliance with Article 7 of the Treaty of 1859.

Mr. Des Portes has been informed by President Ubico that he considers the new British note most unsatisfactory and that he has lost patience. In a telegram dated March 5 [7]<sup>24</sup> Mr. Des Portes states that it is his considered opinion "that unless the British Government is willing to enlarge the terms of reference, there is grave danger of an immediate breakdown in the negotiations" and requests that you be informed. He added for your strictly confidential information that the British Minister to Guatemala is of the same opinion. President Ubico has stated that if the British Minister and the Guatemalan Foreign Minister could get together and discuss the matter man to man, something might be accomplished.

When the Counselor of the British Embassy called on March 6 to leave a copy of the British note of March 4, it was suggested to him that a continued exchange of formal notes seemed unlikely to lead to a satisfactory solution, whereas if the British Minister in Guatemala could be instructed to pursue the matter in informal discussion with the Guatemalan Minister for Foreign Affairs the chances of arriving at a satisfactory agreement on the terms of reference would seem to be greater. In stating that he would convey this suggestion to his Government, the Counselor volunteered the statement that it would be

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<sup>24</sup> Telegram No. 25, p. 432.

helpful if you were to have an opportunity to discuss the matter with the British Foreign Office during your stay in London.

If, as we are inclined to believe, the British Government may be prepared to go further in meeting the Guatemalan point of view than it has made clear in its notes, a modification of the instructions to the British Minister in Guatemala permitting the matter to be discussed should aid in disclosing this. In any case we hope you will have an opportunity to take up the matter while you are in London.

HULL

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714.44A15/142 : Telegram

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

GUATEMALA, March 8, 1940—3 p. m.

[Received 7 : 55 p. m.]

28. My telegram No. 24, March 5, 1 p. m. The Guatemalan reply dated March 7 to the British note of March 4 denies any Guatemalan claim or desire for cession of territory or compliance with the obligations contracted under article 7. It reiterates its request that the arbitral tribunal be given full jurisdiction "to decide whether or not the Republic of Guatemala has the right to take back the territory of Belize which it ceded to Great Britain by means of the formula of boundary settlement" contained in the 1859 Treaty, and if the dispute should return to the status preceding 1859.

The reply is couched in polite phraseology and concludes with the hope that it may soon be possible to submit the whole controversy to arbitration.

Text by air mail tomorrow.

DES PORTES

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714.44A15/142 : Telegram

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

WASHINGTON, March 9, 1940—6 p. m.

464. For Welles. Reference Department's telegram no. 175, March 8, 1 p. m. to Paris. The following telegram has been received from the American Legation in Guatemala :

(Here quote first two paragraphs of telegram no. 28, March 8, 3 p. m. from Guatemala)

In stating that it makes no claim for cession of territory it is assumed that the Guatemalan Government is probably reiterating its position as set forth in its note of February 3 in which it claimed that non-compliance by Great Britain with Article seven of the 1859 treaty nullified

the entire treaty, which was the basis for British sovereignty over Belize.

It is believed that this emphasizes the desirability of urging the British to remove the negotiations from the note writing stage by instructing their minister in Guatemala to undertake informal conversations with Dr. Salazar.

HULL

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714.44A15/153

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] March 26, 1940.

The British Ambassador called and brought up the negotiations between his Government and that of Guatemala regarding the halting of the attempted arbitration. He stated that the President of Guatemala was undertaking to prejudice the British situation in other countries nearby, including Mexico. I said that I was not at all sure that there was anything that I could say or do that would improve the present situation; that the President of Guatemala seemed to be somewhat wrought up and was rather adamant in his demand, which is in effect an outright refusal of the British offer of arbitration on the ground that they will not arbitrate the entire treaty situation.

I cited the experience of my own Government with Mexico in connection with the Chamizal arbitration, including our failure to carry out the award made against us.<sup>25</sup> I said I assumed that some of these days this Government would pay Mexico a lump sum in settlement of the matter. I then asked the Ambassador if his Government had offered any lump sum settlement, and he replied in the negative. I left this hint before him.

C[ORDELL] H[ULL]

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714.44A15/157

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

[WASHINGTON,] April 2, 1940.

In response to an inquiry as to whether he had the opportunity of discussing with the British authorities the dispute with Guatemala over British Honduras, Mr. Welles replied that he had taken the matter up with both Lord Halifax and Mr. Cadogan, permanent Under Secretary of the Foreign Office. Neither Lord Halifax nor

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<sup>25</sup> For award by the International Boundary Commission of June 15, 1911, see *Foreign Relations*, 1911, p. 573. For memorandum from the Department of State to the Mexican Embassy, August 24, 1911, rejecting the award, see *ibid.*, p. 598.

Mr. Cadogan were familiar with the matter. Mr. Welles informed them of the cause of the dispute and of its present status, and indicated that the exchanges of notes which had taken place thus far did not seem likely to lead to a satisfactory agreement as to the terms of reference. Lord Halifax and Mr. Cadogan said that they would look into the matter at once with a view to issuing appropriate instructions to the British Minister in Guatemala to engage in oral discussions with the Guatemalan Foreign Minister in an endeavor to arrive at satisfactory terms of reference.

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714.44A15/164

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

[WASHINGTON,] April 9, 1940.

The British Ambassador called to see me this afternoon. The Ambassador said that the British Foreign Office desired him to let me know that they were most grateful for the suggestion I had made with regard to the Belize controversy between Great Britain and Guatemala and that instructions had been sent to the British Minister in Guatemala City to undertake conversations or negotiations with the Guatemalan Foreign Minister to see whether some compromise or some way out of the existing impasse with regard to the present British proposal might be found.

S[UMNER] W[ELLES]

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714.44A15/164 : Telegram

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

WASHINGTON, April 12, 1940—5 p. m.

25. The British Ambassador has informed the Department that instructions have now been issued to the British Minister in Guatemala to undertake conversations or negotiations on the Belize dispute with the Guatemalan Foreign Minister with a view to finding a way out of the present impasse.

HULL

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714.44A15/170 : Telegram

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

GUATEMALA, April 23, 1940—6 p. m.

[Received April 24—12:50 a. m.]

36. The British Minister informs me that he has been sending messages to the President and receiving them from him through a



mutual friend in connection with the Belize dispute. The Minister has now heard that the President is willing to abandon the Guatemalan claim to the sovereignty of Belize on condition that Great Britain cede the territory south of the Sibun River and pay \$5,000,000. The President has just sent an additional message containing a number of threats to impose extra surtaxes, instituting propaganda throughout Latin America, break off negotiations, et cetera, if the British Government did not come to an agreement with him. The Minister informed me that under such circumstances his Government would probably break off negotiations and that he had stated to the third party, apparently in no very conciliatory language, that the proposition was ridiculous and he could not even transmit it to his Government.

However, the British Minister gave me a copy of a cable which he alleged he was sending to his Government this afternoon, suggesting the renewal of the offer of arbitration on condition that the claim of sovereignty be abandoned but empowering the tribunal to recommend an *ex gratia* territorial cession. Both parties seem to be assuming an unreasonable attitude in this dispute and I greatly fear an early rupture in the negotiations unless pressure is exerted by us. The Guatemalan threats are likely to infuriate the British and the British offer of an *ex gratia* settlement, if made, to infuriate the Guatemalans. Nonetheless, from hints received from both sides it does not appear that there is a very great discrepancy between what the British really expect to lose and the Guatemalans really hope to gain as a result of an arbitral reward.

I recognize that the Department (telegram No. 13 of March 2, 1 p. m.) is reluctant to express any opinion regarding any specific point in the negotiations but I respectfully suggest that I might nonetheless be empowered to make appropriate comments regarding the dangerous points mentioned in the preceding paragraph. I, moreover, venture to suggest that the Department might be willing to have [a statement?] worded along the following lines made to both parties:

(1) The Government of the United States wishes to reiterate its sincere hope that the Governments of Great Britain and Guatemala will be able to reach an agreement either for a direct settlement of the Belize dispute or its arbitration on mutually satisfactory terms of reference.

(2) The Government of the United States would greatly regret it if unwillingness of either party to recede from an extreme [position?] in connection with this dispute should result in the failure of its friendly initiative.

It could, perhaps, be hinted to the British Government that the latter phrase is meant to imply that the United States would be displeased at a failure to make concessions and to the Guatemalan that

the phrase implies that the United States might be impelled to abandon its efforts altogether if the parties to the dispute did not show more of a spirit of conciliation and compromise.

Referring to the Department's telegram 25, April 12, 5 p. m., the British Minister reiterated today that he had received no instructions from his Government to enter into negotiations or conversations with the Foreign Minister.

DES PORTES

714.44A15/171 : Telegram

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

GUATEMALA, April 24, 1940—8 p. m.

[Received 9:10 p. m.]

37. My telegram No. 36, April 23, 6 p. m. The British Minister informs me today that he has received a further message from the President requesting him to transmit the offer mentioned in the above telegram to his Foreign Office without comment. The President added, however, that even if this offer were rejected he trusted that the negotiations would continue, leaving aside the question of sovereignty.

This is the first clear intimation which the President has given that his contention regarding the sovereignty of Belize was advanced for horse-trading purposes and is consequently encouraging. I nevertheless respectfully suggest that I be authorized at my discretion to urge moderation upon both sides as suggested in the fourth paragraph of my telegram under reference, although the immediate necessity of making the statement suggested in that paragraph would appear to have diminished.

DES PORTES

714.44A15/183

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

GUATEMALA, May 10, 1940.

MY DEAR MR. SECRETARY: The negotiations regarding the Belize dispute have unfortunately made little progress in recent weeks. Referring to the Department's telegram No. 25, of April 12, 1940, the British Minister informs me that these instructions have not been received by him. The most encouraging feature with regard to the matter is the hope expressed by President Ubico that even if his proposals

were unacceptable to Whitehall, the negotiations would continue, leaving aside the question of sovereignty (*eludiendo soberania*). It is not clear yet, however, whether the President is thereby tacitly acceding to the British contention, from which the latter have shown no signs of receding, that they can not discuss or submit to an arbitral tribunal the question of their title to Belize.

In the meantime, the violent Guatemalan propaganda campaign continues, and Guatemala has been enlisting support in other Latin American countries, notably those of Central America.<sup>26</sup>

I gathered in a conversation with the British Minister yesterday that he was disturbed at the amount of anti-British sentiment which it has created in Central America. There is of course, as the Minister said, the danger that this campaign will sting Whitehall into discontinuing the negotiations, and a reciprocal danger that some of the Minister's more testy comments may get under President Ubico's skin.

I have taken the liberty of writing you principally to tell you of a remark which has been made to me on several occasions by the British Minister: That he had received a communication from Lord Lothian stating that you had advised the latter to string the negotiations out as long as possible, because it would be easier to settle the matter when everyone was sick and tired of it. I feel that the emphasis which is being placed on this alleged remark should be brought to your attention.

Chief, it is my opinion that under the present world conditions this dispute should be settled immediately. There is no doubt but that the matter is causing considerable anti-British sentiment in Guatemala and, to a lesser extent, throughout Central America.

General Stone, General Dargue and General Brett<sup>27</sup> have all impressed upon me the great importance of keeping the fine friendship which they believe General Ubico holds for the United States, and the necessity of holding this friendship. I know of no better means of securing the continuation of this splendid friendship than by our securing the settlement of this unfortunate dispute.

With very warm personal regards [etc.]

FAY ALLEN DES PORTES

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<sup>26</sup> See Guatemala, *Continuation of the White Book*, VII: *Central American and Mexican Solidarity* (Guatemala, C. A., September, 1942).

<sup>27</sup> Presumably Maj. Gen. David Lamne Stone, Department Commander, Panama Canal Department since 1938; Brig. Gen. Herbert A. Dargue, Air Corps, Commanding General 19th Wing since 1938; Brig. Gen. George Howard Britt, Commanding 19th Wing, Albrook Field, Panama, 1934, Assistant Chief of Air Corps, Chief, Material Division, Wright Field, Ohio, since 1939.

714.44A15/183

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

WASHINGTON, May 29, 1940.

MY DEAR MR. MINISTER: I have received your letter of May 10, 1940 with reference to the Belize dispute. I have noted particularly the report which has reached you that I am supposed to have recommended that these negotiations should be dragged out as long as possible. Neither I nor, as far as I am aware, any other officer of the Department of State has made any such statement. On the contrary, I have repeatedly urged on the British Ambassador the desirability of reaching a prompt settlement of this dispute. In your discretion you may use this information to correct any misapprehension which you may find to exist in official Guatemalan quarters.

I am confident that there has been some misunderstanding in this regard and I shall take an early opportunity to clarify this question with the British Embassy here.

Sincerely yours,

SUMNER WELLES

714.44A15/206

*Memorandum of Conversation, by Mr. LaVerne Baldwin*<sup>28</sup>

[WASHINGTON,] July 9, 1940.

Participants: Mr. N. M. Butler, Counselor of British Embassy.  
Minister Des Portes.  
Mr. Duggan.  
Mr. Baldwin.

Mr. Butler referred to his oral statement of July 6, 1940 to Mr. Duggan and mentioned again the Guatemalan suggestion of a cash payment of \$5,000,000 and a cession of territory. He stated that Great Britain could not accept a cessation because (1) of the principle involved, that it maintained that Article VII of the Treaty of 1859 was the point at issue and not the validity of the whole treaty, and (2) the precedent which cession of territory would establish throughout the British Empire and Commonwealth.

Mr. Des Portes indicated his belief that President Ubico of Guatemala was insistent on a cession of territory. He pointed to the complete impartiality of the United States in the matter and our desire to have the question progress toward a solution. He regretted the assurance the British Ambassador had given in his letter of January 12,

<sup>28</sup> Mr. Baldwin, Consul at Managua and Second Secretary of Legation in Nicaragua, was detailed temporarily to the Department, July 1-August 8.

1940—"that these terms of reference will empower the proposed arbitral tribunal to effect a settlement of all the issues involved in the event that there had not been compliance with Article VII of the 1859 treaty", which the actual memorandum accompanying the letter did not bear out, in the terms of reference. He emphasized that Guatemala in any arbitration would adhere to its stand that the failure to carry out Article VII wiped out the treaty and that therefore the question of sovereignty of Belize arises. He pointed out that no direct personal approach had been made by British Minister Leche in Guatemala either to Foreign Minister Salazar or to President Ubico; an intermediary had been availed of; there had been no flexibility in Leche's instructions, which flexibility Minister Des Portes believes is greatly to be desired.

Mr. Duggan gave as instance the negotiations with Panama relative to the revised treaty with the United States<sup>29</sup> to indicate the success attendant on direct negotiations and felt that a direct approach with frank discussion of all possibilities and perhaps an indication of the maximum or minimum would result in better understanding and an eventual solution.

Mr. Butler stated his belief that an indication by the United States to President Ubico that the British were adamant in not permitting consideration of a cession of territory would greatly better the situation, taking the point of view that an appropriate hint from the big brother would be of great assistance. Mr. Duggan again mentioned our impartiality and interest in arriving at a solution but that naturally we were not the intermediary.

There was also raised the report confidentially received from our Embassy in Mexico that British press agent Foote of Guatemala had given to the United Press a story which Minister Des Portes considered exaggerated as to the inability of Guatemala to suppress "fifth column" activities and the report from Guatemala of the possibility of a "people's revolution", Mr. Des Portes adding that he did not believe that Foote had been in Mexico. Such a story would naturally prejudice the British position in Guatemala. Mr. Des Portes also mentioned the anti-Nazi and anti-British attitude of the Guatemalans but their strong sympathy for the French.

Strong emphasis was given in the conversation to the idea of direct negotiations and increased authority to Minister Leche. There was apparent no change in Mr. Butler's attitude as previously stated.

Mention was made in the conversation of the fact that the press campaign in Guatemala on the Belize question had been halted. Mr.

<sup>29</sup> General treaty of friendship and cooperation, signed March 2, 1936; for text, see Department of State Treaty Series No. 945, or 53 Stat. 1807.

Duggan also pointed out to Mr. Butler that any successor to President Ubico might not be so favorably disposed as Ubico in the endeavor to settle the question.

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714.44A15/214

*Memorandum of Conversation, by Mr. LaVerne Baldwin*

[WASHINGTON,] August 7, 1940.

Participants: Mr. Laurence Duggan, Chief, Ra.<sup>30</sup>  
 Fay A. Des Portes, Minister to Guatemala.  
 Mr. Ray.<sup>31</sup>  
 Mr. Baldwin.

Mr. Duggan referred to Resolution XIX of the Second Meeting of the Foreign Ministers of the American Republics held at Habana, Cuba, which states as follows: <sup>32</sup>

“The Question of Belize

“The Second Meeting of the Ministers of Foreign Affairs of the American Republics

RESOLVES:

“To express the keen desire and wishes of the American countries in favor of a just, peaceful and prompt solution of the question of Belize between Guatemala and Great Britain.”

Mr. Duggan said that the resolution as adopted is the first of two sentences which the Guatemalan delegate had presented in the appropriate committee on the administration of European colonies and possessions in the Americas. The delegate had also introduced a second part which called for the allotment to Guatemala of Belize and the control and government of that colony by Guatemala. This had slipped through toward the end of a long session. Mr. Duggan continued that at the following secret meeting of the full twenty-one representatives, the matter came up again. The Guatemalan Foreign Minister delivered an impassioned plea as to the difficulties Guatemala had encountered over a long period of time in attempting to settle the Belize question and in general a thorough exposé of the Guatemalan side. The Uruguayan delegate then arose and suggested that the resolution be withdrawn, principally on the basis of allotment to Guatemala of Belize. Mr. Duggan stated he was informed afterwards that the Mexican delegate had inspired this action.

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<sup>30</sup> Division of the American Republics.

<sup>31</sup> Guy W. Ray, of the Division of the American Republics.

<sup>32</sup> *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State*, p. 75.

It was then proposed that the Belize resolution be voted on in two parts. The first sentence as now in the resolution was then adopted unanimously and greeted with loud and prolonged applause, at the conclusion of which tense silence reigned. The Guatemalan delegate then arose slowly, indicated that he was deeply touched by the demonstration with its full evidence of sympathy to the Guatemalan cause and withdrew the latter half of the resolution.

Mr. Duggan told Mr. Des Portes that he intended to call in Mr. Butler of the British Embassy and inform him of this episode, in an endeavor to cause the British to take some action towards settling their difficulties with Guatemala.

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714.44A15/224 : Telegram

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

GUATEMALA, December 21, 1940—4 p. m.

[Received December 22—3:10 p. m.]

143. On October 9 Mr. Welles wrote Mr. Des Portes saying that Lord Lothian would take up the Belize matter while in London. In spite of the latter's untimely death I hope that he may have made some communication regarding Belize to the Department.

In view of the slight indications that President Ubico may be relenting in the TACA matter<sup>33</sup> it might be helpful if we could display renewed interest in Belize matter or more particularly if we could report any definite advance. In any case the British now have had over 6 months to consider the broadening of their proposed arbitral *compromis* and I should imagine that the events during that time might have made them more willing to accept the unrestricted arbitration on which the Guatemalan Government is insisting.

CABOT

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<sup>33</sup> This refers to questions involving the purchase by the American Export Airlines of the stock of the holding company of TACA, a local Guatemalan airline.

BOUNDARY DISPUTE BETWEEN HONDURAS AND  
NICARAGUA <sup>1</sup>

715.1715/1486

*The Secretary of State to the Representative of the President  
(Corrigan)*<sup>2</sup>

No. 98

WASHINGTON, March 12, 1940.

SIR: The receipt is acknowledged of your unnumbered despatch dated February 26, 1940,<sup>3</sup> reporting the decision which you have reached, together with Dr. José Santiago Rodríguez,<sup>4</sup> in consultation with the Venezuelan Minister for Foreign Affairs to proceed to San José, Costa Rica, soon after April 15, 1940, for the purpose of conferring with Dr. Tobías Zúñiga Montúfar<sup>5</sup> with regard to the future work of the Honduras-Nicaragua Boundary Commission.

Your plan is approved, and you are authorized to proceed to San José, Costa Rica, at the appropriate time for the consultation as indicated.

[Here follows text of four paragraphs relating to transportation, expenditures, etc.]

Very truly yours,

CORDELL HULL

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715.1715/1493

*The Representative of the President (Corrigan) to the Secretary  
of State*

No. 120

SAN JOSÉ, April 29, 1940.

[Received May 6.]

SIR: I have the honor to report that I arrived in San José via Pan-American Airways plane from Cristobal at 10:45 A. M. Sunday, April 28. A preliminary meeting of the three members was held in

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<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 148-172.

<sup>2</sup> Frank P. Corrigan, Ambassador to Venezuela, was the representative of President Roosevelt on the Mediation Commission in the boundary dispute between Honduras and Nicaragua.

<sup>3</sup> Not printed.

<sup>4</sup> Representative of Venezuela.

<sup>5</sup> Representative of Costa Rica and Chairman of the Commission.



my suite in the Gran Hotel Costa Rica and a formal meeting of the Mediation Commission was set for the next morning at 10:00 A. M. in the office of the Minister of Foreign Affairs of Costa Rica. This meeting was held today at the hour fixed, with Licenciado Tobías Zúñiga Montúfar presiding and the other members of the Commission, Dr. José Santiago Rodríguez and Dr. Frank P. Corrigan present. At this meeting which lasted for over two hours and-a-half, the correspondence which had accumulated since the last meeting, was reviewed and plans laid for the future action of the Commission. I had an extended conversation with General Saturnino Medal, the Honduran Minister to Costa Rica, on Sunday evening previous to the meeting. Dr. Rodríguez had also called on General Medal and we had both discussed with him independently the affairs of the mediation. Upon comparing notes we both thought that we sensed a changed attitude on his part, a softening of his former obduracy and an apparent desire that the efforts of the Mediation Commission should meet with success. We both had come away from our interviews with General Medal with an optimistic feeling that the change in him reflected a modification of the hitherto intransigent attitude of his Government.

At the meeting this morning it was decided that certain suggestions which he had made in his interview with me with regard to a fresh approach to the Honduran Government should be incorporated in a memorandum. This memorandum which is to be drafted this afternoon, shall form the basis of a new note to be sent to Honduras later on if further investigation encourages our present hope that it will be well received. Dr. Rodríguez, the Venezuelan member, is disposed to think that if a note is sent without this previous investigation that another refusal by Honduras might lead to a definite breach with the Honduran Government, and peril the continuation of the mediation. General Medal's suggestions were to the effect that assurance be given the Honduran Government by the Commission that acceptance of the proposal to employ the necessary scientific methods for securing exact geographical data of the territory in dispute, in no way implies a decision on the fundamental questions involved nor of the juridical position maintained by Honduras.

I have made appointments with the outgoing President, León Cortés, for 3 o'clock, and with the President-Elect, Dr. Rafael Angel Calderón Guardia, for 4 o'clock. The Commission plans to meet again at 4:30 P. M. to draw up the memorandum referred to above which I will take with me to the Department.

Respectfully yours,

FRANK P. CORRIGAN

715.1715/1494

*The Representative of the President (Corrigan) to the  
Secretary of State*

No. 121

SAN JOSÉ, April 29, 1940.

[Received May 6.]

SIR: I have the honor to report that I called at 3:00 P. M. today on the President of Costa Rica, Licenciado León Cortés, who will finish his term on May 8, 1940. I thanked him for the cooperation which he has always given to the Mediation Commission and myself personally during the period of its sessions in San José. I extended to him our best wishes for his future happiness. The meeting was pleasant and cordial, and President Cortés in turn extended his greetings to the President of the United States and Secretary Hull.

Accompanied by Señor José Antonio García, Chief Clerk of the Ministry of Foreign Affairs, I called on the President-Elect of Costa Rica, Dr. Rafael Angel Calderón Guardia, at 4:00 P. M. today. After the usual exchange of amenities I indicated to Dr. Calderón Guardia the interest which we had regarding his attitude toward the work of the Mediation Commission. He assured me that his administration would continue to maintain the same interest that had so far been shown and would in every way cooperate with the Commission in its efforts to arrive at a definitive settlement of the question at issue. I indicated interest also in his ideas regarding the Costa Rican representation on the Commission and in this particular he gave as his opinion that it would be a mistake to effect any change in the present personnel and that he would prefer to have Licenciado Tobías Zúñiga Montúfar remain as Costa Rican representative on the Commission. After he had made this statement I asked him if I might then officially inform my Government that it was his desire and intention to maintain Mr. Zúñiga Montúfar on the Commission and he again assured me that it was. In our closing conversation Dr. Calderón Guardia expressed his great appreciation for the many courtesies and honors shown him during his recent visit to Washington, and also his profound admiration for the President of the United States and for Secretary Hull and Under-Secretary Welles, to all of whom he wished me to extend his personal regards.

Respectfully,

FRANK P. CORRIGAN

715.1715/14931

*Forty-second Meeting Held by the Mediation Commission in the Boundary Dispute Between the Republics of Honduras and Nicaragua on April 29, 1940*

[Translation]

We, the undersigned members of the Mediation Commission in the Boundary Dispute between the Republics of Honduras and Nicaragua, Dr. Frank P. Corrigan, Representative of the Government of the United States of America, Dr. José Santiago Rodríguez, Representative of the Government of the United States of Venezuela, and Licenciado Tobías Zúñiga Montúfar, Representative of the Government of Costa Rica and Chairman of the Commission, meeting at San José, Costa Rica, on April twenty-ninth, nineteen hundred and forty (1940), have, after examination of what has taken place and of what has been done by the Commission, agreed upon the following:

As the Commission realizes the necessity of doing everything in its power to try to accomplish the purpose for which it was created and as it is desirous of doing so in the most satisfactory and friendly way as respects the Republics of Honduras and Nicaragua and without the slightest ground for friction between the Commission and the Governments of the said Republics, it has seemed to it best to take advantage of the forthcoming visit of Dr. Frank P. Corrigan to Washington, for which city he is to leave tomorrow, entrusting to him, in behalf of the Commission, the following activities: In conformity with the Department of State at Washington, to the approval of which the plan will be submitted, Dr. Corrigan will have an interview with the Diplomatic Representative of Honduras<sup>o</sup> for the purpose of trying to persuade him to write to his Government and obtain from it its consent to a scientific survey, including aerial photography, of the zone through which the Rio Coco or Segovia and its tributaries flow, from its outlet into the Atlantic to Portillo de Teotecancinte.

The most important part of this decision of the Mediation Commission which is entrusted to the well-known skill and ability of Dr. Corrigan, consists in this: as it is known from notes from the Honduran Chancellery, which the Mediation Commission has seen, that that Chancellery has been refusing its approval of such scientific and aerial-photographic survey on the erroneous understanding that, if it should grant it, the juridical position which Honduras has been maintaining before the Commission might be compromised, Dr. Corrigan must endeavor to explain the true desire of the Mediation Commission which is nothing more than to have exact information as to the actual geography of that region, since it is convinced that neither Honduras

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<sup>o</sup> Julian R. Cáceres, Honduran Minister in the United States.

nor Nicaragua is acquainted with it, that it may be possible for it, once the actual situation is proved, to be in a position to be able to complete its task. Dr. Corrigan will clearly explain to the Diplomatic Representative of Honduras that, in giving his consent to the above-mentioned aerial-photographic examination, his [country's] present juridical position will not be changed in the least, nor will it be assumed that the Government of Honduras is abandoning that position. Dr. Corrigan is fully empowered to talk with the Representative of Honduras and to discuss the form in which the latter might wish the aforesaid proposal of the Commission to be stated and he will submit the said form to the other two members, for their approval.

What the Commission may thereupon approve shall be communicated by its Chairman, Licenciado Zúñiga Montúfar, to the Governments of Honduras and Nicaragua, and the Commission will examine the expediency of fixing a date on which the next plenary meeting should be held.

JOSÉ SANTIAGO RODRÍGUEZ  
TOBIÁS ZÚÑIGA MONTÚFAR  
FRANK P. CORRIGAN

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715.1715/1500a

*The Representative of the President (Corrigan) to the Chairman of the Mediation Commission (Zúñiga Montúfar)*<sup>7</sup>

[Translation]

WASHINGTON, June 8, 1940.

DEAR COLLEAGUE AND FRIEND: Since my arrival in Washington on the 1st instant, I have had an opportunity to hold a number of conversations with regard to different questions connected with the Commission with officers of the Department of State, and, in particular, the opportunity of sounding out the Legation of Honduras respecting the possibility that the Government of that country might reconsider its decision with respect to the proposal to make an aerial map of the Segovia river. With the approval of the competent officers of the Department, I invited the Minister of Honduras, Dr. Julian Cáceres, to come to the Department to confer on the matter, likewise taking advantage of the presence here of Dr. Marcos Carías Reyes, nephew and private secretary of His Excellency President Carías, to invite him to take part in the conversation. Dr. Carías Reyes is returning to Tegucigalpa soon, where he will consult with General Carías regarding this matter, afterwards advising me, through Dr. Cáceres, of the view of the Honduran Government.

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<sup>7</sup> The same was sent on June 8 to the Representative of Venezuela.

As soon as I receive information regarding President Carías' attitude, I shall communicate with you, and with our friend, Dr. Rodríguez.

With cordial assurances [etc.]

FRANK P. CORRIGAN

715.1715/1504

*Memorandum by the Representative of the President (Corrigan)*<sup>8</sup>

[WASHINGTON,] July 1, 1940.

At a meeting with Dr. Cáceres, the Honduran Minister, at which Mr. Bonsal<sup>9</sup> was also present, I discussed with the Minister the question of mapping the area in dispute between Honduras and Nicaragua. He stated that Honduras will not under any consideration admit the mapping, that President Carías declares he will give up his position and life itself rather than go down as a president who gave away any portion of his country.

It seems that Honduras wants Nicaragua to accept the *Laudo*,<sup>10</sup> . . .

I then asked Dr. Cáceres whether Honduras would agree to reciprocal navigation on the River Cocos, to which Nicaragua has already agreed, and Dr. Cáceres gladly gave his oral agreement to this proposal.

FRANK P. CORRIGAN<sup>11</sup>

715.1715/1507 : Telegram

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

MANAGUA, September 12, 1940—4 p. m.

[Received 6 : 15 p. m.]

83. The Minister for Foreign Affairs<sup>12</sup> informed me today that on three occasions during the period August 28–September 12, patrols of Honduran uniformed soldiers crossed 300 to 500 yards into Nicaraguan territory in region near Somoto where boundary line is definitely determined and arrested two Nicaraguan citizens who were taken

<sup>8</sup> Addressed to the Under Secretary of State (Welles), the Chief of the Division of the American Republics (Duggan), and the Assistant Chief of the Division of the American Republics (Bursley).

<sup>9</sup> Philip W. Bonsal, Assistant Chief, Division of the American Republics.

<sup>10</sup> Award of December 23, 1906, *British and Foreign State Papers*, vol. c, p. 1096.

<sup>11</sup> Name typed, not signed. Notation on original: "(Given orally to Messrs. Drew and Baldwin; not revised by Dr. Corrigan.)"

<sup>12</sup> Mariano Argüello Vargas.

into Honduras. The Nicaraguan Government plans to lodge protest with Honduran Government in the near future. The Nicaraguan Government does not consider the incident serious.

Repeated to Tegucigalpa.

NICHOLSON

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715.1715/1509 : Telegram

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

WASHINGTON, September 25, 1940—7 p. m.

69. Your telegram no. 83 of September 12, 4 p. m. The Honduran Minister in Washington states that his Government has replied to Nicaragua's note of protest making a counter-protest that on September 11 a captain of the National Guard, the Jefe politico, and the Chief of Police of the Department of Madriz had changed the boundary markers near Las Lagunillas and a part of the Guard had been stationed in Honduran territory.

You are instructed to discuss this matter with the Foreign Minister and inquire regarding the present status of the incident. You should point out that the United States is especially desirous of rendering every possible assistance in avoiding serious incidents at this time when world conditions are so upset and also indicate that the success of negotiations with a view to settling the longstanding Honduran-Nicaraguan boundary dispute could readily become more difficult if such incidents were permitted by the two countries to develop into greater proportions. You should explain to the Foreign Office that our Legation in Tegucigalpa has been instructed to discuss the subject along the same lines with the Honduran Foreign Office.

Kindly report the result of your conversation, particularly concerning the attitude of Nicaragua.

HULL

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715.1715/1509 : Telegram

*The Secretary of State to the Chargé in Honduras (Cousins)*

WASHINGTON, September 25, 1940—7 p. m.

41. The Department has been informed that on September 13 the Nicaraguan Foreign Office addressed a protest to Honduras regarding the alleged entry of Honduran soldiers into Nicaraguan territory and the arrest of Nicaraguan citizens. The Honduran Minister in Washington states that his Government has replied to Nicaragua's note of protest with a counter-protest that on September 11 a captain of the National Guard, the Jefe politico, and the Chief of Police of

the Department of Madriz had changed the boundary markers near Las Lagunillas and a detachment of the Guard was still stationed in Honduran territory.

You are instructed to discuss this matter informally with the Foreign Minister<sup>13</sup> and inquire regarding the present status of the incident. You should point out that the United States is especially desirous of rendering every possible assistance in avoiding serious incidents at this time when world conditions are so upset and also indicate that the success of negotiations with a view to settling the longstanding Honduran-Nicaraguan boundary dispute could readily become more difficult if such incidents were permitted by the two countries to develop into greater proportions. You should explain to the Foreign Office that our Legation in Managua has been instructed to discuss the subject along the same lines with the Nicaraguan Foreign Office.

Kindly report the result of your conversation, particularly concerning the attitude of Honduras.

HULL

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715.1715/1510: Telegram

*The Chargé in Honduras (Cousins) to the Secretary of State*

TEGUCIGALPA, September 27, 1940—3 p. m.

[Received 8:55 p. m.]

65. Referring to Department's telegram No. 41 dated September 25, 7 p. m., regarding the Honduran Nicaraguan boundary incident. I saw the Foreign Minister this morning and explained to him the Department's attitude in the matter. He informed me that Nicaragua claimed in its original protest that Honduran soldiers had arrested Nicaraguan citizens on Nicaraguan territory but that this was not the case as the territory concerned was without doubt (*netamente*) Honduran and that the Nicaraguans had moved the boundary markers some 400 meters from the actual frontier in order to claim the strip of land. He was adamant in his statement that the territory belonged to Honduras and that Nicaragua was wrong as usual. He could offer no explanation why the Nicaraguans would want to move the markers other than they could not be trusted and always wanted to make trouble. When I expressed the hope that the incident could be settled amicably he said that he thought it could be providing Nicaragua would cooperate toward that end.

He has not received to date the Nicaraguan reply to his Government's protest but expects it soon and will inform me of its contents

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<sup>13</sup> Salvador Aguirre.

when received. The Minister told me that he would bring the Department's desire of rendering every possible assistance in avoiding serious incidents at this critical time to the attention of the President.

There has been no comment in the local press regarding the affair and I was informed that there had been none to date in Nicaragua.

In my opinion this Government will make every possible concession to prevent the incident from assuming greater proportions provided Nicaragua's attitude is also conciliatory.

COUSINS

715.1715/1511 : Telegram

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

MANAGUA, September 28, 1940—4 a. m.

[Received 6 p. m.]

86. Department's telegram No. 69, September 25, 7 p. m. The Minister for Foreign Affairs says that Nicaragua's attitude toward the Honduran protest is still undecided as he has not yet consulted the President. He feels that the Honduran Government is endeavoring to exploit the incident with a view to impairing indirectly the authority and work of the Mediation Commission and will insist that any proposal for settlement of the present misunderstanding embody a clause providing that the Commission's endeavors shall in no way be affected. He feels personally that Nicaragua should not put forward the offer of settlement; that if Honduras fails to do so, the proposal of a third party, preferably the United States, would receive friendly consideration.

He says that President Somoza may desire that Nicaragua take the initiative in making this offer.

NICHOLSON

715.1715/1512 : Telegram

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

MANAGUA, October 3, 1940—4 p. m.

[Received 7:32 p. m.]

87. Referring to my telegram No. 86, September 28, 4 a. m. The Minister for Foreign Affairs has informed me that President Somoza desires a commission to be named for a new survey of the stretches on the frontier with Honduras through which the correctness of the position of present markers is disputed. He desires the initiative for this survey commission to come from the American Government if possible, and wishes to know our reaction to this proposal.



He suggests that if such action is deemed politic by us, the text of the proposal addressed to the governments should contain a clause providing that the appointment of the commission as proposed shall in no way be taken to impair the authority or the validity of the findings of the present Mediation Commission handling the question of the disputed territory.

NICHOLSON

715.1715/1510: Telegram

*The Secretary of State to the Chargé in Honduras (Cousins)* <sup>14</sup>

WASHINGTON, October 5, 1940—3 p. m.

43. Your telegram no. 65 of September 27, 3 p. m. You are instructed to suggest to the Minister for Foreign Affairs that in view of the apparently simple question involved of the position of the markers of a boundary already agreed upon by Honduras and Nicaragua, it seems that the two governments might solve this question by the appointment of qualified surveyors from each country to make a joint survey and agree upon the position of the markers. Please inform the Minister for Foreign Affairs that the American Legation in Nicaragua has been instructed to make the same suggestion to the Government of Nicaragua. It is the understanding of the Department that the sections of the boundary on which the recent incidents have taken place is a considerable distance from territory now under dispute.

Please keep the Department informed.

HULL

715.1715/1515: Telegram

*The Chargé in Honduras (Cousins) to the Secretary of State*

TEGUCIGALPA, October 8, 1940—4 p. m.

[Received 8:26 p. m.]

69. Referring to the Department's telegram No. 43 dated October 5, 3 p. m., regarding Honduran-Nicaraguan border incident, I presented the suggestion contained therein to the Minister for Foreign Affairs. He agreed that a joint survey might be the solution but he did not care to commit himself until a reply to his Government's note of protest (see also my despatch No. 1127 of October 1, 1940 <sup>15</sup>) had been received from Nicaragua. It was apparent that the attitude

<sup>14</sup> The same was sent, *mutatis mutandis*, as No. 72, October 5, 3 p. m., to the Minister in Nicaragua.

<sup>15</sup> Not printed.

of the Honduran Government would depend largely on the tone of the Nicaraguan reply. The Minister promised, however, to bring this suggestion of the Department to the attention of the President.

The Department is correct in assuming that the sections of the boundary on which the recent incidents have taken place is considerable distance from the territory now under dispute.

As a result of a long distance conversation just held with Baldwin<sup>16</sup> at Managua it has become apparent that an impasse has been reached in which each Government is waiting for the other to make the first step.

COUSINS

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715.1715/1514 : Telegram

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

MANAGUA, October 8, 1940—4 p. m.

[Received 8 : 10 p. m.]

93. Your telegram No. 72, October 5, 3 p. m.<sup>17</sup> The Foreign Minister informs me that he desires no intimation to Honduras that any suggestion emanated from Nicaragua and that it be stipulated that both understand that of course the mediation proceedings are in no way prejudiced by any action which may be taken on the present question. He desires any suggestion to appear to come from the State Department and states that if Honduras accepts a survey Nicaragua will also. Such acceptance by one country would be conveyed to the other through the Department which could inquire what engineers would be appointed and where and when they would meet.

Tegucigalpa informed.

Nicaragua does not desire to reply to the Honduran note at least at the present stage.

NICHOLSON

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715.1715/1515 : Telegram

*The Secretary of State to the Representative of the President (Corrigan)*<sup>18</sup>

WASHINGTON, October 12, 1940—noon.

113. For the Ambassador. The Department has been informed by the American Legations in Managua and Tegucigalpa that border incidents have occurred during the past few weeks on the Honduran-

<sup>16</sup> La Verne Baldwin, Consul and Second Secretary of Legation.

<sup>17</sup> See footnote 14, p. 453.

<sup>18</sup> Mr. Corrigan had returned to his post at Caracas as Ambassador to Venezuela.

Nicaraguan border near the villages of Somoza in Nicaragua and Lagunilla in Honduras. Nicaragua first protested in a note to Honduras dated September 13, 1940 that in early September Honduran officials had crossed to Nicaragua and arrested Nicaraguan citizens. On September 25, 1940 Honduras made a counter-protest in reply that officials of Nicaragua had entered Honduras near a place called Lagunilla and had moved the boundary markers back about 400 meters into Honduran territory and that a detachment of the Nicaraguan Army was still on Honduran territory.

The Governments of both Honduras and Nicaragua seem to be convinced that the incidents are not for the present sufficiently serious to endanger the peace between the two countries. The Government of the United States has expressed the hope to both Governments that the present difficulty will not be permitted to assume more serious proportions and that the work of the Mediation Commission will not be jeopardized by these incidents which occurred along the boundary line already agreed upon by Honduras and Nicaragua at points which are a considerable distance from the territory now under dispute. The Department has suggested to Honduras and Nicaragua that the two Governments, without prejudice to the mediation proceedings, appoint qualified surveyors to make a joint survey of the boundary at the places where the position of the markers is in dispute and that if the two Governments are unable to agree on such a procedure they might desire to enlist the cooperation of the Mediation Commission. Please inform your colleagues on the Commission of the above.

You will be informed regarding further developments.

HULL

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715.1715/1515 : Telegram

*The Secretary of State to the Chargé in Honduras (Cousins)*

WASHINGTON, October 12, 1940—noon.

45. Your telegram no. 69, October 8, 4 p. m. You are instructed to inquire of the Minister for Foreign Affairs whether the Government of Honduras would consent to a joint survey if such a solution would also be acceptable to Nicaragua. This of course would be without prejudice to the mediation proceedings. If the Governments of Honduras and Nicaragua are both agreeable, you will be instructed to inform the Foreign Office of Nicaragua's acceptance and to make a suggestion to the Governments to arrange through their regular channels for the appointment of qualified surveyors from each country. You may make it clear to the Foreign Office that your Government had in mind a joint survey made by Nicaragua and Honduras and that

the appointment of a representative or surveyor by the Government of the United States was not contemplated.

You should inform the Minister for Foreign Affairs that the Department has also taken up this matter with the Government of Nicaragua in the same sense, and you may suggest to him that in the event that the two Governments are unable to agree on such a procedure, they might desire to enlist the cooperation of the Mediation Commission.

Repeated by the Department to Managua.

HULL

715.1715/1516: Telegram

*The Representative of the President (Corrigan) to the Secretary of State*

CARACAS, October 14, 1940—5 p. m.

[Received 7: 50 p. m.]

150. Referring to the Department's telegram No. 113, October 12, noon, Dr. Rodríguez, Venezuelan member of the Mediation Commission arrived here on October 9 and we had a conference on October 11 regarding the steps to be taken in view of the recent happenings in the Honduran-Nicaraguan frontier region concerning which we had already been informed by Zúñiga Montúfar, President of the Mediation Commission. We agreed tentatively upon the terms of a note to be sent to the Honduran and Nicaraguan Governments. I shall inform my colleagues of the Department's suggestions so that the terms of the note now in preparation will be in agreement.

While tension exists would appreciate repetition of pertinent telegrams to me.

CORRIGAN

715.1715/1517: Telegram

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

TEGUCIGALPA, October 15, 1940—3 p. m.

[Received 6: 25 p. m.]

71. Reference is made to the Department's telegram No. 45, October 12, noon. Foreign Office informs me that Honduras still awaiting reply to its protest to Nicaragua before determining decision on appointment of surveyors despite willingness of Nicaragua to name its surveyors. Belief is expressed that markers which were said to have been removed may have now been restored. Both Foreign Minister

and Sub-secretary ill and absent from office. It was only possible to interview Chief of Protocol today who presumably voiced views of Foreign Minister.

ERWIN

715.1715/1518

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

No. 1252

MANAGUA, October 19, 1940.

[Received October 23.]

SIR: I have the honor to report that the Nicaraguan Foreign Minister has referred to his conversations with Secretary Hull at Havana relative to action in connection with the advancement of mediation proceedings regarding the Nicaraguan-Honduran boundary dispute, and stated that the Secretary had indicated his desire to proceed expeditiously toward settlement. Dr. Argüello added that Nicaragua is anxious to be a member of the Central American fraternity in presenting a united front of peace to the totalitarian states, and that settlement of this question would be very helpful.

I indicated my knowledge that upon the Secretary's return to Washington steps had been taken with regard to the mediation commission, and that naturally the United States was equally anxious with Nicaragua to see the proceedings progress.

Respectfully yours,

MEREDITH NICHOLSON

715.1715/1521

*The Representative of the President (Corrigan) to the Secretary of State*

No. 587

CARACAS, November 18, 1940.

[Received November 25.]

SIR: I have the honor to report that I have held a number of conferences with Dr. José Santiago Rodríguez during his visit here in Caracas regarding the work of the Mediation Commission. Just before he embarked on the Pan American plane at Maiquetía yesterday to return to his post at Bogotá I had another visit with him about the future activities of the Mediation Commission in its efforts to settle the boundary controversy between Honduras and Nicaragua. We both agreed that there should be a reunion of the Commission not later than April of 1941 unless there should arise new factors that would make a reunion at that time inadvisable. One such factor that we discussed is the likely renewal of the attempt to settle the Panama-

Costa Rica boundary dispute.<sup>19</sup> Mr. José LeFevre, the retiring Minister from Panama to Venezuela, told me just before his departure that he believed that the new President of Panama, Dr. Arnulfo Arias, has already reached some understanding with the new President of Costa Rica, Dr. Calderon Guardia, on this subject and that both executives are agreed upon the desirability of an early settlement of the boundary dispute between their respective countries. We agreed that, in the event that active steps are taken toward a settlement of the Panama-Costa Rican boundary controversy, the work of our Commission should be held in abeyance for the time being so that there would be no risk of our activities impairing the success of the movement. Furthermore a successful outcome of such negotiations resulting in a settlement of the question would inevitably create a more favorable atmosphere for settling the other outstanding boundary dispute in Central America. In fact a settlement of either question would have a favorable effect on the other and it would seem that the negotiations most likely to be crowned with success should be started first. At this time it would appear that bilateral action by two new and enthusiastic Chiefs of State might afford better prospects of a prompt result and that our position should be to encourage their efforts and keep the Honduras-Nicaragua controversy in the background for the present.

The Department may have at hand or may obtain some later information on this subject which it would be useful for the Mediation Commission to have in its possession before determining a program of future activities. Dr. Rodríguez thinks, and I agree, that when we do meet again we should have ready two or three alternative propositions for presentation and try to secure a definitive settlement of the question.

I am still of the opinion that, prior to our meeting and before formulating any concrete proposals, we should have aerial photographs of at least that part of the Segovia River which is subject to violent changes and variations in the location of its bed. I have done a considerable amount of travel by airplane during the past few years and taken advantage of the opportunities thus presented to study and observe the course of rivers and their variations in many different countries and types of terrain. These observations lead to the conclusion that a river forms a fairly satisfactory dividing line in mountainous regions where it has cut a well defined canyon or clear-cut deep valley but that when it emerges from the mountains and flows out over a coastal plain it becomes utterly useless as a boundary line. Its bed shifts from year to year, from month to month and even from day to day. In my opinion our Government should not be a party to any boundary settlement based on such shifting streams. In this connec-

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<sup>19</sup> See *Foreign Relations*, 1929, vol. I, pp. 938 ff.

tion I may cite that my own native State of Ohio has legal provisions against the use of a river or stream as a property limit. I have recently reported a four mile shift in the location of the mouth of the Mitare River in Venezuela which does not appear on maps published as late as 1937 and which was shown to me personally by the Naval Attaché of this Embassy while we were flying over it on August 7, 1940. . . . I believe that the Commission should, for its own confidential information, ask for permission to have a survey made by a responsible scientific body like the American Geographical Society. Surely Honduras could not object to that procedure. The matter of cost, that is of paying for something that they do not want, seems to be of some moment to the Honduran Government and therefore the elimination of that possible objection on their part is another reason for suggesting that the survey be made by the Commission itself. Such a preliminary survey need not be as complete as the one originally planned but should include all of the river region which lies in the coastal plain. Estimates regarding the cost of the complete survey are already in the hands of the Department. Since it is presumed that Army equipment would be used the expense to the other two Governments involved would not be very great and the Commission still has a balance in its treasury that could be utilized in part at least. In the interests of economy perhaps one more effort should be made to get the Honduran Government to contribute to this survey at the same time assuring them that the report will be a confidential one for the use of the Commission only and will not be made public except with the consent of the Honduran Government. If they again refuse to contribute then I think the Commission should be empowered to go ahead and make its own survey.

I respectfully suggest therefore that if the Department agrees with the foregoing that I be instructed to confer with my colleagues on the Commission and to recommend such a plan of action. The most appropriate time for such a survey from the standpoint of weather conditions is during the months of February and March.

Respectfully yours,

FRANK P. CORRIGAN

## ARGENTINA

### NEGOTIATIONS RESPECTING FINANCIAL ASSISTANCE BY THE UNITED STATES TO ARGENTINA

611.3531/1538

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

No. 793

BUENOS AIRES, June 14, 1940.

[Received June 21.]

SIR: Referring to the Embassy's telegram no. 219 of June 14, 4 p. m.<sup>1</sup> and other communications\* stressing the vital importance of economic considerations in connection with questions of continental solidarity and defense, with particular reference to Argentina, I have the honor to report that I am forced to conclude that a crisis is at hand and that a choice may have to be made in the very near future between taking decisive and perhaps unprecedented steps to provide these countries with an economic alternative to what the totalitarian states have in prospect to offer, or seeing this and possibly other South American countries take the first steps preparatory to falling within the German economic orbit with a probable end to American solidarity and an opening of the way to the establishment of German economic, if not political, hegemony in this part of the Western Hemisphere.

Special reference is made to despatch no. 772 of June 11, 1940<sup>1</sup> reporting statements made by Dr. Federico Pinedo, former Minister of Finance under President Justo and long an outstanding authority on Argentine economic and political matters. It is impressive that he considers Argentina's economic situation critical and that he accepts as a matter of course that his country's ultimate alignment will depend primarily upon markets for its exports. He is fully aware, because of his close association with persons highly placed in governmental and financial circles, that German and Italian influences are already actively at work in an endeavor to convince the Argentines that it is in their best interests to do nothing that might close to them their European markets in the event of a German victory. Taking into account the widespread belief in this country that a German victory is to be expected, together with the strength of pro-totalitarian sentiment and

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<sup>1</sup> Not printed.

\*Telegrams Nos. 200 of June 10, 9 p. m., 207 of June 11, 9 p. m. and 217 of June 13, 6 p. m. [Footnote in the original. Telegrams not printed.]



the predisposition of the ruling class to safeguard at all costs the European market, it will be seen that an attack is being made on Argentina's most vulnerable point and that it may succeed if prompt and adequate measures are not taken.

Dr. Pinedo considers the issue of the greatest importance, since he believes that if Germany can be excluded from South America and the British possessions, that country can and will be defeated ultimately, but that if it should succeed in becoming entrenched in South America its position might easily be invulnerable. It is believed that there is much truth in what he says both with respect to the immediate danger and the consequences of failure to combat it in time.

Whereas the present Government and the majority of the public are inclined to favor a continental policy of cooperation and, other factors being equal, would prefer to be associated with the United States rather than Germany in the present crisis, there is no blinking the fact that many doubt the desirability of cooperating with the United States in continental defense, some because of national vanity, some because of pro-totalitarian sympathy or a feeling that there is no danger or both, but most because they really doubt the ability of the United States to afford adequate protection to the whole Western Hemisphere in the first place and particularly have little hope of any American solution of their economic problem in the second. Although as previously reported the danger of any serious attempt to replace the present Government by one more friendly to the Germans appears to have passed for the time being, this does not mean that the situation is not rather finely balanced. Even now there are many evidences of extreme sensitivity to the European situation and the policies of other Latin American countries toward the conflict. Sentiment in the cabinet is divided, and it is believed that however much agreement there may be with democratic principles, consideration for her markets will play a most important part on determining Argentina's attitude on such questions as neutrality, the status of submarines, and cooperation in plans for the common defense of the American countries, etc.

In other words if the United States can convince the Argentine Government with respect to defense and can do something constructive regarding markets, it is believed that the Government as now constituted would be very responsive, but if doubt is permitted to persist on the first point and particularly if no concrete proposition is forthcoming on the second, then we may expect this Government or its successor to make terms with the dominant European Governments. The striking opinions expressed by an authority such as Dr. Pinedo on the one hand and the disturbing phraseology of

President Vargas' recent speech<sup>3</sup> on the other indicate that a new and strong initiative should be taken by the United States forthwith if a disintegration of American solidarity is not to take place in the face of totalitarian victories on the field and economic offensives in this part of the world.

It is believed accordingly that the whole problem should be approached as one of primary importance to American security and that such sacrifices as necessary should be made. Something in the nature of a Pan-American customs union would probably offer the best solution if it were feasible but it is realized that our domestic political situation and the need for prompt action probably make any such plan impractical. It is believed moreover that financing alone would be ineffective, and therefore undesirable except as a part of a comprehensive coordinated plan.

With a view to meeting this situation, it is recommended (1) that occasion be taken as soon as possible to remove any doubt in the minds of those inclined to believe that the United States is unable or unwilling to afford the Western Hemisphere adequate protection from military attack, and (2) that broad emergency powers be requested from Congress to enable the United States to bring its economic strength to bear in a manner that will counteract the forceful methods of the totalitarian states and prevent serious defections from American solidarity. Authority to suspend or augment imports to the extent necessary in the public interest would constitute such a powerful weapon that it would probably never be necessary to invoke it. Facilities for buying and selling foreign commodities might also prove most useful in enabling the United States to counteract German moves.

Since early action in Argentina is believed necessary, it is suggested that a beginning be made by extending to this country the program to build up war stocks of essential supplies, such as vegetable seeds for war purposes, wool for uniforms and blankets, hides and quebracho for shoes and harness, preserved meats for the army and animal by-products for industry. Such a plan would not necessarily involve any tariff concessions, although a trade agreement might eventuate as the result of increased and stabilized trade. What Argentina needs is a minimum of economic security and an opportunity to sell more in the Western Hemisphere. If the United States in carrying out the increased purchases suggested could by strictly unilateral action give Argentina reasonable assurance of American purchases over a period of several years removing her fears with regard to lack of dollar exchange, her present uncertainty with regard

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<sup>3</sup> For correspondence concerning the speech by President Vargas, see pp. 615 ff.

to the immediate future of her American trade would be eliminated. There would be no reason to retain artificial restrictions on American goods, and the volume of the interchange would inevitably increase purchases. It is believed that the investment in Argentine products to the extent necessary to achieve this result would be sound because of the benefits flowing from the increased exports and the intrinsic value of the stocks of raw materials acquired. It is thought that this would check effectively the trend toward defeatism, and although admittedly drastic it would appear justified by the issues at stake.

The greater problem that will have to be faced eventually is the question of markets for wheat, fresh meat, and the other products the United States cannot absorb. If some practicable way could be found, after the initiation of some such plan as that just outlined, to deal with the export of cereals and meat on a continental instead of a domestic basis, including the establishment of the necessary shipping services, it would remove existing irritation over Government sales by the United States and might prove of great strategical value in the case of a prolonged economic and military struggle. Considerations on this subject should be inaugurated if the project is considered feasible.

Respectfully yours,

NORMAN ARMOUR

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611.3531/1533 : Telegram

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

BUENOS AIRES, June 17, 1940—11 a. m.

[Received 6 : 55 p. m.]

229. Embassy's telegram No. 219, June 14, 4 p. m.<sup>4</sup> Last Friday afternoon Dr. Raul Prebisch, the general manager of the Central Bank, informed a member of my staff that he had discussed Argentina's problems in detail with Dr. Groppo, present Minister of Finance, and Dr. Pinedo, ex-Minister of Finance, and as a result wished the United States Government to be informed in strict confidence through this unofficial channel that Argentina's political and economic situation is rapidly becoming so precarious that it is hoped the following suggestions would be considered. The suggestions are reported herein as given and should not be taken as having the Embassy's tacit approval. The member of the Embassy staff expressed no opinion to Dr. Prebisch with respect to the latter's suggestions. The Embassy's views and specific recommendations were set forth in air mail despatch

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<sup>4</sup> Not printed.

No. 793 of June 14 and are being summarized in a telegram to follow today.

Prebisch stated that the Argentine Government would greatly appreciate it if the United States Government would immediately send someone incognito to Buenos Aires to discuss Argentina's trade and financial problems with President Ortiz and the members of his Cabinet. He said it is believed that such an official would receive a far more accurate picture of the situation than could be given by an Argentine official proceeding to Washington. The suggestion that someone not connected with the diplomatic mission be designated was due, he said, to the desire for no publicity.

He gave as indications of Argentina's straitened circumstances the facts that several large Argentine power plants are being forced to use domestic corn for fuel and that a decree has been issued restricting the use of artificial heat and light.

He asserted that as a result of European developments, Argentina faces two alternatives: Either progressively to restrict imports or to engage in large-scale borrowing. Both, he said, present grave danger. The first invites serious political disturbances in view of propaganda with reference to the German-Argentina clearing agreement (the Germans, he stated, are offering merchandise for delivery in October) while the second obviously involves major credit risks.

Accordingly, he said, the Argentine Government would gratefully welcome an indication that the United States Government would be disposed to consider (first) financing a substantial part of Argentina's imports of American merchandise through the Export-Import Bank, (second) furnishing an additional loan to assist Argentina in meeting the service on its public external debt and other official foreign payments, and (third) purchasing large amounts of Argentina's exportable products possibly for war stocks or relief purposes so as to provide Argentina with exchange for imports of goods not covered by Export-Import Bank credits and of goods not obtainable in the United States. Such help, he claimed, would give immediate relief and have a very beneficial psychological effect upon the Argentine people who are disturbed by intelligent Nazi-Fascist propaganda.

Unfortunately, he added, there are serious political aspects of the present Argentine emergency but he went on to say with parenthetical reference to President Vargas' speech, the Argentine Government is now probably better disposed towards the United States and sees more nearly eye to eye with the United States with respect to the European situation than any other American Republic; and he cannot conceive of a better opportunity than the present for exploratory conversations designed to evolve a lasting solution of existing political and financial and trade problems.

835.00-N/74 : Telegram

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

BUENOS AIRES, June 17, 1940—4 p. m.

[Received 10:46 p. m.]

230. The surrender of France has served to strengthen materially the hands of the pro-Nazi elements here and that the Government is now faced with a situation that might conceivably get out of hand. Without wishing to appear to exaggerate the gravity of conditions, I feel strongly that our Government should take prompt and energetic action to meet this danger.

[Here follows a report of press comment.]

ARMOUR

611.3531/1534 : Telegram

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

BUENOS AIRES, June 17, 1940—5 p. m.

[Received 11:16 p. m.]

231. Embassy's telegrams 219 of June 14, 4 p. m.,<sup>5</sup> 229 of June 17, 11 a. m., and 230 of June 17, 4 p. m. It is obvious that a concerted effort is being made by the Central Bank group to bring pressure on the United States to do certain things for Argentina but be that as it may I am convinced that the issues at stake are so important and the need for prompt and vigorous action so great that nothing should be permitted to stand in this [*the?*] way of our undertaking immediately a program of our own designed to insure the support of countries in this area and obviate the defections from American solidarity that now represent an immediate danger.

In view of the critical situation in Europe and its repercussions here the following summary of recommendations set forth in airmail despatch No. 793 of June 14 is now submitted by telegraph: It is believed that however much sympathy there may be here for the democracies consideration for markets will determine Argentina's alignment and that a decision of major importance may be made soon on the basis indicated. Thus I am convinced that we must choose the duty of (1) taking decisive and far-reaching action to provide these countries with an economic alternative to the prospect Germany now holds open to them, or (2) seeing this country make a definite decision soon to accept the proposition of the Germans breaching the American front and opening the way to economic and possibly political domination.

<sup>5</sup> Not printed.

As to constructive suggestions it is recommended (1) that steps be taken to remove doubt with regard to the ability and determination of the United States to defend the Western Hemisphere; (2) that emergency powers be requested from Congress to enable the United States to counteract the forceful methods of the totalitarian states, such as authority to suspend or augment imports, facilities for buying and selling foreign commodities, et cetera; and (3) that as an immediate step to check the present trend the Government purchase under the program to build up war stocks of essential supplies for war purchases certain Argentine products such as wool, quebracho, preserved meat, hides, vegetable seeds, et cetera with a view to relieving the immediate anxiety of this country on the score of dollar exchange with which to meet necessary purchases in the United States.

If our Government could by strictly unilateral action relieve the present situation time would be gained in which to work out a more comprehensive long-range program on a sound basis. If the foregoing plan should be approved, it is suggested that I be authorized to convey the information directly to President Ortiz to obviate any danger of a repetition of past unfortunate experiences in attempting to make arrangements through the technical experts of the Ministry of Finance.

The President of the American Chamber of Commerce and the heads of the two American banks called on me this morning to outline a plan to meet the present danger. They suggested that the United States purchase essential supplies such as those mentioned above to the value of 25 million dollars and discussed financial and other arrangements that might solve the larger economic problem of this and other American countries in a similar situation. They feel most strongly that a striking gesture in the nature of purchases of Argentine products rather than the extension of credits are needed in order to forestall a possible disastrous defection in the American ranks. As to financing, it is believed that the offer of loans alone would be ineffectual and therefore undesirable except as part of a coordinated plan.

ARMOUR

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835.51/1300 : Telegram

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

WASHINGTON, June 22, 1940—5 p. m.

121. After direct telephonic communication between Irigoyen<sup>6</sup> and Mr. Jesse Jones,<sup>7</sup> the Export-Import Bank has agreed to extend

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<sup>6</sup> C. Alonso Irigoyen, Financial Counselor, Argentine Embassy, then in Buenos Aires.

<sup>7</sup> Administrator, Federal Loan Agency.

a credit of \$10,000,000 for the purchase by Argentina of merchandise in the United States. The credit will be extended to the Banco de la Nación and is to be guaranteed by the Argentine Government. It will bear 3.6 percent interest and have a term of 3 years, amortization to begin after 1 year. The Export-Import Bank has indicated that it is prepared to extend an additional amount of \$10,000,000 of credits if Argentina needs the funds and if the Export-Import Bank has them available. You will recall that under existing legislation the outstanding credits of the Export-Import Bank are limited to \$200,000,000, and that new credits extended after the first of 1940 may amount to only \$20,000,000 in any one country.

Mr. Jones will also inform Irigoyen, by telephone, that the Export-Import Bank is prepared to extend credits in connection with the Ambursen Dam project, as a part of the additional \$10,000,000, if the Argentine Government so requests. The terms on such a credit would probably involve a 4 percent rate of interest and 5-year term.

Please inform the Minister of Foreign Affairs that the United States Government is delighted to be able thus to cooperate with the Argentine Government at this critical point in the economic situation. At the same time indicate that the Department would prefer in the future that such discussions take place through the regular diplomatic channels.

HULL

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611.3531/1534 : Telegram

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

WASHINGTON, June 22, 1940—6 p. m.

122. Your 229, June 17, 11 a. m. and 231, June 17, 5 p. m. The Department has given the most careful consideration to the situation described in your telegrams, and the United States Government will at once send an important official competent to discuss Argentina's financial and economic problems with President Ortiz and his cabinet. You will be informed as soon as a selection has been made and traveling arrangements completed.

You are referred to the statement of the President (Radio Bulletin No. 148).<sup>8</sup> The Department views the Argentine request as an integral part of the whole picture and proposes to send an emissary who will be in a position to discuss the entire program announced by the President, as well as the direct bearing on Argentina. As a preliminary

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<sup>8</sup> This refers to President Roosevelt's announcement of the plan whereby the American Republics would form a corporation to supervise the joint disposal of their surplus products. See section entitled "Program proposed by the United States for inter-American economic cooperation," pp. 353 ff.

step in economic cooperation with Argentina the Export-Import Bank has already extended the financial assistance mentioned in the Department's no. 121 of June 22, 5 p.m.

HULL

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611.3531/1539 : Telegram

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

BUENOS AIRES, June 25, 1940—5 p. m.

[Received 8:39 p.m.]

249. Department's 122, June 22, 6 p. m., and Embassy's telegram 245, June 22, 1 p. m.<sup>9</sup> At the request of Doctor Groppo, Minister of Finance, I called at the Ministry at 7:30 Saturday night for an informal talk. The Minister spoke for about an hour but the substance of his remarks was that without something of a concrete nature from the United States to change the trend of Argentine public opinion, it will be difficult for the Government here to resist the increasing sentiment in favor of accepting German offers and give wholehearted support to American plans for the economic phase of the defense program.

He commented favorably upon the credit of \$20,000,000 arranged through the Export-Import Bank and said that in announcing it the most would be made of the opportunity to sway public opinion in our favor, but intimated that nothing short of an immediate purchase of Argentine products would have the desired effect on public opinion. He said such a purchase including a certain amount of canned meat at this crucial time would have greater value than the purchase of ten times as much later on. The cartel idea he thought might have its advantages for the future, but considered it too indefinite and complicated to be of immediate use politically in stopping the German offensive. He said that what the Argentine people need is something they can understand, which would enable the Government here to back the program and allow them time to study the cartel idea and convince the public of its desirability.

Whereas the alternatives were rather crudely put the Minister's estimate of the local political aspects of the problem agrees with information received from other sources and he is of course in a position to speak authoritatively with regard to the attitude that may be expected of himself and his subordinates. The impression has been gained that the Minister of Finance and the Central Bank group really contemplate making no commitments until they see whether Great Britain can be defended and British naval supremacy main-

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<sup>9</sup> Latter not printed.



tained, and that in the meantime they wish to obtain as much from the United States as they can without prejudicing their future freedom of action should it suit their purpose to trade with Germany. It is believed, however, that they are correct in stating that the actual purchase of Argentine products by the United States at this juncture could be a determining factor. The public would react to such action as to nothing else and the President who is believed to be sincerely pro-Ally would, it is believed, go much further in cooperation with us than would the Minister of Finance if left to himself.

There is no failure on our part to feel keenly how ill it befits Dr. Groppo or the Central Bank group to ignore their responsibility for past failure to respond to American offers and to confront us with what amounts to a choice between cooperation on their terms or the alternative, but it should be remembered that Argentine public opinion was deliberately misled here with respect to the causes of the failure of the trade agreement negotiations,<sup>10</sup> and that the prejudice resulting therefrom works to our disadvantage. Thus we are again at a point where our policies can suffer a defeat, but with far more important and far-reaching results. We not only have immediate policies at stake but there is the question of future trade and the safety of the extensive investments in this country which together with the loans now being made [would?] be seriously jeopardized if this country embarks on barter trade on an extensive scale.

In the circumstances it is believed that immediate action should be taken, despite certain unsavory features, to do whatever is necessary to place the friendly President in a strong position and enable him to make a definite decision in favor of American cooperation. To this end, it is recommended that definite action, as proposed along the lines suggested in the Embassy's telegram of June 17, 4 p. m., be taken forthwith, but with safeguards not only stipulating satisfactory terms in the way of rates of exchange and assurances of wholehearted support in advance, but arrangements for purchases to be continued only upon complete compliance with the understanding reached. No opportunity should be given this country to accept favors and later upset the American economic and defense programs and make extensive barter friendly to Germany. It is my belief that in the absence of action of the nature suggested it will be difficult to secure necessary cooperation by Argentina and its smaller neighbors and may even lead to a break in American solidarity.

ARMOUR

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<sup>10</sup> See *Foreign Relations*, 1939, vol. v, pp. 227 ff.

611.3531/1543 : Telegram

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

BUENOS AIRES, June 27, 1940—7 p. m.

[Received 8 : 23 p. m.]

258. Department's telegram No. 122, June 22, 6 p. m. Today's papers give prominence to Government communiqué announcing the Export-Import Bank credit to the Banco Central. The announcement has had an effect, the peso has strengthened slightly and the reaction of all those with whom I have spoken has been very favorable. Officials of the Ministry of Finance refer warmly to this fine example of co-operation and assistance from the United States in helping Argentina at this difficult time. The Minister of Finance is tonight issuing a statement to the press expressing appreciation on the part of the Government, which is being cabled by the press services and which I understand Edward Tomlinson is using tonight in his broadcast to the United States.

ARMOUR

611.3531/1534 : Telegram

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

WASHINGTON, July 1, 1940—7 p. m.

128. Department's 122, June 22, 1940. Mr. Harry Hawkins, Chief of the Division of Commercial Treaties and Agreements, and Mr. George Luthringer of the Office of the Economic Adviser, have been selected for the mission. Please ascertain and inform the Department when these officers should arrive in Argentina.

HULL

611.3531/1549a : Telegram

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

WASHINGTON, July 6, 1940—4 p. m.

139. Since the Department has not yet received a reply to its 128, July 1, 7 p. m., and owing to difficulty of completing arrangements, it now appears unlikely that mission could arrive in Buenos Aires until the eve of the Havana Conference<sup>11</sup> at the earliest. It seems advisable therefore to defer arrival until after the conference adjourns. This, however, would have the advantage that the discussion of Argentina's current problems could take place in the light of plans and principles developed at the conference. Please advise appropriate authorities in the above sense and ascertain whether this arrangement would be satisfactory to them.

HULL

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<sup>11</sup> See pp. 180 ff.

611.3531/1550 : Telegram

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

BUENOS AIRES, July 8, 1940—6 p. m.

[Received July 8—5 : 53 p. m.]

284. Reference Department's telegram No. 139, July 6, 6 [4] p. m., Foreign Minister informs me that revised plan outlined with regard to visit of officials here will be entirely satisfactory to Argentine Government.

Alonso Irigoyen left by plane this morning for the United States via west coast and will be in Washington about July 15 where he plans to have talks with officials before proceeding to Habana Conference.

ARMOUR

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611.3531/1555 : Telegram

*The Ambassador in Argentina (Armour) to the Acting Secretary of State*<sup>12</sup>

BUENOS AIRES, July 19, 1940—3 p. m.

[Received 8 : 22 p. m.]

305. Embassy's telegram 284 of July 8, 6 p. m., and previous messages regarding the prospective visit of Hawkins and Luthringer to Argentina.

There is reason to believe that the political developments summarized in despatch 935 of July 12 and telegram 295 of July 13, 4 p. m.<sup>13</sup> have given rise to so much uncertainty that the officers responsible for the suggestions forwarded in the Embassy's telegram 229 of June 17, 11 a. m. are not at present in a position to pursue any definite course and it is thought quite possible that important changes in policy and possibly in the Cabinet may take place before the plans with respect to the above visit could be carried out. In expressing his agreement to the proposal of the departure of Hawkins and Luthringer suggested by the Department's telegram 139 of July 6, 4 p. m., the Minister of Foreign Affairs said there would of course be no objection since the original proposal had been ours. The Minister's mistaken impression in this regard was corrected immediately. Subsequently Dr. Prebisch, the General Manager of the Central Bank took occasion in writing to a member of the staff on another subject to disavow any responsibility for the proposal saying that he had not suggested that someone

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<sup>12</sup> The Secretary of State was at Habana for the Second Meeting of the Ministers of Foreign Affairs of the American Republics.

<sup>13</sup> Neither printed. Reference is to the political situation in Argentina caused by the resignation, due to ill health, of President Roberto M. Ortiz which occurred on July 4, 1940.

be sent but that he merely had expressed without hesitation preference for an official from the United States to come to Argentina rather than to have someone go up from here. He added that while he would consider such a visit useful he felt that he was not the proper official to make the suggestion for the Government.

I am satisfied that the Embassy's telegram 229 of June 17, 11 a. m. correctly reported the statements made by the Central Bank officials at that time, and that the apparent desire now to avoid responsibility for having initiated this plan is due chiefly to the extreme uncertainty now existing in the domestic political field.

In view of the important changes in the situation it is suggested that the Department may wish to hold the plan in abeyance until the situation has clarified, and that the conversations contemplated be deferred until there is evidence once more of a genuine desire to have them and such a desire is clearly expressed in writing by competent officials here. As the Department is aware there have been persistent rumors of impending changes in the Cabinet. If there is a change in the Ministry of Finance it is possible that the new incumbent might prefer to send a representative to the United States, particularly if the choice falls upon either Pinedo or Hueyo,<sup>14</sup> two names now prominently mentioned.

ARMOUR

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611.3531/1560 : Telegram

*The Chargé in Argentina (Tuck) to the Acting Secretary of State*

BUENOS AIRES, August 7, 1940—7 p. m.

[Received August 7—6:17 p. m.]

333. Embassy's 305, July 19, 3 p. m. The Minister for Foreign Affairs has just requested me by telephone to inform you that his Government would welcome the visit to Argentina of the mission referred to in the Department's 139, July 6, 6 [4] p. m.

TUCK

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611.3531/1563 : Telegram

*The Chargé in Argentina (Tuck) to the Acting Secretary of State*

BUENOS AIRES, August 10, 1940—1 p. m.

[Received August 10—12:17 p. m.]

339. Embassy's 333, August 7, 7 p. m. *La Prensa* today carries a special news article by Harry W. Frantz bearing Washington date line August 9 reporting the forthcoming Hawkins Mission as due here in

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<sup>14</sup> Ernesto Hueyo, President of the Bank of the Province of Buenos Aires.

September to engage in new economic negotiations with Argentina. It was added that the mission would not include any of the technical experts who came here in connection with the abortive trade agreement negotiations.

Foreign Office officials when interviewed by the Associated Press concerning the story this morning stated that a mission was coming here to discuss economic problems caused by the war, but would not reopen trade agreement negotiations. They also said, but not for attribution that they were astonished and displeased that the news had been given out in Washington since they had requested that the American officials come here incognito.

TUCK

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611.3531/1563 : Telegram

*The Acting Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, August 12, 1940—2 p. m.

180. Your 333, August 7, 7 p. m., and 339, August 10, 1 p. m. Please inform the Foreign Office that the Department considers it undesirable at this juncture to send any official mission to Buenos Aires, and has not given any indication to the press that such a mission was proceeding to Buenos Aires. A similar statement will be made to the Argentine Embassy in Washington. (Confidential: The Department understands that the press received the report from the Argentine Embassy in Washington.)

At Habana Irigoyen and other members of the Argentine delegation discussed the Argentine economic situation in great detail with members of the United States delegation, and emphasized the desirability of a mission proceeding to Buenos Aires to take up a number of economic matters. Irigoyen indicated that such a mission should discuss a trade agreement, monetary arrangements, possible purchases by the United States of wool and hides, Export-Import Bank credits for development purposes, and a corn agreement. Mr. Irigoyen indicated that he felt it would be desirable if the mission included officials of the Treasury and Agriculture Departments.

It is the Department's opinion that it would be impossible at this time to discuss a trade agreement, and that unfavorable publicity might arise out of the visit to Buenos Aires of Hawkins who is closely identified with trade agreements, and officials of the Department of Agriculture. At the same time the Treasury Department has indicated that any discussions which the Argentines wish to initiate on monetary matters should be carried on in Washington. The Department feels, therefore, that it would be unwise to send a formal mission to Buenos Aires at this time, and that the remaining items of Argen-

tine-American economic cooperation can be arranged through normal channels.

For your confidential information, steps are being taken rapidly with the Defense Council and the Federal Loan Administrator looking towards the purchase for defense purposes of Argentine wool and perhaps hides. Please inform the Department regarding the present available stocks of these commodities, and the state of Argentine markets for wool and hides. Suggestions for a corn agreement also will be transmitted to you for discussion with the Argentines in the near future.

Mr. Warren Lee Pierson, President of the Export-Import Bank, is sailing from the United States on September 6 for a trip which will take him to Rio de Janeiro and Buenos Aires. He should arrive in Buenos Aires during the latter part of September. Mr. Pierson will take this opportunity to discuss details of the present credit to the Central Bank, and, since it is hoped that legislation amplifying the Export-Import Bank's operations will have been enacted by that time, will be in a position to discuss further credits for development projects. It is possible that Mr. Pierson may also be authorized to discuss definite arrangements on the wool and hides matters, if they have not been negotiated before his arrival. It is suggested that you inform the Foreign Office of Mr. Pierson's proposed visit, and indicate that it is an alternative to the Hawkins mission. At the present time, however, it would appear desirable that no publicity be issued regarding Mr. Pierson's proposed visit.

Further information regarding the possible form of monetary and exchange discussions with the Treasury will be sent to you shortly.

WELLES

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611.3531/1566 : Telegram

*The Chargé in Argentina (Tuck) to the Acting Secretary of State*

BUENOS AIRES, August 13, 1940—8 p. m.

[Received 8:17 p. m.]

342. Department's No. 180, August 12, 2 p. m. I called on the Under Secretary for Foreign Affairs<sup>14a</sup> this afternoon and informed him that the Department considers it inadvisable at this juncture to send an official mission to Buenos Aires. I added that the Department had at no time given any indication to the press that such a mission was proceeding to Argentina.

I explained the reason for this decision and then informed him of the projected visit to Buenos Aires of Mr. Warren Lee Pierson, which

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<sup>14a</sup> Roberto Gache.

I said could be considered as an alternative to the Hawkins mission. I particularly requested the Foreign Office give no publicity to this matter.

Dr. Gache promised to bring the matter to the attention of the Ministry of Finance and appeared keenly interested in Mr. Pierson's projected visit.

TUCK

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835.51/1312 : Telegram

*The Acting Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, August 17, 1940—3 p. m.

186. Department's 180, August 12, 2 p. m., and your 342, August 13, 8 p. m. With respect to possible monetary and exchange arrangements, this matter was brought up informally at Habana by Irigoyen and there took place some discussion with members of the United States delegation in which Mr. Irigoyen was told informally that such matters fell within the province of the Treasury. The Treasury Department has since indicated that if Argentina wishes to take the initiative it is prepared to pursue discussions in Washington of possible monetary and exchange arrangements with any representative designated by the Argentine Government. This matter has been discussed informally with the Argentine Embassy in Washington, and the Argentine Ambassador has indicated that he was not a party to the discussions at Habana. The Embassy feels, therefore, that it would be preferable that any informal indication to the Argentine Government that the Treasury Department would be prepared to carry on such discussions be handled through our Embassy at Buenos Aires. You may suggest to the Foreign Office that if the Argentine Government is interested in possible monetary and exchange arrangements with the United States Treasury it designate some representative to carry on discussions in Washington.

WELLES

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835.51/1321 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 4, 1940—7 p. m.

[Received 8:56 p. m.]

391. For the Under Secretary. Embassy's 342, August 13, 8 p. m. and 352, August 20, 1 p. m.<sup>15</sup> This afternoon Dr. Federico [Pinedo], the Minister of Finance, asked me, with the knowledge and consent of

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<sup>15</sup> Latter not printed.

the Acting President and the Minister for Foreign Affairs, whether it would not be possible for the Treasury Department to attach one of its experts to Mr. Pierson's staff so that the proposed monetary and exchange arrangement could be effected as a part of the Pierson mission. Dr. Pinedo pointed out that there is a connection between a monetary and exchange arrangement and the matters which Mr. Pierson is to discuss and that it would be simpler to have the questions looked into at the same time and in the same place. He also pointed out that attaching a Treasury Department expert to Mr. Pierson's staff, ostensibly in connection with conversations relating to the business of the Export-Import Bank, would arouse no question or speculative comment and that it would therefore be practicable to avoid all newspaper publicity which might suggest a reopening of trade agreement negotiations.

Dr. Pinedo stated that while the British formerly were Argentine's chief concern, Argentine's new government is convinced that Argentine's best interests lie in cooperating closely and fully with the United States in all matters. If, therefore, it should not be feasible for the Treasury Department to send a competent official to Buenos Aires at this time, the Argentine Government will send a mission to the United States, provided that so doing would not affect Mr. Pierson's visit. He added, however, that since he is determined personally to take an active part in working out agreements with the United States and since it would appear to be quite reasonable to include in Mr. Pierson's mission the matter of effecting a monetary and exchange arrangement it would be appreciated if the Treasury Department would attach a competent official to Mr. Pierson's staff for that purpose.

I drew Dr. Pinedo's attention to certain of the considerations mentioned in the Department's No. 180 of August 12, 2 p. m. but told him that I would be glad to submit his views to the Department and inform him in the premises as soon as possible.

TUCK

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835.51/1321 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 8, 1940—2 p. m.

203. Your 391, September 4, 7 p. m. Your telegram arrived too shortly before the departure of Mr. Pierson to make any arrangements prior to his sailing. Mr. Pierson has sailed on the *Uruguay* arriving in Rio September 18, and he has planned to proceed on September 23 to Buenos Aires by air.



The Department and the Treasury Department are giving every consideration to the points raised by Dr. Pinedo, and the Department hopes by the first of the week to inform you regarding a satisfactory procedure for discussing monetary and exchange arrangements.

HULL

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835.51/1322a : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 20, 1940—4 p. m.

219. Department's 203, September 8, 2 p. m. The Department has discussed with the Treasury the possibility of sending to Buenos Aires an important Treasury official who would be capable of and authorized to discuss and conclude a monetary and exchange arrangement with the Argentine authorities. After giving careful and sympathetic consideration to all of the points raised by Dr. Pinedo, the Secretary of the Treasury believes that, considering all the circumstances, such a negotiation could more appropriately take place in Washington. Please discuss the situation with Dr. Pinedo and inform him that the Secretary of the Treasury would be glad to discuss in Washington the possibilities of such arrangements with him personally or with any representative whom he may choose to name.

HULL

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835.51/1323 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 20, 1940—5 p. m.

220. Department's 219, September 20 and your 422, September 19, noon.<sup>16</sup> The Department believes that the discussions with the Secretary of the Treasury may lead to monetary and exchange arrangements of great importance. As you know, any such arrangements would constitute a new departure for the Treasury, which hitherto has employed the Stabilization Fund in operations always completely collateraled by gold or silver bullion. The Department believes that the Treasury is now prepared to consider and discuss arrangements with the Argentine financial authorities which would under appropriate conditions make dollars available for the maintenance of stability in the peso-dollar exchange relationship.

It is also the Department's view that the Washington discussions would be of a basic long term monetary character and as such would not greatly conflict with the discussions of Mr. Pierson, which will

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<sup>16</sup> Latter not printed.

embrace short term commercial banking arrangements and the financing of long term development projects. Ambassador Armour has discussed the entire Argentine situation with the Secretary of the Treasury, who has indicated a willingness to discuss such basic relationships.

The Department does not expect that Dr. Pinedo will be in a position to come personally to Washington, and doubts the wisdom of such a prominent official coming to Washington during the next 2 months. The Department believes, however, that the Argentine representative who does come should be a person well qualified to carry on discussions and conclude any arrangements with the Treasury.

HULL

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835.51/1326 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 24, 1940—6 p. m.

[Received 6 : 15 p. m.]

437. Embassy's 433, September 23, 5 p. m. and 435, September 23, 7 p. m.<sup>17</sup> The Minister of Finance told me this afternoon that he intends to designate Dr. Raul Prebisch, General Manager of the Central Bank, Dr. Edgardo Grumbach, head of the Exchange Department of that bank, as his representatives to discuss and conclude monetary and exchange arrangements in Washington. He added that if Prebisch could not go, which seemed unlikely he would name instead Dr. Edmundo Gagneux, the number two official of the Central Bank.

The Minister stated that to preserve the secrecy of the mission he would take Prebisch and Grumbach with him to Rio de Janeiro in connection with the negotiations with Brazil and let them proceed direct from there to Washington. Dr. Pinedo expects to leave for Rio de Janeiro by airplane October 2 for a stay of 2 days.

TUCK

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835.51/1339 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, October 3, 1940—2 p. m.

231. After discussions yesterday with the Secretary of the Treasury, the Federal Loan Administrator has requested the Department to transmit the following message to Pierson :

"In as much as Dr. Prebisch and Dr. Grumbach are coming to Washington to confer with the Secretary of the Treasury, it seems advisable

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<sup>17</sup> Neither printed.

that any loans by the bank should be considered in connection with whatever discussions may be had with the Secretary of the Treasury. The directors of the bank agree that assistance should be given, but it would be more satisfactory to consider the entire matter with Dr. Prebisch and Dr. Grumbach in Washington."

HULL

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835.51/1342 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, October 5, 1940—5 p. m.

233. The Argentine Ambassador has been handed the following agenda prepared by the Treasury Department for discussions between the Secretary of the Treasury and representatives of the Argentine Government:

"1. Exploration of the possibilities of reacquisition by Argentina and United States of European investments in their respective countries.

2. Possibilities of bilateral arrangements to settle multilateral balances.

3. Cooperative measures designed to increase the exchange availabilities between both countries.

4. Possibilities of cooperation in management of the foreign funds control in the United States and in Argentina.

5. Prospects of closer monetary collaboration between the two countries."

HULL

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835.51/1358 : Telegram

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

BUENOS AIRES, November 7, 1940—7 p. m.

[Received 10:02 p. m.]

529. Embassy's telegram 522, November 6, 4 p. m.<sup>18</sup> According to the Minister of Finance the following statement would be released to the press this evening regarding Dr. Prebisch's mission:

"Dr. Prebisch is going to the United States for the purpose of conversing with officials of the Treasury Department, the Federal Reserve Bank and other American Banks regarding various monetary and banking matters."

ARMOUR

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<sup>18</sup> Not printed.

835.51/1360 : Telegram

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

BUENOS AIRES, November 12, 1940—7 p. m.

[Received 9:45 p. m.]

537. Embassy's 436, September 23, 8 p. m., and 453, September 27 [29], 1 p. m.<sup>19</sup> With reference to the fourth numbered paragraph of the latter,<sup>20</sup> it is hoped that the Department will realize that since these recommendations were [made] the situation has changed and the Embassy is now of the opinion that the amount of \$30,000,000 mentioned is too low. In other words it is presumed that the various departments of our Government, in considering the proposals Prebisch will lay before them, will not feel in any way restricted by the recommendations made some weeks ago and that consideration is being given to the granting of credits on a more substantial scale. This is important as it is believed that, judging from the reaction in Argentina to the reelection of the President and other factors as already reported, the present offers a unique opportunity for constructive action to bring about a more favorable orientation of Argentine attitude and policy. To this end, it would seem desirable to formulate as comprehensive a program of assistance as possible to be placed in effect under assurances from the Argentine Government that discrimination against American interests will cease. (See despatch 1328, October 2, 1940, particularly second enclosure.<sup>21</sup>)

Inasmuch as the essence from our point of view will be the undertaking referred to and since the discussion of such a matter would probably not fall within the province of Dr. Prebisch, the Department may wish to discuss the broader questions of policy with the Argentine Ambassador preparatory to the adoption of a definite plan. It is recommended, in this connection, that consideration be given to inviting Dr. Pinedo to come to Washington to conclude arrangements and give his Government's official approval to the results accomplished. It is recommended further that the program include ample credits, the purchase of commodities for war stock purposes, and if possible, the announcement of intention to negotiate a

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<sup>19</sup> Neither printed.

<sup>20</sup> This paragraph reads: "Mr. Pierson realizes the seriousness of the situation caused by the temporary loss of markets and is accordingly prepared to recommend immediately further credits in the amount of \$30,000,000 to be made available in convenient installments over a period of 12 to 18 months with interest at 4% per annum, and to be repaid within 6 years from the date of each advance, with amortization commencing within 2 years. As in the case of the \$20,000,000 loan already announced it is understood that the dollar exchange is to be made available exclusively to cover purchases in the United States within categories and amounts approved by the Export-Import bank". (835.51/1331)

<sup>21</sup> Not printed.

trade agreement. If the last is a possibility, it is strongly recommended that the Interdepartmental Committee review the basis proposed last year and that advantage be taken of Dr. Pinedo's presence in the United States to secure agreement to the general provisions prior to the announcement of intention to negotiate with a view to obviating any failure of the negotiations because of the factors enumerated in the enclosure to despatch No. 1462, October 28, 1940.<sup>22</sup>

ARMOUR

835.51/1387

*The President of the Export-Import Bank (Pierson) to the Under Secretary of State (Welles)*

WASHINGTON, December 5, 1940.

DEAR MR. WELLES: We have indicated to Dr. Prebisch and his associates that the Bank is willing to 'undo' the former \$20,000,000 short-term commitment—no part of which has been used—and approve a new arrangement under which up to \$5,000,000 will be loaned monthly for twelve months.

The terms contemplate interest at 3.6% per annum with amortization of 5% semiannually, commencing eighteen months from the date of each note and continuing to the 72nd month, at which time the balance (55%) will be due; provided, however, that if all earlier installments of principal and interest have been met in accordance with the above-mentioned schedule, upon request of the Banco de la Republica, the final payment may be satisfied by 5% in cash, and the balance in five semiannual installments of 10% each. The effect of the foregoing is to make available a credit of 8½ years.

The proposition as stated seems to be quite satisfactory to Dr. Prebisch.

Before leaving my office, however, he broached the question of obtaining an additional \$10,000,000 to be used to construct an oil pipe line from Mendoza to the seaboard. This project is seriously opposed by American oil interests and I said that before we acted upon such

<sup>22</sup> Not printed. The Consul General at Buenos Aires mentioned five factors contributing to failure of the trade agreement negotiations: (1) feeling of Central Bank specialists that Argentine markets could only be preserved by buying from countries that bought from Argentina; (2) their reluctance to give up their power with respect to exchange and trade; (3) effects of the outbreak of war, especially control by third countries over exchange, Government orders, shipping space, etc.; (4) lack of understanding of American character and conditions, as illustrated by their apparent assumption that the American proposition represented an extreme bargaining position, that requests for haste were attempts at pressure, and that the value of the tariff concessions was greatly exaggerated; and (5) genuine disappointment at the failure of the United States to improve its offer, especially as to imposition of customs quotas on two important products.

an application we should like to know that some mutually satisfactory agreement had been reached between the Argentine Government and the interested American companies. Unless this is done the effect will be to drive these companies out of business through loans made by the United States Government. He indicated that my proposal was a reasonable one.

Sincerely yours,

WARREN L. PIERSON

835.51/1373a : Telegram

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

WASHINGTON, December 7, 1940—4 p. m.

288. The Export-Import Bank has offered to cancel the 20 million dollar loan and grant instead a 3.6 percent 60 million dollar loan to be made available in 1941 at the rate of 5 million dollars a month. Amortization would begin 18 months from January 1, 1941 at the rate of 5 percent each 6 months up to the 72nd month when the balance would be paid in cash or optionally 3 million dollars thereof would be paid in cash and the rest at the rate of 10 percent each 6 months during the next 2½ years.

The Treasury has offered a stabilization fund operation whereunder it would buy pesos up to a total of 50 million dollars in 1941. It would pay 23 cents to the peso with the understanding that the Central Bank would buy the pesos back at the same rate. Ordinarily the Treasury would buy at the rate of 4 million dollars a month, but if desired would in any 1 month buy a greater quantity upon cable advice. Argentina's financial requirements would be re-examined in 9 months to determine whether the arrangement should be extended.

The questions of preliminary trade agreement conversations<sup>23</sup> and Government purchases of Argentina wool, hides and canned corned beef are being considered.

HULL

835.51/1387

*The Under Secretary of State (Welles) to the President of the Export-Import Bank (Pierson)*

WASHINGTON, December 11, 1940.

MY DEAR MR. PIERSON: Thank you for your letter of December 5, 1940 acquainting me with the progress of your discussions with the Argentine financial mission. I have been gratified by the reports

<sup>23</sup> Previous negotiations for a trade agreement with Argentina had been formally terminated on January 8, 1940. See *Foreign Relations*, 1939, vol. v, pp. 227 ff.

which have reached me concerning the rapid progress being made in this matter.

I have noted with special interest the suggestion of Dr. Prebisch that the Bank assist in the construction of an oil pipe line from Mendoza to the seaboard. It is the Department's view, with which I am sure you concur, that assistance in productive development projects constitutes the most effective form of economic cooperation between the United States and other American republics. I therefore wish to express the hope that, if the Argentine Government submits a proposal which gives reasonable consideration to the interests of the American oil companies, the Bank will seriously consider the matter.

Sincerely yours,

SUMNER WELLES

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835.51/1406 : Telegram

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

WASHINGTON, December 28, 1940—4 p. m.

306. Your 621, December 19, 11 a. m.<sup>24</sup> The Central Bank's 60 million dollar contract with the Export-Import Bank was signed December 23; its 50 million dollar contract with the Treasury December 27. Copies of the contracts are being forwarded to you by airmail. The Export-Import Bank contract provides that the credit will be utilized for the purpose of providing United States dollar exchange to meet Argentine commercial obligations incurred in the purchase and exportation to Argentina of products produced or manufactured substantially in their entirety in the United States or the territories thereof. The Treasury contract does not specify how the credit shall be used beyond that it shall be used in stabilizing the United States dollar Argentine peso exchange rate. No definite arrangement was effected regarding the application of non-discriminatory treatment, but it was understood that such treatment would be the rule.

Consideration is being given to the early issue of a joint statement by the two Governments indicating that behind the exchange arrangements is a broad program of economic cooperation. Further details will be telegraphed later.

HULL

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[For a joint statement concerning the Stabilization Agreement, issued in Washington on December 27, 1940, by the Secretary of the Treasury, the Argentine Ambassador, and the General Manager of the Central Bank of Argentina, see Department of State *Bulletin*, December 28, 1940, page 590.]

<sup>24</sup> Not printed.

NEGOTIATIONS FOR A PROPOSED CORN MARKETING AGREEMENT  
BETWEEN THE UNITED STATES AND ARGENTINA

641.1115/40 : Telegram

*The Ambassador in Argentina (Armour) to the Secretary of State*BUENOS AIRES, May 22, 1940—9 a. m.  
[Received 10:45 a. m.]

152. The following is a summary of a memorandum dated May 20 from the Foreign Office protesting against the sale of 20,000,000 bushels of corn under an American Government subsidy arrangement. Stating that the Argentine Government would not ordinarily have objected to a normal sale, exception is taken to the procedure followed in this case because of the alleged Government assistance to the exporter. The following excerpt is quoted in translation:

“The frequent advocacy of the United States Government of closer cooperation between the American countries has always found a sympathetic echo in Argentina whose Government, as Your Excellency is well aware, is convinced that the first step towards strengthened continental harmony should be the improvement of mutual economic relations, the elimination of artificial barriers to commerce, and the suppression of certain export practices which have been censured by international congresses.”

After pointing out that the sale of this quantity of corn, although of little importance to the United States, means much to Argentina confronted at present with the problem of disposing of an unusually large corn crop in the face of reduced markets and the lack of storage facilities, it expresses regret that the United States Government has found it necessary to resort to a measure which is not considered one conducive to good relations in the Americas. The memorandum concludes with an expression of hope that in the mutual interests of the two countries the United States Government will not continue a policy that harms so greatly Argentina's internal economy and purchasing power.

ARMOUR

641.1115/40 : Telegram

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

WASHINGTON, May 27, 1940.

79. Your cable no. 152 of May 22 has been called to the attention of the Department of Agriculture and Secretary Wallace is planning to send to the Department to be forwarded to you by air mail in the



very near future a comprehensive memorandum<sup>25</sup> on the entire corn situation and program in the United States and their relation to the recent sale of corn to the United Kingdom. In the meantime you may wish to point out to the appropriate Argentine authorities the following pertinent facts:

1. The corn sold to the United Kingdom was out of government-owned stocks. The total amount of corn now held by the Government amounts to 550,000,000 bushels of which 90,000,000 bushels are owned outright. The corn for the United Kingdom will come out of the 90,000,000 bushels.

2. This sale was made at a price higher than that at which Argentine corn was currently quoted.

3. The British Government offered to buy this corn at a price higher than Argentine corn could have been bought, presumably because of an urgent need of feed and because of the shipping situation.

The Argentine Government might also feel less critical of the operation if it appreciates that American export outlets for many of our farm products are very badly shattered by current events. This includes the export market for pork products in which form our corn export has previously largely taken place. In that sense our entry into the export market with corn is not new.

The Department is extremely desirous that at this time no unnecessary causes of friction or criticism arise between the two Governments and therefore has given much thought to the possibilities of avoiding trouble arising out of the fact that both of the countries are faced with such serious surplus problems in corn. Considering the Argentine Government's memorandum as cabled in your No. 152 and the observations in the same sense made by Ambassador Espil, the Department is of the opinion that every effort should be made to find a constructive solution. Events during the next few months may intensify the difficulty which faces both countries in this field or alternatively they might greatly lessen the difficulty. Prediction seems impossible. If it would interest the Argentine Government we are prepared to enter into discussions at once of a possible agreement between the two countries (covering a period of time to be discussed between the two Governments) for the coordination of marketing activity in this field. We should be prepared in the course of these discussions to consider all other suggestions that might be helpful to both countries. Please ascertain whether the Argentine Government is interested in this possibility and if so the method by which it thinks such discussions could be most effectively carried on.

HULL

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<sup>25</sup> A letter dated June 1, 1940, from the Secretary of Agriculture to the Ambassador in Argentina, was transmitted to the Ambassador with covering instruction No. 278, June 8, 1940; neither printed.

641.1115/41 : Telegram

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

BUENOS AIRES, May 28, 1940—6 p. m.

[Received 8 : 08 p. m.]

161. Department's *en clair* No. 79, May 27. The local press this morning announces that an arrangement has been made with Italy whereby that country will purchase 350,000 metric tons of Argentine corn to be shipped prior to the end of the year at prices governing at the times of shipment. It is reported further in the press that Italy has a debtor balance with Argentina of 100,000,000 lira and that with the arrangement now concluded the Argentine Government will grant necessary authorizations for the resumption of imports from Italy. Of potentially greater importance, it is announced that negotiations are proceeding with Great Britain for the exchange of 3,000,000 metric tons of corn for an equivalent value of coal from Cardiff.

The press states that the corn available from the last crop, after providing for internal needs, amounts to 7,941,606 metric tons.

I do not know whether the Department will feel that the above information changes the situation so far as the position outlined in telegram No. 79 is concerned. As a precautionary measure in bringing the contents of the Department's telegram under reference to the attention of the Foreign Minister, I shall confine myself to a recital of the facts surrounding our arrangements with the British Government and await further instructions before taking up the matter of a corn agreement between the United States and Argentina.

ARMOUR

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611.3531/1524 : Telegram

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

WASHINGTON, May 29, 1940—6 p. m.

81. Your May 28, 6 p. m. While the Department appreciates the reasons for your hesitancy it is believed advisable that you bring to the attention of the Argentine authorities the suggestion of discussions concerning the marketing of corn.

HULL

611.3531/1532

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

No. 731

BUENOS AIRES, June 4, 1940.  
[Received June 12.]

SIR: Referring to the Department's telegram no. 81 of May 29, 6 p. m., in regard to proposing to the Argentine Government discussions on the marketing of corn, and with reference also to previous telegrams concerning the protest of the Argentine Government against the sale of a quantity of United States corn to the United Kingdom, as well as to the Embassy's despatch no. 701 of May 21 last,<sup>26</sup> on the same subject, I have the honor to report that in a conversation with the Minister for Foreign Affairs on June 1, I advanced the suggestion mentioned in the Department's telegrams nos. 79, *en clair*, of May 27, and 81 of May 29, 6 p. m.

I enclose a copy, with Spanish translation, of an *aide-mémoire* which I left with the Foreign Minister during the course of the conversation, and also a copy, with Spanish translation, of a memorandum dated May 28, 1940,<sup>27</sup> which I left at the Foreign Office on the day last mentioned. The memorandum recites the pertinent facts surrounding the sale of corn in question as set forth in the Department's aforementioned telegram of May 27.

In a further conversation which I had with the Under Secretary of Foreign Affairs yesterday, Dr. Gache mentioned the corn matter and inquired where it was proposed to hold the discussions. When I replied that I had received no instructions in this regard, Dr. Gache mentioned the possibility of Washington and indicated that his Government might be amenable to having the discussions take place there. As I assumed that the Department would prefer to have the discussions in Washington, I took occasion to offer Dr. Gache encouragement in this suggestion.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

*The American Embassy to the Argentine Ministry for Foreign Affairs*

## AIDE-MÉMOIRE

Reference is made to the memorandum of the Ministry of Foreign Affairs and Worship, dated May 20, 1940<sup>28</sup> concerning the sale by the United States of 20 million bushels of corn to the United Kingdom,

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<sup>26</sup> Not printed.

<sup>27</sup> Latter not printed.

<sup>28</sup> See telegram No. 152, May 22, 9 a. m., from the Ambassador in Argentina, p. 484.

and also to the memorandum of the Embassy of the United States of America, dated May 28, in which there were recited certain pertinent facts surrounding the sale of the corn in question.

The Embassy now desires to state that the United States Government is prepared, if the Government of Argentina should be interested in this suggestion, to enter into discussions at once looking toward a possible agreement between the United States and Argentina for the coordination of marketing activity with respect to corn. The period of time to be covered in the agreement could be discussed between the two Governments. The United States Government would be disposed in the course of such discussions to consider any pertinent suggestions that might be helpful in the matter to both countries.

The Embassy would be pleased to be informed whether the Government of Argentina would be interested in this proposal and, if the reply should be in the affirmative, the Government of the United States would be glad to be advised of the method which the Government of Argentina believes would be most effective for the conducting of such discussions.

BUENOS AIRES, May 31, 1940.

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611.3531/1527 : Telegram

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

BUENOS AIRES, June 5, 1940—8 p. m.

[Received June 5—7:45 p. m.]

183. Embassy's 152, May 22, 9 a. m. A report to the following effect has been received by the local office of the Associated Press:

"The Department of Agriculture indicated it would ask the Tariff Commission to impose import barriers against Argentine corn. The Department said it was learned upwards of 5,000 bushels Argentine corn was contracted for delivery to Pacific Coast ports this month. This corn is subject to existing import duty of 25 cents a bushel. Officials explained that inasmuch as North American corn prices are considerably above world level, Argentine shippers apparently could pay the duty and still profit. The Tariff Commission has authority to impose import quotas on competitive farm products. Officials emphasized the United States has surplus corn and consequently has no need of importing it.["]

Realizing the harm that would be done to Argentine-American relations by such a news story, the local Associated Press office has cabled for full confirmation before releasing it. It would be appreciated if the Department would inform this mission by telegraph whether any such move as that outlined is contemplated.

ARMOUR

611.3531/1528 : Telegram

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

Buenos Aires, June 5, 1940—10 p. m.

[Received June 5—8 p. m.]

185. Referring to my 183, June 5, 8 p. m. In the light of the recent unfavorable reaction to our sale of Government corn to Great Britain (Embassy's 152, May 22, 9 a. m.) any further development such as an increase in duties on corn would have a most unfortunate effect here and would supply pro-totalitarian influence with a potent political weapon to use against us at this difficult juncture. The Department's constructive proposal with respect to corn discussions has been helpful and it is to be hoped, in the event that any restrictive measure is contemplated as reported, that the whole question may be held in abeyance until it can be considered with the facts brought out in the course of such discussions.

ARMOUR

611.3531/1524 : Telegram

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

Washington, June 6, 1940—4 p. m.

93. Department's telegram no. 81 of May 29, 6 p. m. Please telegraph any reaction so far expressed by Argentine officials to the proposal contained in Department's 79<sup>29</sup> regarding possible coordination of corn marketing activity.

HULL

611.3531/1527 : Telegram

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

Washington, June 6, 1940—7 p. m.

95. Your 183, June 5, 8 p. m., and 185, June 5, 10 p. m. Newspaper stories referred to in your 183 appeared this morning in the American press. The reported movement of such corn into the United States has led domestic producers to suggest various restrictive measures. However, the Department of Agriculture has made no recommendation to the Tariff Commission to impose import barriers against Argentine corn.

As explained in Department's 79, May 27, this country has a serious corn surplus situation. It therefore can not be expected that

<sup>29</sup> Dated May 27, p. 484.

substantial imports of Argentine corn could take place without arousing resistance. But if the subject should prove to require attention, it could be considered in connection with the proposed discussions between the two Governments for coordinated activity in the marketing of corn.

HULL

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611.3531/1529 : Telegram

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

BUENOS AIRES, June 7, 1940—5 p. m.

[Received 5:15 p. m.]

192. Department's No. 93, June 6, 4 p. m. As reported in my despatch 731 of June 4, I proposed the corn marketing discussion to the Foreign Minister<sup>30</sup> on June 1. He appeared interested and promised to give me a reply shortly which, however, has not been received to date. On June 3, the Under Secretary of Foreign Affairs also expressed interest and inquired where it was proposed to hold the discussions, implying that his Government might be disposed to have them in Washington. I shall telegraph further developments.

ARMOUR

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611.3531/1546 : Telegram

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

BUENOS AIRES, June 29, 1940—7 p. m.

[Received June 30—9:15 a. m.]

261. No. 192, June 7, 5 p. m., regarding corn marketing discussions. A memorandum received from the Foreign Office last night states:

“(1) The Argentine Government accepts the proposal that there be held in this capital immediate conversations for coordinating the action of Argentina and of the United States regarding all that pertains to the marketing in the best way possible of exportable surpluses of corn. (2) The Argentine Government in acceding to the holding of these conversations does so with the understanding that both Governments will avoid adopting any measure which may alter the normal development of commerce and especially that Argentine corn may maintain its position in the world market, which has been won under a regime of free competition and without the intervention of the extraneous factors which today are artificially modifying its quotations. (3) It is well known that the Argentine economy is based fundamentally on the possibility of marketing abroad the exportable surpluses of its agricultural—livestock industries. If

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<sup>30</sup> José María Cantilo.

the United States applies all the weight of its undeniable financial capacity to dislodge Argentine agriculture from markets which traditionally belong to it, a critical situation will be created for the country. The most recent operation of the sale of corn to the United Kingdom, which reached a volume of 20 million bushels, was executed at a price of 12 pesos 40 centavos per quintal C. I. F. under that of Plata corn. It should be borne in mind that the difference of price could only be reduced in a small degree (Spanish: *reducir [?] a una cantidad poco importante*) by virtue of the subsidies granted by the Government of the United States. (4) The Argentine Government considers that the success of the conversations to be held will signify a valuable accomplishment in the efforts which the United States of America has declared that it is disposed to apply toward constructing a more liberal international economic system capable of assuring for all countries an equality of opportunity in the markets of the world."

Yesterday afternoon I handed the Under Secretary for Foreign Affairs a memorandum incorporating the substance of the enclosure to the Department's instruction No. 278 of June 8.<sup>31</sup>

ARMOUR

611.3531/1582

*Memorandum by the Chief of the Division of Commercial Treaties and Agreements (Hawkins) to the Assistant Secretary of State (Grady)*

[WASHINGTON,] August 5, 1940.

MR. GRADY: Steps should be taken as soon as possible to meet the problem presented by our own and Argentina's surplus corn. Prior to the Habana Conference, officers of this Division, in collaboration with Mr. Wheeler and other officers of the Department of Agriculture, formulated proposals for dealing with this situation. These proposals took the form of a carefully prepared draft agreement which might be concluded between this Government and the Government of Argentina. It was decided, however, to hold the matter in abeyance until after the Habana Conference in order to see what action the Conference might take which would have a bearing on it.

The Habana Conference in its resolution on economic and financial cooperation instructed the Inter-American Financial and Economic Advisory Committee:<sup>32</sup>

"3 (c) To create instruments of inter-American cooperation for the temporary storing, financing and handling of any such [exportable surplus]<sup>33</sup> commodities and for their orderly and systematic mar-

<sup>31</sup> Not printed.

<sup>32</sup> *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941), p. 82.

<sup>33</sup> Brackets appear in the original memorandum.

keting, having in mind the normal conditions of production and distribution thereof;

“3 (d) To develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned;”

The same resolution in part 2 provided that “For the purpose of dealing with special problems there may be organized subcommittees, composed of representatives of the interested countries, which would meet at such places as may be deemed most appropriate for their effective functioning.”

Since the proposed corn arrangement seems clearly to come within these terms of reference of the Inter-American Committee, it appears that the Committee is now the proper medium for promoting this arrangement. If this is correct, it is suggested that the matter be brought up in the Committee in the appropriate manner at the earliest possible moment since the time available is limited by the fact that our own corn crop will be coming on the market about October first.

It would seem appropriate that a subcommittee be set up consisting of Argentine and United States representatives, since these are the only two countries in the hemisphere which have a corn surplus problem. Our representation on the subcommittee should include Mr. Wheeler or Mr. Evans of the Department of Agriculture, both of whom have participated in formulating the draft agreement and are, therefore, thoroughly familiar with the problem and seem satisfied that this is the most feasible method of dealing with it.

HARRY C. HAWKINS

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611.3531/1546 : Telegram

*The Acting Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, August 16, 1940—5 p. m.

184. Department's 79, May 27. Your 261, June 29, 7 p. m.

1. You are requested to ascertain whether the Argentine Government would be disposed to undertake the negotiation of a corn agreement between the United States and Argentina along the following lines:

(a) An Advisory Commission would be established consisting of representatives appointed by each Government, which would perform the functions specified hereunder as well as give consideration to any general problems arising in connection with the operation of the Agreement, and make recommendations relative thereto;

(b) During the 2-year period beginning October 1, 1940 total exports of corn from Argentina and the United States, as provided for in the following sentence, would be allotted between the two countries in a ratio to be incorporated in the Agreement. The aforementioned



Advisory Commission would periodically appraise and estimate the world import demand for United States and Argentine corn during the term of the Agreement, and the quantity of corn thus estimated by the Commission would constitute the maximum quantity of corn which could be exported from the two countries;

(c) No sales of corn for export during the period of the Agreement would be permitted by the Government of either country below a price to be specified in the Agreement except as might be agreed upon by the two Governments upon the recommendation of the Advisory Commission. All sales for export in either country and the terms of sale would be reported immediately to the Advisory Commission;

(d) The two Governments would agree that it is desirable that no action be taken during the period of the Agreement which would encourage further expansion in production of corn in their respective territories. Accordingly, the Government of the United States, on its part, would agree to continue a crop-control program for corn. The Argentine Government, on its part, would agree to take steps looking toward the establishment of a production or marketing control program for corn at the earliest practicable date; and would agree, further, until such a control program were established, not to fix a minimum domestic price for corn in excess of a figure to be specified in the agreement;

(e) Each Government would agree to take whatever steps it might find practical to increase the utilization of corn. The Advisory Commission would devote special attention to this problem and would report its findings and make recommendations relative thereto to the respective Governments. Each Government would agree to make available to the other such results as it might obtain from research investigation with respect to corn utilization.

2. Presumably the Agreement, if concluded, would be made effective on our part through enabling legislation.

3. Espil has been informed that the Department of Agriculture has received inquiries looking toward the sale to the British Government of additional quantities of corn, now held by the Commodity Credit Corporation. For your information and such use as you may deem appropriate, these inquiries are not being followed up for the time being pending exploratory discussions as to the possibility of concluding an agreement along the foregoing lines; also, the Department of Agriculture feels that inasmuch as Argentine corn is being currently offered for sale and sold in United States ports at prices under the current United States market, and in view of the large domestic supplies of corn, failure to conclude in the near future a satisfactory agreement covering the marketing for export of United States and Argentine corn would make it extremely difficult to avoid action under Section 22 of the Agricultural Adjustment Act of 1933, as amended,<sup>34</sup> looking to the possible imposition, by proclamation of

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<sup>34</sup> 49 Stat. 773.

the President, of quantitative limitations or fees on the importation of corn.

4. If the Argentine Government should be disposed to undertake negotiations along these lines, we would forward the text of a draft agreement with a view to your conducting the negotiations there with the help of Nyhus.<sup>35</sup>

WELLES

611.3531/1577 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, August 28, 1940—7 p. m.

[Received August 28—5 : 55 p. m.]

379. The general lines of the proposed corn agreement embodied in the Department's 184, August 16, 5 p. m., were communicated to the Argentine Government in a note which I handed to the Under Secretary on August 21. According to Louro<sup>36</sup> and Torriani<sup>37</sup> the question was considered by the Inter-Ministerial Committee yesterday but no decision was reached in view of the Cabinet crisis and nothing can be done until the new Cabinet Ministers shall have taken office.

Louro has since been informally and discreetly advised of the possibility of the imposition of quantitative limitations or fees [*sic*] on the importation of corn and he has indicated that he will explain to his colleagues in the Inter-Ministerial Committee the need for speedy action.

TUCK

611.3531/1581 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 11, 1940—8 p. m.

[Received September 11—7 : 17 p. m.]

402. Embassy's 379, August 28, 7 p. m. and 399, September 10, noon.<sup>38</sup> This afternoon Dr. Federico Pinedo, the Minister of Finance, informally advised a member of the Embassy's staff that he will be pleased to negotiate a corn agreement along the lines of the Department's 184, August 16, 5 p. m. and will so officially advise the Foreign Minister this evening. He added, however, that the Argentine Government will require assistance in disposing of its corn surplus since

<sup>35</sup> Paul O. Nyhus, Agricultural Attaché in Argentina.

<sup>36</sup> Alfredo Louro, head of the Argentine Exchange Control Office.

<sup>37</sup> Carlos L. Torriani, Director of the Division of Economics and Consular Affairs, Argentine Ministry of Foreign Affairs.

<sup>38</sup> Latter not printed.

under existing conditions it appears that the Argentine Government will have to sell the bulk of this surplus for fuel taking a loss of between 225 and 250 pesos per quintal.

Dr. Pinedo believes that a great part of the corn surplus problem would be solved if a suitable distillation plant could be set up locally for the manufacture of alcohol from corn. Such a plant, he thinks, would cost about 60,000,000 pesos. Therefore one of the questions which the Argentine Government will have to raise during the course of the negotiations for a corn agreement, is whether the United States Government will make Argentina a suitable loan and/or facilitate the installation of machinery and other equipment in the distillery through the extension of export and import bank credits.

TUCK

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611.3531/1585 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 12, 1940—4 p. m.

[Received 4: 12 p. m.]

405. Embassy's telegram No. 402, September 12 [11], 8 p. m. In a strictly confidential note dated September 12, the Minister for Foreign Affairs<sup>39</sup> advises that the Argentine Government is agreeable to having the proposed negotiations for a corn marketing agreement initiated here immediately.

TUCK

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611.3531/1585 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 19, 1940—1 p. m.

216. Department's 184, August 16, 1940, 5 p. m. Your nos. 402, September 11, 8 p. m., and 405, September 12, 4 p. m.

1. You should, unless you perceive objection, make the following proposals to the appropriate Argentine officials<sup>40</sup> with reference to the indicated paragraphs of the Department's no. 184 under reference:

Paragraph 1 (b). Total exports of corn from Argentina and the United States would be allotted between the two countries in a ratio of 80 percent for Argentina and 20 percent for the United States.

The Department of Agriculture feels that this ratio is a fair and reasonable allocation of the trade (1) on the basis of exports over a

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<sup>39</sup> Julio A. Roca became Minister for Foreign Affairs on September 3, 1940.

<sup>40</sup> The Chargé in Argentina enclosed in despatch No. 1292, September 24 (not printed), a copy of a memorandum, based on this telegram, handed to the Foreign Office member of the Argentine Inter-Ministerial Committee on September 20.

recent or a long period of time which eliminates the effect of abnormal drought years; and (2) since 20 percent is less than one-half the usual United States share of the total export trade in corn of the two countries when the corn equivalent of livestock and livestock products exported from each country is included. You might state that in view of the large stocks of corn now held by the Commodity Credit Corporation and its existing export program with respect to corn, the Department of Agriculture feels that it would be in a position to obtain at least 20 percent of the export trade in corn of the two countries.

Paragraph 1 (c). A minimum price of 80 cents a bushel of 56 pounds basis c. i. f. Liverpool or the equivalent thereof would be specified in the Agreement. This price would be subject to subsequent modification by agreement of the two governments upon the recommendation of the Advisory Commission. In lieu of a minimum c. i. f. Liverpool price we would be agreeable to exploring the possibility of establishing a minimum f. o. b. export price at Buenos Aires and its equivalent for exports from the United States.

Paragraph 1 (d). We are prepared to accept in the agreement the minimum domestic price for Argentine corn of 4.75 pesos per 100 kilos now in effect.

2. The construction of a plant to distill alcohol from corn is interesting and we would like to have the proposal explored thoroughly. Please transmit by air mail a report giving an estimate of the amount of corn which might be so utilized and all other information on this proposal which you may be able to obtain from the Argentine Government together with your comments regarding the feasibility of such a project. With reference to the request for credits, it is suggested that you discuss this matter with Mr. Pierson upon his arrival in Buenos Aires.

3. The text of a draft corn agreement embodying these proposals will be transmitted to you as soon as possible.

4. If Congress adjourns in the near future, as now seems likely, it will of course not be possible to obtain specific enabling legislation to implement on our part any agreement which may be concluded. Further consideration is being given to means of making an agreement effective under existing legislation and you will be advised further in this connection at a later date.

HULL

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611.3531/1589 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 20, 1940—1 p. m.  
[Received September 20—11: 56 a. m.]

428. Department's 216, September 19, 1 p. m. We presume that the preliminary conversations are to be considered as strictly confidential and will so inform the Foreign Office.

If at a later date, possibly when the text of the corn agreement is received here, the Department should wish to give publicity to the negotiations, it is urged that the Embassy be advised in advance.

TUCK

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611.3531/1591 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 20, 1940—6 p. m.

[Received September 20—5: 25 p. m.]

430. Department's 216, September 19, 1 p. m. United Kingdom purchases in this market are almost entirely f. o. b. Buenos Aires with loading directions supplied by a local representative of the British Government Shipping Control. There are no dependable open shipping rates from Buenos Aires to the United Kingdom at this time. It is therefore our opinion that an f. o. b. price Buenos Aires will have to be used as a minimum export price, and it is recommended that immediate consideration be given to suggest a minimum f. o. b. export price Buenos Aires as well as its equivalent for export from the United States.

TUCK

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611.3531/1593

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

No. 540

WASHINGTON, December 19, 1940.

SIR: Reference is made to your telegram no. 482 of October 11, 1940<sup>41</sup> and to the Department's telegrams nos. 184 and 216 of August 16 and September 19, 1940, respectively, regarding the proposed corn agreement between the United States and Argentina.

There is enclosed herewith the text of a draft corn agreement between the United States and Argentina which you are requested, unless you perceive objection, to submit to the appropriate Argentine officials. In doing so, it should be mentioned that this Government of course reserves the right to propose changes with respect to any portion of the draft agreement during the course of the negotiations.

This text has been prepared in collaboration with, and has been approved by, the Department of Agriculture.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

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<sup>41</sup> Not printed.

[Enclosure]

*Draft International Corn Agreement*

The Government of the United States of America and the Government of the Argentine Republic, in a mutual desire to promote the orderly marketing in international trade of corn and to bring about a level of prices for corn which will be fair to producers and consumers by adjusting the supply of corn to an effective world demand, and by eliminating abnormal surpluses which are depressing the corn market, have agreed as follows:

## ARTICLE I

For the purposes of the present Agreement—

- (1) "Corn" means corn or maize, including cracked corn.
- (2) "Bushel" means 56 pounds avoirdupois.
- (3) "Quota year" means the period from October 1 to September 30, inclusive.

(4) "Exports" means shipments to foreign countries from the territories to which the present Agreement applies, as provided for in Article VII hereof. Such shipments shall be measured by the official statistics of each country.

(5) "World import demand for corn produced in the United States and Argentina" means the effective demand for corn, at not less than the price provided for under the terms of this Agreement, of all areas of the world except that of the country in which the corn is produced.

## ARTICLE II

Upon the coming into force of this Agreement, there shall be established an Advisory Commission which shall consist of a representative or representatives appointed by each of the two Governments.

The Commission shall perform the functions specified in Articles III, IV, and VI of this Agreement and shall also give consideration to any problems arising in connection with the operation of the Agreement and shall make recommendations with respect thereto to the Governments of the two countries.

The Commission shall establish and maintain a Secretariat to assist it in the performance of its functions.

## ARTICLE III

The Advisory Commission provided for in Article II of this agreement shall estimate for each quota year the world import demand for corn produced in the United States and Argentina; such estimates shall be made during the month of September in each year for the succeeding quota year. The Commission shall from time to time

during each quota year review the world import demand for corn produced in the United States and Argentina, and if considered necessary in the light of changing world market conditions, modify its original estimate of such world import demand for that quota year.

The quantity of corn thus originally or subsequently estimated by the Commission shall constitute the maximum permitted exports of corn from the two countries during each quota year. Such maximum permitted exports of corn shall be allotted between the two countries in the ratio of 80 percent for Argentina and 20 percent for the United States. However, in any quota year, the exports of corn from each country may exceed its quota by not more than 5 percent, but if such quota is exceeded by either country in any quota year, such excess shall be deducted from its quota for the succeeding quota year. Moreover, if in any quota year either country is unable to export its quota of corn as provided for in this Article, it may, upon the recommendation of the Advisory Commission, transfer the deficiency to the other country in return for such adjustment in its share of the total export quota of the two countries for the succeeding quota year as may be agreed upon by the two Governments.

#### ARTICLE IV

No export transaction involving corn will be permitted by the Government of either country below a cash price of 80 cents (United States currency) per bushel for United States No. 3 Yellow (15 percent moisture maximum) or Yellow Plate F. A. Q., basis c. i. f. Liverpool, or the equivalents thereof, except as may be agreed upon by the two Governments upon the recommendation of the Advisory Commission.

All sales for export made in either country shall be reported immediately to the Secretariat of the Advisory Commission. Such reports shall include documentary evidence of the quantity and grade of corn sold, the price per unit, and the other terms of sale.

#### ARTICLE V

The two Governments agree that it is desirable that no action shall be taken during the period of the Agreement which would encourage further expansion in acreage or production of corn in their respective territories.

Taking into consideration that the Government of the United States of America now has in operation a crop-control program for corn, the Government of the Argentine Republic agrees to take steps looking toward the establishment at the earliest possible date, of an effective production or marketing control program for corn; and it agrees further that, until such a control program shall have been estab-

lished, it will not fix a minimum domestic price for shelled corn, basis c. i. f. Buenos Aires, in excess of 4.75 pesos per 100 kilograms, or its equivalent. It is understood that the obligations of the Government of the Argentine Republic under this paragraph shall continue so long as the Government of the United States of America maintains in effect a crop-control program substantially equivalent to that now in operation.

#### ARTICLE VI

Each Government agrees to take whatever steps it may find practicable and desirable to increase the utilization of corn.

The Advisory Commission shall devote special attention to the problem of increasing the utilization of corn, including the possibility of diverting corn from ordinary channels of trade, and shall report its findings and make recommendations to the respective Governments.

Each Government agrees to make available to the other Government such results as it may obtain from research investigations with respect to corn utilization.

#### ARTICLE VII

The present Agreement shall apply to all the territories and possessions of each country except the Philippine Islands.

#### ARTICLE VIII

The present Agreement shall come into force on a date to be agreed upon between the two Governments and, subject to termination on September 30, 1941 or September 30, 1942 upon at least three months' notice by the Government of either country, it shall remain in force until October 1, 1943.

In witness whereof the undersigned, duly authorized thereto, have signed the present Agreement and have affixed thereto their seals.

Done in duplicate, in the English and Spanish languages, both authentic, at the City of . . . . . this . . day of . . . . . 1940.

[SEAL] . . . . .  
[SEAL] . . . . .

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611.3531/1610: Telegram

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

BUENOS AIRES, December 23, 1940—6 p. m.

[Received December 24—8:50 p. m.]

629. The Agricultural Attaché conferred on December 21 with Schiopetto, Director, Bureau Commerce and Industry, Argentine



Ministry of Agriculture. With reference to the proposals transmitted to the Foreign Office on September 20 the latter stated that while Argentina wished to collaborate with the United States, Argentina, nevertheless, had a corn marketing "quota" in the English market and that the agreement might mean merely a sharing of this quota with the United States. It was explained that a sharing of the entire English market was involved but not an Argentine quota or outlet in that market. During the conversation it became evident that England is free to buy where it wishes and the use of the term quota implying an assured outlet is not justified. Schiopetto observed also that lard and pork were meat products and could hardly be construed as corn in computing relative positions and percentages of the United States and Argentina as corn exporters.

There follows a discussion of the workability of the proposed agreement since shipping considerations and allocation by the British shipping control of freight space seems to be the determining factor as to the amount and source of corn imports. In the absence of shipping parity f. o. b. prices in New York and Buenos Aires would probably have to be substituted for a c. i. f. Liverpool price.

As evidenced by the delay in replying to Embassy's notes and by the conversation with Schiopetto the Argentine Government seems indifferent to the agreement but apparently does not wish to appear non-cooperative. Schiopetto has apparently given our proposal very little serious thought and promised to think it over in order to discuss the matter at a later date.

*La Nación* today has a despatch from London quoting the President of Manbre and Garton, sugar refiners, as stating that there is a supply of 5,000,000 tons of corn in South America which Great Britain needs but the import of which is rendered difficult by the scarcity of shipping space, and he complains that in recent months space has been filled by products less essential to Great Britain than corn.

ARMOUR

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611.3531/1625

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

No. 1879

BUENOS AIRES, January 28, 1941.

[Received February 6.]

SIR: I have the honor to enclose a copy of a memorandum of a conversation between Dr. Ovidio Schiopetto of the Argentine Ministry of Agriculture and the Agricultural Attaché of the Embassy, relating to the proposed corn marketing agreement between Argentina and the United States.

The proposals of the American Government relating to a corn marketing agreement were transmitted to the Foreign Office on September 20, 1940, but to date the Embassy has not received a written reply indicating the attitude of the Argentine Government towards these specific proposals. At no time has the Argentine Government taken the initiative in indicating a desire to discuss the suggested provisions of an agreement and the two conferences held with Dr. Schiopetto relating to the proposed agreement were sought by the Agricultural Attaché.

It will be recalled that on September 12, 1940, when the Argentine Government accepted the proposal of the United States to negotiate a corn marketing agreement, the acceptance was closely related to, if not motivated by, the desire of the Argentine Government to secure financial aid for the construction of a distillery which could utilize a portion of the Argentine corn surplus. The distillery project was apparently abandoned after a preliminary study and as indicated above the Argentine Government has evidenced no interest in the corn agreement since that time.

There are, undoubtedly, many abnormal marketing conditions at the present time which would make the operation of a corn marketing agreement extremely difficult but of more significance is the apparent indifference and lack of interest of the Argentine Government in the proposal. It will be noted that Dr. Schiopetto has expressed a personal opinion in favor of suspending the efforts, for the time being, to conclude an agreement. Under the circumstances, there seems to be little prospect of reaching an agreement and unless the Department perceives objections, I feel that efforts to conclude an agreement might be suspended for the time being.

Respectfully yours,

NORMAN ARMOUR

[Enclosure]

*Memorandum by the Agricultural Attaché in Argentina (Nyhus)*

[BUENOS AIRES, January 23, 1941.]

It will be recalled that upon leaving Dr. Schiopetto at the time of my last conversation with him on December 21, he stated that he would consider the matter of the proposed corn marketing agreement carefully and after a week or ten days we could discuss the matter again. Upon calling him about ten days ago, he stated that he was about to leave on an extended trip with the Minister of Agriculture and stated that he would get in touch with me upon his return. He returned on Sunday and in view of his leaving again for Uruguay

on Sunday, I gave him a ring yesterday in order to confer with him before his departure for Montevideo.

I asked him if he had had time to consider further the proposed corn marketing agreement and he said that he had but with little success. He again raised the question: "What is the world market today?" and I replied that it was essentially the United Kingdom market. He stated that in his opinion it would be difficult to justify and to defend publicly an agreement which divided with another country a market which Argentina already had and which would represent, accordingly, a reduction in the market outlet for Argentine corn. It will be recalled that he raised this same argument in my last conversation with him.

I made it clear that this was an erroneous interpretation of the proposal, that at the present time, due to the greater availability of ships on the North Atlantic and the shorter ocean haul between New York and Liverpool, the United States was in a better position to supply the English market than Argentina, whose grain exports are being restricted sharply by the lack of freight boats.

I stated that in my opinion, the proposal would probably try and secure for Argentina larger corn exports than present shipping conditions will bring about. I maintained that far from being injurious to Argentina, it was intended, and it could prove to be, distinctly advantageous, that the purpose and intention of the proposal could hardly be criticised but its workability under present conditions might be subject to some doubt. I explained that the proposal for a corn marketing agreement was suggested by the American Government as a result of criticism of sales of subsidized American corn to the United Kingdom and that the proposal was made to demonstrate that the United States did not intend to pursue a policy of intense price competition and of acquiring an undue portion of the United Kingdom market.

I think that he accepted my explanation in these respects and stated that for the agreement to accomplish its purpose, it seemed to him that it would be necessary to include England in a three-cornered agreement so as to insure Argentina of that portion of the English market that would be mutually agreed upon between the American and Argentine Governments. He expressed doubt, however, of the willingness of England to enter into an agreement of this character and that national survival might make it essential for her to buy supplies of corn in the United States.

He continued by stating that as he looked at the matter personally, emphasizing that it was from a personal standpoint, he could not see how under present conditions an agreement of the character proposed could be operated. I suggested that in order to provide a reply

to our note of September 20, he transmit his points of view through the Foreign Office. He then emphasized that these were his personal opinions and that although he was prepared to advise the Ministry of Agriculture in accordance with the views expressed, nevertheless his opinions could hardly be considered official until they had passed through the usual Government channels. He suggested that the Embassy prepare a report describing the present status of the matter (*ambiente*) to the American Government, implying thereby that our reply on the basis of this conversation would satisfy the American Government and added, rather incidentally, that the question might be raised in the report if the American Government had other suggestions of a less rigid character than a marketing agreement whereby Argentina would undertake not to "make a present" of her corn, thereby refraining from engaging in ruinous competition, and in return the United States Government would undertake not to take over too much of the world corn market under present conditions. He implied that possibly conversations along these latter lines might be productive, but he did not amplify or urge the above suggestion. I felt that the latter suggestion was inspired by a desire to dispose of the proposal as courteously as possible.

To a previous question if anyone but himself was giving the proposed agreement any study, he replied in the negative and since in neither of our two conversations had there been any evidence, in my opinion, of a serious acceptance or even thorough study of the proposal, I inquired if he thought personally that it would be best under the circumstances to drop the matter. He replied quite promptly: "Yes, I think so." My reaction was that he seemed to welcome this means of disposing of the matter instead of having to prepare an official reply through the Foreign Office designed to accomplish, ultimately, the same result. I suggested that possibly when the war was over, the agreement would be more acceptable to the Argentine Government and he replied that the agreement might be acceptable prior to the termination of the war if shipping facilities improved.

PAUL O. NYHUS

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**AGREEMENT BETWEEN THE UNITED STATES AND ARGENTINA  
PROVIDING FOR MILITARY AVIATION INSTRUCTORS, SIGNED  
JUNE 29, 1940**

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 175, or 54 Stat. (pt. 2) 2320.]

ASSURANCES TO THE ARGENTINE GOVERNMENT THAT THE UNITED STATES DID NOT CONTEMPLATE ESTABLISHING A NAVAL BASE IN THE FALKLAND ISLANDS

811.34544/97

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

[WASHINGTON,] September 4, 1940.

The Argentine Ambassador <sup>42</sup> came in today to exchange views on the state of affairs generally.

He seemed to think that the British-American agreement regarding naval bases would be well received.<sup>43</sup>

In this connection he noted that one newspaper, the *Washington Herald*, had editorially wondered why we did not include a base in the Falkland Islands; and feared that that might lead to some repercussion in the Argentine press.

I said at once that we had recognized throughout the peculiar relationship of the Argentine Government to the Falkland Islands, and that to me it seemed preposterous that under existing circumstances we should endeavor to acquire a base there except after full discussion with Argentina. However, the question was purely hypothetical; the Falkland Islands, so far as I was aware, had not entered into the discussion at any time.

The Ambassador said he had not the slightest idea of that kind anyway, but merely asked the question in the event that some Argentine journalist should pick up the statement and try to make something of it.

At his request I gave him copies of the Hull-Lothian correspondence which had been released the day before.

The Argentine Ambassador observed that a new cabinet had at length been formed in Buenos Aires. I took the occasion to congratulate him on the successful outcome of his country from a political situation which at one time seemed difficult.

He said that Roca <sup>44</sup> was very pro-British in his outlook; that he had a great reputation in the Argentine Congress; that his hobby was translating Shelley into Spanish; and that he was a great student and lover of English literature. He likewise said that the Secretary of the Navy <sup>45</sup> was a convinced Argentine nationalist, and that he thought that his activities would be to reduce to some extent certain pro-German tendencies in the Navy.

A. A. BERLE, JR.

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<sup>42</sup> Felipe A. Espil.

<sup>43</sup> See vol. III, pp. 49 ff.

<sup>44</sup> Julio A. Roca, Argentine Minister for Foreign Affairs.

<sup>45</sup> Rear Adm. Mario Fincati.

811.34544/98

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

[WASHINGTON,] September 11, 1940.

The Argentine Ambassador came in this morning at his request.

He referred to a previous conversation he had had with me, in which he had noted an editorial in the *Washington Herald* suggesting that this Government should have acquired a naval base in the Falkland Islands at the same time that it acquired bases from Great Britain in the other islands. At that time I had merely laughed the idea aside, but Dr. Espil had mentioned the fact that if this were generally known there might be repercussions in the Argentine.

Today he showed me a cablegram he had received from his Government saying that they had picked up a rumor which of course they did not believe indicating that this Government conceivably might acquire a naval base from Great Britain in the Falkland Islands. The cablegram was merely for his information. The Ambassador thought that it would be useful if we could stop the rumor now by enabling him to cable some assurance that we would not acquire a naval base in the Falkland Islands, certainly not without previous consultation with the Argentine Government.

I said that so far as I knew, the idea of a naval base in the Falkland Islands had never been discussed or considered here. Certainly, I said, I could not conceive of our taking such a move without discussing the matter with the Argentine Government, since we had always recognized the special situation existing in those islands, and were cognizant of the Argentine claim to them. I said I would take up with the Department the question of an assurance as to the future, though it must be recognized that the world situation and the naval situation in the Atlantic might change with extreme speed.

Dr. Espil said that they as well as we recognized that the Falkland Islands, commanding as they did the entrance to the Straits of Magellan, might be of extreme importance. What he really wanted was something which would enable his government to say, if the newspapers began to make anything out of the matter, that nothing unilateral would be done in the Falklands, but would be done after consultation with the Argentine Government. Possibly this might be done by a question addressed to the Secretary in his press conference, provoking the appropriate answer. I agreed that I would discuss this and let him know.

A. A. BERLE, JR.

811.34544/97

*The Secretary of State to the Chargé in Argentina (Tuck)*

No. 392

WASHINGTON, September 18, 1940.

SIR: There is enclosed for your information and for the files of the Embassy, a copy of a memorandum of September 11, 1940<sup>46</sup> of a conversation with the Argentine Ambassador regarding rumors that the United States might acquire a naval base in the Falkland Islands from Great Britain.

There is quoted below, with reference to this same matter, a transcription of the pertinent portion of the Secretary's remarks at his press conference on September 13:

Q. "Mr. Secretary, can you tell us anything about the visit of Lord Lothian today?"

A. "There is nothing, I think. He had a very small matter to talk about and I don't think it is really important enough to go into it.

Q. "In that connection, there is a report from Rome quoting semi-official reports that negotiations are in progress for new bases, that is additional bases, with particular reference to the Falkland Islands off Argentina. Is there anything to that?"

A. "That reminds all of us, I think, that there is pure unadulterated propaganda which states facts—that some kinds of propaganda are based on half truths when they are worse than no truth at all. Other kinds of propaganda such as this are utterly without any vestige of truth as a basis."

Very truly yours,

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

811.34544/110

*The Chargé in Argentina (Tuck) to the Secretary of State*

No. 1277

BUENOS AIRES, September 18, 1940.

[Received September 24.]

SIR: I have the honor, with reference to despatches no. 1196 of September 5, and no. 1221 of September 10, 1940<sup>47</sup> regarding the acquisition by the United States of the right to lease certain naval and air bases, to report that the timely statements given out to the press in Washington emphasizing that the facilities of the new bases will be made available to all the American republics appeared in all the leading newspapers and unquestionably had a good effect, as did also the prompt and vigorous denial by Secretary Hull of the propaganda story emanating from Rome to the effect that the United States would

<sup>46</sup> *Supra.*<sup>47</sup> Neither printed.

seek permission to establish a base in the Falkland (Malvinas) Islands.

It is believed that the statements referred to have gone far to prevent the successful exploitation in Argentina of ingenious propaganda designed to interpret the acquisition of bases as another step in American imperial designs toward the Latin countries. The subsidized pro-totalitarian propaganda sheets continue their accusations, but there is little if any response in the independent press.

Respectfully yours,

S. PINKNEY TUCK

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**INTEREST OF THE ARGENTINE GOVERNMENT IN OBTAINING THE RATIFICATION BY THE UNITED STATES OF THE SANITARY CONVENTION OF 1935<sup>48</sup>**

711.359 Sanitary/490

*The Argentine Embassy to the Department of State*

[Translation]

In accordance with the proposals for cooperation expressed at the Habana Conference, the Ministry of Agriculture has requested the Argentine Chancellery to take steps to secure the approval by the United States Government of the Sanitary Convention.

If the Convention should be approved, our country would place on the United States market, during the months of February and March, mutton and lamb only, in a quantity of not more than 15,000 tons, coming from the territories of Santa Cruz and Tierra del Fuego, that is, from a zone absolutely free from foot and mouth disease and more than 800 kilometers from the line of interdiction for the movement of herds into this zone, which runs from Bahia Blanca to Zapala.

The Argentine Government, on the other hand, would accept the sending of sanitary inspectors by the United States Government and would be disposed to meet the necessary expenses.

The shipments would be made from the five packing houses that make shipments: Rio Grande, Rio Gallegos, Santa Cruz, San Julián and Puerto Bermejo, the very location of which demonstrates the impossibility of contact with the interdicted zones.

WASHINGTON, August 8, 1940.

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<sup>48</sup> For previous correspondence, see *Foreign Relations*, 1935, vol. iv, pp. 296 ff.



711.359 Sanitary/489 : Telegram

*The Acting Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, August 9, 1940—8 p. m.

178. The Argentine Ambassador has received a telegram from his Government regarding the serious situation created in Patagonia through the shutting off of the British market for chilled mutton and urging him to take up the possibility of obtaining ratification of the Sanitary Convention. The Ambassador is explaining to his Government, as the President explained to Dr. Melo<sup>49</sup> on August 6th, that there is nothing that can possibly be done in this regard until after the November elections. Whenever a suitable opportunity arises, please go over this matter with the Foreign Minister pointing out the difficulties of obtaining the consent of the Senate at this time.

WELLES

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711.359 Sanitary/492 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 6, 1940—9 p. m.

[Received 9:25 p. m.]

395. Dr. Leopoldo Melo attended as guest of honor a luncheon given by the American Chamber of Commerce today and included in his address certain statements attributed to President Roosevelt which may give rise to unfortunate repercussions in the United States. A free translation of the remarks follows.

“In addition the foregoing exchange of ideas with respect to the solution of the problem of the entry of our meat products I had the privilege of listening in the course of a friendly interview conceded to me at Hyde Park, to the convincing explanations of that great figure, President Roosevelt, in confirmation of statements made during his visit to Buenos Aires in 1935 regarding the sanitary convention, and I listened to his authoritative statement of the causes of the delay of the Senate vote and his desire that a solution be arrived at in harmony with existing cordial relations which take into consideration the reciprocal interests of the two nations. In discussing the technical governmental reasons that had delayed the approval of the convention, President Roosevelt mentioned that the Constitution of the United States requires the consent of two-thirds of the Senate for the approval of treaties, and that within the Federal Government a state such as Nevada with only approximately 100,000 inhabitants has two Senators just the same as New York with 14 million inhabitants, the cattle states of the west have equal representation with the eastern

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<sup>49</sup> Leopoldo Melo, Personal Representative of the Argentine Minister for Foreign Affairs at the Second Meeting of the Ministers of Foreign Affairs of the American Republics at Habana, at that time visiting the United States.

states with their great mass of consumers. He added that the present was an hour of political and electoral strife unpropitious for the discussion of this problem, since some western Senators might possibly feel inclined to listen to the desires of their constituents.

These words of the President, pronounced in his habitual tone, cordial sincerity, and other[s] already made known from outstanding government figures of the Democratic Party such as Hull and Welles lead to the conviction that once the hours of political agitation are past a propitious moment will arrive to deal with and solve the transcendental problem which preoccupies our cattle raisers."

It is understood that the manager of the Chamber made strenuous efforts to have the section quoted omitted from the texts and reports telegraphed by the news correspondents on the ground that Dr. Melo had introduced this part of his discourse saying that it was "outside the 3-mile limit" which might be interpreted as "off the record". Inasmuch however as the copies of the address released to the correspondents by Dr. Melo contained the sections referred to, it is believed to have been included in the text telegraphed by the newspaper correspondents.

Complete Spanish text follows.

TUCK

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711.359 Sanitary/493 : Telegram

*The Chargé in Argentina (Tuck) to the Secretary of State*

BUENOS AIRES, September 7, 1940—8 p. m.  
[Received 9 : 45 p. m.]

397. Embassy's 395, September 7 [6], 8 [9] p. m. Dr. Melo who has been apprised by the press of the denial issued by the White House has requested that the following message of clarification be transmitted to the President.

Dr. Melo asserts that at no time during the course of his speech yesterday did he say that President Roosevelt told him that the Senate would ratify the sanitary convention. On the contrary the President has explained to him that this was a time of political unrest and therefore not a suitable one to raise such an issue. Once this time were past, however, he (the President) had felt that an equitable solution could be reached.

TUCK

711.359 Sanitary/494 : Telegram

*The Secretary of the American National Livestock Association  
(Mollin) to President Roosevelt*

DENVER, September 7, 1940.

Amazed at disclosure made by Leopoldo Melo, Argentine Delegate to Havana Conference of Foreign Ministers, that you had told him "that the present hour of political struggle is not propitious to raise this issue (of Argentine meat imports) because some Western Senators are possibly more inclined to listen to the aspirations of their voters than to the facts of the case as explained by the President."

Mr. Melo further states, according to The Associated Press "that these words of the President, delivered with his habitual tone of cordial sincerity, and other well-known expressions of ranking administration members of the Democratic party such as Mr. Hull and Mr. Welles lead to the conviction that when the present hour of political agitation has passed, the propitious moment will arrive to raise again and solve the important problem which worries our livestock breeders."

The question of protecting the herds and flocks of this country from foot and mouth disease is not a political issue and we will be just as much opposed to any move to modify the present sanitary embargo after election as we are now opposed and have been ever since the signing of the iniquitous Argentine sanitary convention more than 5 years ago. In behalf of the livestock industry, the great basic industry of this country, I urge you to recall the Argentine sanitary convention from the Senate Foreign Relations Committee and thus take away from the industry the constant threat of a move that would be the most disastrous one ever made.

If you have been misquoted by Mr. Melo, such action on your part would do more than anything else to settle the issue once and for all. The present embargo is a necessary one and a just one. It applies to all countries alike and it is unthinkable that it should be modified in any least degree.

F. E. MOLLIN

711.359 Sanitary/493 : Telegram

*The Secretary of State to the Chargé in Argentina (Tuck)*

WASHINGTON, September 10, 1940—2 p. m.

204. Please acknowledge the message of Dr. Melo to President Roosevelt under date of September 7 and say to him that the President is out of the city at this time; that the full text of the message of Dr. Melo will be laid before him promptly upon his return; and that the President very much appreciates the consideration shown by Dr. Melo in thus communicating with him.

HULL

711.359 Sanitary/494

*The Secretary of State to the Secretary of the American National Livestock Association (Mollin)*

WASHINGTON, September 23, 1940.

MY DEAR MR. MOLLIN: The receipt is acknowledged, by reference from the White House, of your telegram of September 7, 1940 regarding a statement reported to have been made by Dr. Leopoldo Melo concerning the pending Sanitary Treaty with Argentina.

You will by now undoubtedly have seen press reports of a comment by Mr. Stephen Early, Secretary to the President, who was quoted as commenting:

"To the best of the President's memory, the only conversation he had with Señor Melo with respect to the sanitary convention was that Señor Melo asked him if the convention, which had been pending before the Senate for several years, had any chance of passage. The President told him definitely no—that in his opinion it could not get the necessary votes because it obviously was opposed by Western Senators. As for the rest of Señor Melo's reported remarks, they are an obvious misquotation."

You may also have seen press announcements of a statement made in Buenos Aires that he had been misquoted.

Sincerely yours,

For the Secretary of State:  
LAURENCE DUGGAN

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[This Convention was not acted upon by the Senate. Pursuant to a message from President Truman to the Senate, April 8, 1947, and a Senate Resolution of April 17, 1947, the Convention was withdrawn from the Senate. See *Congressional Record*, volume 93, part 3, pages 3583-3584.]

## BOLIVIA

### GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS REGARDING AN AGREEMENT BETWEEN THE GOVERNMENT OF BOLIVIA AND THE STANDARD OIL COMPANY<sup>1</sup>

[Efforts to reach a settlement of the Standard Oil Company dispute with Bolivia continued through 1940 without a solution being reached. For the most part, correspondence has been omitted covering the inconclusive discussions and the question of the sale outside Bolivia of oil from the disputed wells, on which question the United States reserved its rights under international law. The documents here printed show the proposals offered for a settlement by each party to the dispute.]

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824.6363 St 2/434

*Memorandum of Conversation, by Mr. Andrew E. Donovan of the  
Division of the American Republics*

[WASHINGTON,] January 17, 1940.

Participants: The Bolivian Minister;<sup>2</sup>  
Mr. Duggan;<sup>3</sup>  
Mr. Donovan.

Señor Guachalla called without previous appointment, on Mr. Duggan on January 17. After discussing another matter which the Minister had brought up, Mr. Duggan mentioned his regret that the Minister's last proposals with respect to the Standard Oil question seemed to impose additional difficulties to reaching a final agreement on the proposed formula of settlement. Mr. Duggan said that, while no answer had been received from the Company regarding the Minister's suggested inclusion in the scope of the questions to be submitted to the Board of the Government's numerous counter claims against the Company for non-fulfilment of its contract obligations, we were aware that the idea did not find ready acceptance and that in thus broadening the questions to be considered the Company felt that it also should include any additional claims it might have against the

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<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 322-347.

<sup>2</sup> Luis Fernando Guachalla.

<sup>3</sup> Laurence Duggan, Chief of the Division of the American Republics.

Bolivian Government. Thus the scope of the whole matter would be greatly enlarged and would lead to further difficulties.

The Minister then said that he had recently heard from Ostria Gutiérrez, the Bolivian Foreign Minister, and had told Mr. Welles<sup>4</sup> that the Bolivian Government's position, while wishing to obtain a settlement, was based on three considerations: (1) There could be no question of the return of the properties; (2) The validity of the Government's action could not be contested as the Supreme Court had already decided that part of the matter and (3) that the Bolivian Government could not agree to formal international arbitration.

The Minister then referred to the draft agreement and said that an idea had just come to him which might get around the present difficulty. He suggested that it would be possible to include in the formal agreement only the questions which have now been agreed to, namely: (1) What was the value of the Company's rights and interests at the time of the cancellation and (2) what taxes, if any, did the Company owe the Government. In addition, the formal agreement would be accompanied by two "notas reversales" or statements giving, for the consideration of the Board, clarification of the understanding of each of the parties of the meaning and scope of the questions to be decided and the claims of each party against the other. These statements would therefore not be subject to prior agreement and would simply accompany the signed formal protocol therefor being made public at the same time and thus possibly allaying public opinion in Bolivia.

Mr. Duggan said that the idea seemed to offer some promise and said that he would like to consider it further and that perhaps the Minister could also consider it at greater length.

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824.6363 St 2/436

*Memorandum by the Chief of the Division of the American Republics (Duggan)*<sup>5</sup>

During a call of the Bolivian Minister on January 17, I referred to my letter of December 15, 1939,<sup>6</sup> reporting the request of the Minister that the scope of the arbitration be further extended to include the Bolivian Government's claims against the Company for nonfulfillment of its contractual obligations as set forth in the Government's counter suit before the Supreme Court. I said that I could foresee that further delays and difficulties would result should we be obliged

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<sup>4</sup> Sumner Welles, Under Secretary of State.

<sup>5</sup> A notation on the original reads: "Copy handed the Bolivian Minister by Mr. Duggan Jan. 29, 1940. Copy given Mr. T. R. Armstrong—Feb. 1, 1940."

<sup>6</sup> To the Counsel for the Standard Oil Company of New Jersey, Edwin Borchard; *Foreign Relations*, 1939, vol. v, p. 346.

to discuss this phase of the matter and the Minister agreed. He then suggested that it might be possible to circumvent this difficulty by reverting to the draft agreement of November 29,<sup>7</sup> which did not include any reference to further claims on the part of the Government. For ready reference there is enclosed a copy of this draft agreement. The Minister proposed that there be prepared unilateral statements by each party setting forth its position regarding the controversy. These would be simple statements and would not require prior agreement by the other party.

Since the statement on the part of the Bolivian Government would be designed largely to assist the Government in meeting possible adverse public opinion in Bolivia, and since these statements, unless mentioned in the agreement, might prove confusing to the Board, it is proposed to add to the agreement a paragraph reading somewhat as follows:

“It will be permissible for the parties to this agreement to submit at the time of its signature, or within . . . . months thereafter, for consideration by the Board a written statement explanatory of its position with regard to the controversy, in addition to the written arguments mentioned above. It shall be for the Board to determine the pertinence and weight of such statement, with reference to the questions herein submitted for its decision.”

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824.6363 St 2/443

*Memorandum of Conversation, by Mr. Paul C. Daniels of the Division of the American Republics*

[WASHINGTON,] February 14, 1940.

Participants: Mr. W. S. Farish, President of the Standard Oil Company of New Jersey  
 Mr. Palmer of the Standard Oil Company  
 Mr. Duggan  
 Mr. Flournoy<sup>8</sup>  
 Mr. Daniels

Mr. Farish agreed to accept the second paragraph of section 3 of the draft agreement of November 29, 1939, with the addition of the words “developed and undeveloped”, so that that paragraph would read as follows:

“In determining the questions under paragraph 2 (a) hereof the Commission will take into account the right granted to the Company under its contract to extract oil from the developed and undeveloped

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<sup>7</sup> *Foreign Relations*, 1939, vol. v, p. 343.

<sup>8</sup> Richard W. Flournoy, assistant to the Legal Adviser.

areas covered by the contract and to transport, refine and sell the same.”

Mr. Duggan undertook to ascertain from the Bolivian Minister whether the proposed modification would be agreeable to the Bolivian Government, and also to find out whether the Minister would agree to eliminating from the draft agreement any reference to the proposed statements which might be issued by the Government and the Company at the time of signing the agreement. It was agreed that the Department would communicate with the Company following the conversation with the Bolivian Minister.

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824.6363 St 2/4431

*The Bolivian Legation to the Department of State*<sup>9</sup>

[Memorandum—Translation]

BASES FOR AN AGREEMENT BETWEEN THE GOVERNMENT OF BOLIVIA  
AND THE STANDARD OIL COMPANY OF BOLIVIA

I. A Commission of three experts, one designated by each party, the third by mutual agreement or by Geological Society of London, will examine only the following questions:

II. (a) what was the value, in dollars, of the rights and interests of the Company in Bolivia under its concession contract of July 27, 1922, immediately prior to March 13, 1937;

(b) whether the Company owes the Government any amount for taxes and to how much does this amount.

III. The Parties are in agreement that the Commission shall not discuss nor consider the validity of the concession contract of July 27, 1922, nor of the cancellation decree of March 13, 1937.

IV. The verdict of the Commission shall be established by majority vote and shall be accepted by both Parties as final and binding.

V. Once there has been made the payment which should take place in accordance with the double evaluation to be undertaken by the Commission, there shall remain no pending issue between the Parties, and there shall be no occasion for the presentation of new claims or counterclaims of whatsoever character, since the fulfilment of the agreement, concluded freely and in good faith, shall be regarded as having terminated satisfactorily and amicably the differences which may exist or have existed between the Government and the Company.

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<sup>9</sup> Memorandum received February 23, 1940, from the Bolivian Minister.



824.6363 St 2/448a

*The Chief of the Division of the American Republics (Duggan) to  
the Bolivian Minister (Guachalla)*

WASHINGTON, February 29, 1940.

MY DEAR MR. MINISTER: With reference to our recent conversation I enclose a revised draft of the proposed agreement for the settlement of the Standard Oil Company controversy which may be substituted for the draft enclosed in my letter of February 17, 1940.<sup>10</sup>

With warm personal regards [etc.] LAURENCE DUGGAN

[Enclosure]

*Proposed Agreement Between the Bolivian Government and the  
Standard Oil Company of Bolivia*

[FEBRUARY 28, 1940.]

WHEREAS differences have arisen between the Bolivian Government and the Standard Oil Company of Bolivia growing out of the cancellation on March 13, 1937 by the Government of the concession contract dated July 27, 1922, under which the Company was operating in Bolivia; and

WHEREAS the Government of Bolivia alleges that the Company has failed to pay certain taxes due to the Government as set out in the preamble of the Decree of March 13, 1937; and

WHEREAS the parties desire to put an end to these differences:

The Government of Bolivia, duly represented by . . . . . , and the Standard Oil Company of Bolivia, duly represented by . . . . . , freely agree to the following terms of settlement:

1. There shall be established a Commission consisting of three members, two of whom must be either engineers or geologists, one to be designated by each party within thirty days following the signature of this agreement, and the third member, who shall preside and who shall not be a national of either Bolivia or the United States. The third member shall be a jurist of outstanding ability. He shall be selected by mutual agreement between the parties; provided, however, that if the parties shall fail to agree upon the selection of the third member within thirty days from the date of the signature of this agreement, the selection shall be left to the President of the

<sup>10</sup> Not printed. The draft of February 17 was submitted to the Bolivian Minister and to Mr. E. Holman of the Standard Oil Company of New Jersey and revisions made in consideration of their suggestions. A copy of this revised draft was sent to Mr. Holman on March 8.

Geological Society of London, referred to in Article 17 of the concession contract between the Government and the Company, dated July 27, 1922, who shall make the selection within thirty days from the date upon which either the Government or the Company shall notify him of their disagreement.

2. The only questions to be submitted to the Commission are as follows:

(a) What was the value in United States dollars of the rights and interests of the Company in Bolivia under its concession contract of July 27, 1922, and of its properties connected therewith, immediately prior to March 13, 1937.

(b) Are there any taxes, over and above those paid by the Company, due the Government from the Company, and if so, what is the amount thereof?

3. It is the intention of the parties that the Commission shall not question or consider the validity of the concession contract of July 27, 1922 or of the cancellation decree of March 13, 1937.

In determining the question under paragraph 2 (a) hereof the Commission will take into account the right granted to the Company under its contract to extract oil from the developed and undeveloped areas covered by the contract and to transport, refine and sell the same. The term "properties" in the same paragraph refers to the wells, roads, buildings of every nature, pipelines, installations, machinery, refineries, furniture and fixtures, utilities, inventories of materials and petroleum, credits and surface rights of the company pertaining to the operation of the contract concession immediately prior to March 13, 1937.

4. The procedure of the Commission shall be as follows:

(a) Within sixty days from the date of the selection of the third member, the Commission shall convene at Buenos Aires or at such other place as it may find appropriate and shall within an additional period of one hundred fifty days make a fair and impartial determination of the questions submitted under 2 (a) and (b);

(b) Each party shall submit to the Commission and to the other party within ninety days from the date of signature of this agreement a complete written statement of its case, together with such evidence as it may see fit to submit; provided that, if the Commission does not convene within the said period of ninety days, the submission of the statements shall be made within thirty days after the date when it convenes.

Within sixty days after the filing of the last of the two statements just mentioned, each party may submit to the Commission such written arguments and additional evidence in rebuttal of the arguments and evidence submitted by the other party as it may desire to submit.

No further argument or evidence shall be submitted by either party unless requested by the Commission, and any request made by the Commission for additional written or oral statements or evidence shall be communicated to both parties and each shall have an opportunity to respond to the request;

(c) Each party shall pay the honorarium and expenses of the member of the Commission designated by it and shall bear its own expenses. The expenses of the Commission, including the honorarium of the third member, shall be borne in equal moieties by the two parties;

(d) The decision of the Commission shall be by majority vote and shall be accepted by both parties as final and binding.

5. The Government agrees that the amount determined under 2 (a) shall be paid to the Company with interest at the rate of 6 percent per annum from March 13, 1937, within twelve months from the date of the decision of the Tribunal, in cash, in United States currency or its equivalent in sound free exchange currency. The Company agrees that it will pay to the Government, in Bolivianos within twelve months any such taxes as may be found due under 2 (b) with interest at the same rate, from the date when such taxes became due. Thereafter no issue will remain pending between them and there will be no occasion, on the one or the other part, for any subsequent claims or counter-claims of whatsoever character, since the fulfilment of the present agreement, which has been freely entered into, shall be regarded as having terminated satisfactorily and amicably the existing differences between the Government and the Company. If all the terms of this agreement are not duly fulfilled by either party, it is understood that the *status quo ante* as of the date of this agreement shall be deemed restored at the option of the aggrieved party.

In faith of which, et cetera.

(Place and date of signature)

824.6363 St 2/502

*The Minister in Bolivia (Jenkins) to the Secretary of State*

No. 506

LA PAZ, December 3, 1940.

[Received December 11.]

SIR: In connection with previous correspondence regarding the seizure of the property of the Standard Oil Company in Bolivia, I have the honor to report that while I was at the Foreign Office yesterday, Dr. Ostria Gutiérrez, Minister of Foreign Affairs, told me . . . that the Cabinet had just voted to ask Parliament to authorize the administration to open negotiations with the Standard Oil Company for the purpose of settling this case. However, it would

be provided, Dr. Ostria Gutiérrez said, that, as mentioned in a previous despatch, the following three points would not be considered: (1) Bolivia would not consent to arbitration; (2) the return of the property would not be discussed and (3) there could be no reversal of the Supreme Court's decision.

The Department will recall that the Bolivian Government has made it evident for some time that these three points would be excluded in connection with any possible settlement, although I must confess such an exclusion would seem to leave a rather narrow basis for negotiations. In reply to a question from me, Dr. Ostria Gutiérrez said that the Cabinet would undoubtedly put the matter before the Congress in the near future and would urge that negotiations be authorized without delay. . . .

Although it is impossible to feel any encouragement as to a possible settlement of this case, the Department will immediately be informed should there be any further developments.

Respectfully yours,

DOUGLAS JENKINS

824.6363 St 2/495a

*The Under Secretary of State (Welles) to the President of the Standard Oil Company of New Jersey (Farish)*

WASHINGTON, December 13, 1940.

MY DEAR MR. FARISH: I wish to express to you again my appreciation of your courtesy in coming to Washington in order to discuss the Bolivian oil matter. I believe that your willingness to ascertain the point of view of the Bolivian Minister here will advance the possibility of an eventual settlement.

It is my understanding that as the matter now rests, you will give consideration to the designation of an officer of your company to pursue conversations with the Bolivian Minister regarding: (a) the approximate amount which your company would hope to receive as a result of the arbitration proceedings, and (b) the possibility of negotiating a settlement directly between the Bolivian Government and your company rather than through the operation of the formula which was proposed some months ago.

It is my opinion that, in view of the admittedly more favorable attitude of the Bolivian Government in this matter, it would be desirable to maintain and develop as far as possible the contact which has now been established with the Bolivian Minister.

Sincerely yours,

SUMNER WELLES

824.6363 St 2/505

*The President of the Standard Oil Company of New Jersey (Farish)  
to the Under Secretary of State (Welles)*

NEW YORK, December 16, 1940.

[Received December 17.]

MY DEAR MR. WELLES: Thank you very much for your letter of December 13 on the Bolivian matter. I had already written the enclosed letter to Mr. Bonsal, so I am enclosing a copy to bring you up to date.

I do hope you can go forward with the negotiations as suggested.  
Sincerely yours, W. S. FARISH

[Enclosure]

*The President of the Standard Oil Company of New Jersey (Farish)  
to the Acting Chief of the Division of the American Republics  
(Bonsal)*

NEW YORK, December 16, 1940.

MY DEAR MR. BONSAI: Upon my return after our conference on December 5 my associates and I immediately addressed ourselves to the subject matter of my interview with the Bolivian Minister at which you and Mr. Daniels were present.

You will recall the Bolivian Minister's statement that while Bolivia is perfectly willing to settle our differences by arbitration he has reason to believe that the Bolivian Congress is unwilling to approve the arbitral protocol in its present form lest it permit a technical finding of some value for the property in question, such as "seven to ten million dollars," which Bolivia would consider "impossibly high" but would nevertheless be bound by the terms of the arbitral award to pay. The Minister suggested as a way out of this difficulty some change in the arbitral protocol that would limit the amount of any award to be made, or, in the alternative, the direct negotiation of an agreed value for the seized properties by the Minister himself and representatives of the Standard Oil Company of Bolivia.

We have concluded that we cannot agree to limit the possible arbitral award in advance because to do so would invalidate the whole arbitration. As to the alternative suggestion, I told the Minister that we would study it and determine promptly whether we could agree to the direct negotiation of a fixed net value for the properties.

In conformity with the expressed desire of the State Department that we give full consideration to the viewpoint of the Bolivian Min-

ister, and in response to the suggestions of the Bolivian Minister, we have now to submit the following proposal:

If the State Department is willing to attempt to negotiate a settlement of the dispute with Bolivia on a basis which secures the inclusion in the final agreement of the clauses comprising the attached memorandum, and if the Bolivian Minister will assure the State Department of his authority on behalf of Bolivia to conclude such negotiation, we will undertake through direct conversations with the Bolivian Minister to agree on a fixed sum to be paid to the State Department for the account of the Standard Oil Company of Bolivia in full settlement of its claims.

This proposal contemplates a formal agreement between the Bolivian Government and the State Department on behalf of the Standard Oil Company of Bolivia. Our part in concluding this agreement would be the negotiation with the Bolivian Minister of the amount to be paid by Bolivia in the settlement.

We are hopeful that the State Department will find it possible to undertake this settlement.

Very truly yours,

W. S. FARISH

[Subenclosure]

*Draft by the Standard Oil Company of New Jersey*

WHEREAS negotiations for the sale of the properties of the Standard Oil Company of Bolivia were under way in 1936;

WHEREAS these negotiations were suspended by virtue of the decree of March 13, 1937, purporting to cancel the Company's concessions;

WHEREAS the Department of State undertook in 1939 to negotiate with the Bolivian Government a protocol of arbitration by which Bolivia was to pay to the Company the appraised value of the properties of the Standard Oil Company of Bolivia, including the value of the unexpired term, running to 1979, of the concession contract and including the subsoil rights thus purported to be abrogated;

WHEREAS the Bolivian Government advised the Department of State that it would prefer to make an agreed settlement and payment for the value of the properties in question to avoid the long delay which an arbitral proceeding would involve;

WHEREAS the Bolivian Government renounces all its claims for the alleged non-payment by the Company of back taxes and *patentes*;

WHEREAS the Company is not averse to substituting an agreed settlement for an arbitral appraisal of the properties; and

WHEREAS the Department of State is desirous of a prompt settlement of the case;

IT IS AGREED by the Government of Bolivia on the one hand, and by the Department of State, acting on behalf of the Standard Oil Company of Bolivia on the other hand,

THAT

The Government of Bolivia shall pay to the Department of State on behalf of the Standard Oil Company of Bolivia the sum of \$ . . . . . in full settlement of the claims of the United States and of the Standard Oil Company of Bolivia arising out of the purported cancellation on March 13, 1937, of the concession contracts of the Standard Oil Company of Bolivia.

The sum of \$ . . . . . shall be paid as follows:

(State terms of payment).

Title shall not be deemed to have passed to the Bolivian Government until the final payment herein agreed to shall have been made.

Thereafter no issue will remain pending between the Bolivian Government and the Standard Oil Company of Bolivia and there will be no occasion on the one or the other part for any subsequent claims or counterclaims of whatsoever character, since the fulfillment of the present agreement, which has been freely entered into, shall be regarded as having terminated satisfactorily and amicably the existing differences between the Bolivian Government and the Company.

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824.6363 St 2/505

*The Acting Chief of the Division of the American Republics (Bonsal)  
to the President of the Standard Oil Company of New Jersey  
(Farish)*

WASHINGTON, December 31, 1940.

MY DEAR MR. FARISH: Please accept my thanks for your letter of December 16, 1940 enclosing a copy of a proposed formula for a settlement of the difficulties between the Standard Oil Company of Bolivia and the Bolivian Government. Your continued cooperation is greatly appreciated and the suggested formula and your comments are being carefully studied in the Department.

Sincerely yours,

PHILIP W. BONSAI

**NEGOTIATION OF A CONTRACT GUARANTEED BY THE BOLIVIAN GOVERNMENT FOR THE PURCHASE OF TIN ORE BY THE METALS RESERVE COMPANY FROM BOLIVIAN INTERESTS<sup>11</sup>**

811.6354/644½

*Memorandum of Conversation, by Mr. Roy Veatch of the Office of the Adviser on International Economic Affairs*

[WASHINGTON,] June 26, 1940.

Participants: Señor Guachalla, Bolivian Minister.  
Mr. Feis.<sup>12</sup>  
Mr. Veatch.

Mr. Feis referred to the many discussions that have taken place over the past few years regarding the possibility of smelting Bolivian tin ore in the United States. He recalled that in the past difficulties had always prevented any progress toward establishment of a tin smelting industry here in spite of the good will of all those concerned. He said that it now seemed possible to explore the matter again since this Government now has authority to make funds available to assist tin smelters here if a feasible program can be worked out. Mr. Feis went on to say that the Reconstruction Finance Corporation, under new powers arising out of legislation just adopted, is prepared in principle to establish or to assist in establishing a tin smelting industry in the United States. The government agencies concerned are exploring the various alternative means of achieving this end with the purpose of determining whether this objective can in fact be achieved, and if so, the most effective and expeditious means of doing so.

Mr. Feis then said that one of the essential factors would, of course, be an assured supply of tin ore from Bolivia and he asked the Minister therefore whether he would be in a position to discuss this factor with his Government and to report back to the Department regarding the measures that could be taken in Bolivia to give such assurances.

Señor Guachalla said that he would immediately take this matter up with his Government. He was certain that his Government would be prepared to give such assurances. He said that all of the producers of tin ore in Bolivia other than the Patiño Company are now quite anxious to sell their ore to the United States and their production, some 55 percent of the total, could certainly be counted upon. With respect to the Patiño interests, however, he had considerable doubt since those interests have been pressing the Bolivian Government to

<sup>11</sup> For previous correspondence regarding proposals for the purchase of tin ore from Bolivia, see *Foreign Relations*, 1939, vol. v, pp. 313 ff.

<sup>12</sup> Herbert Feis, Adviser on International Economic Affairs.



provide that all exports of Bolivian tin ore should be routed to the smelter in England controlled by those interests. He feared also that the Patiño group have already reached some understanding with the German interests since the Bolivian Government has been informed by Patiño that even a German victory would not interrupt the operations of the smelter in England.

Señor Guachalla said that if necessary his Government would be prepared to establish a control of exports of tin ore which would license shipments only to the United States.

Mr. Veatch referred to the considerable period of discussion which had been carried on between the Bolivian Government and the tin producers regarding the relation between the miners and the Government, and to the progress which had been made recently in removing the points of difference between them, and he expressed the hope that the cooperation of all the producers could be secured in the event that a tin smelting industry was established in the United States; he ventured the opinion that this Government would not wish to have the discussion of such a program result in further conflict between the Bolivian Government and Patiño or other tin producers. With respect to this aspect of the matter, however, Mr. Feis emphasized that the relations of the Bolivian Government and the Patiño interests were solely the concern of the Bolivian Government.

Señor Guachalla said that of course it would be desirable to secure the voluntary cooperation of the Patiño interests if possible and in this regard he stated that he was informed that Señor Linares, son-in-law of Don Simon Patiño and in charge of his London office, is now seeking visas for himself and family to leave London and come to the United States immediately. Señor Guachalla suggested that Señor Linares might be helpful in negotiations with the Patiño interests regarding smelting in the United States.

Señor Guachalla was informed that Mr. Jesse Jones, Federal Loan Administrator, had designated Mr. Charles B. Henderson, a Director of the Reconstruction Finance Corporation, to engage in the necessary discussions with regard to a program for smelting tin in the United States. It was agreed therefore that a conference should be arranged within the next few days between the Minister and Mr. Henderson. It was understood that a conference would later be arranged between the Minister and Mr. Jesse Jones.

It was agreed further that whenever the Minister should receive word from his Government, regarding ore supplies, he should telephone the Department. He was told that in the meantime the Department and the Reconstruction Finance Corporation would continue discussions with American smelting interests that might be interested in the smelting of Bolivian ore.

811.6354/625a : Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, July 18, 1940—6 p. m.

28. Your No. 56, July 10, 6 p. m.<sup>13</sup> When you next see the Foreign Minister you may refer to the conversation reported in your telegram under acknowledgment and explain that this Government, desirous of being of as much help to Bolivia as the circumstances permitted, has been actively working on the complicated problems involved in establishing the smelting of Bolivian tin in the United States. Very definite progress has been made and it is now believed that it will be merely a matter of a few days or weeks until an announcement can be made that the industry definitely will be established. You may state that interested American smelting companies were informed on July 11th that this Government will extend whatever assistance is necessary to make possible the prompt establishment in the United States of smelters capable of handling large amounts of Bolivian ore. The companies are now preparing specific proposals to submit within the next few days.

HULL

811.6354/635

*Memorandum of Conversation, by Mr. Andrew E. Donovan of the Division of the American Republics*

[WASHINGTON,] July 19, 1940.

The Bolivian Minister called to see Mr. Veatch on July 19 regarding the tin smelting question. Mr. Veatch said that he believed the Minister would be interested to know that at a recent meeting which was rather hurriedly got up and therefore other firms were not present, Mr. Jesse Jones had said that the RFC would assist the smelting companies to make possible the smelting of tin in the United States. Mr. Jones said that he would consider any concrete proposals they wished to make and that they could depend upon the assistance of the RFC.

The Minister was very interested and asked when Mr. Veatch thought it would be possible that the industry should be established. Mr. Veatch replied that things were moving quite rapidly and that their plans might be known very shortly.

Mr. Veatch then spoke of the ore supply itself and the necessity of guaranteeing a steady flow. The Minister said that arrangements could be made—either direct with the producers and the Mining Bank or if it should be necessary, the Government might declare itself sole

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<sup>13</sup> *Ante*, p. 215.

exporter. He said that Patiño would probably arrive within a month and that if he should enter the business on his own basis it would again represent the British interests from which Bolivia was trying to get loose. Mr. Veatch said he had been speaking of ores other than those controlled by Patiño which was another problem.

The Minister spoke in this connection of establishing a "permanent" industry here which would prevent a return to the European and particularly British smelters. Mr. Veatch explained that it would be impossible at this time to say how permanent the industry might be but that in any event the contemplated arrangements would be in effect for some time so that it would be possible to see whether a permanent industry could economically be established. The Minister said that a two or three year period was what he was thinking of in the sense of "permanent" and that it would then be possible to judge what could be done.

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S24.00-N/20

*The Minister in Bolivia (Jenkins) to the Secretary of State*

[Extract]

No. 292

LA PAZ, July 25, 1940.  
[Received August 2.]

SIR: I have the honor to inform the Department that when I called on the Minister of Foreign Affairs yesterday afternoon to hand to him the text of several telegrams from Secretary Hull concerning the Habana meeting, I took advantage of the opportunity to give Dr. Ostria Gutiérrez the substance of the Department's telegram No. 28 of July 18, in regard to the progress of the conversations looking toward the establishment of tin smelters in the United States to handle Bolivian ore. Dr. Ostria Gutiérrez seemed quite pleased to know that the outlook was encouraging and said that this was probably the most important thing our Government could undertake in relation to Bolivia at this time.

The Minister of Foreign Affairs then told me confidentially that in the course of a recent visit to the Foreign Office, Dr. Wendler, the German Minister, had touched discreetly on German-Bolivian relations. Dr. Ostria Gutiérrez said Dr. Wendler had intimated the war might not last much longer and that it was time for the Bolivian Government to consider its relations with the Reich. According to Dr. Ostria Gutiérrez, the German Minister said his government was very much interested in increasing trade between the two countries and suggested that Germany would be anxious to obtain tin ore from Bolivia when the proper time came. Dr. Ostria Gutiérrez told me that in replying to the German Minister he emphasized that the Bolivian

Government was interested solely in furthering the interests of Bolivia.

The Minister of Foreign Affairs then went on to discuss German influence in this country. . . .

Respectfully yours,

DOUGLAS JENKINS

811.6354/641

*Memorandum of Conversation, by the Adviser on International Economic Affairs (Feis)*

[WASHINGTON,] July 25, 1940.

Under arrangements made by Mr. Welles,<sup>14</sup> the Bolivian Minister called upon me to talk about two elements of the tin situation:

(1) As to the progress being made in the plans for the construction of smelters in the United States for the use of Bolivian tin ores. I told the Minister that active negotiations have been carried on between Mr. Jones, the officials of the R. F. C., and two American smelting companies. I said, however, that the terms asked by these companies up to the present did not seem satisfactory and discussions would still continue, and that Mr. Jones was giving consideration as well to the alternative of constructing a smelter. I gave the Minister a copy of the memorandum given to the Department by Mr. Jones this morning on the subject (copy attached).<sup>15</sup>

I went into some further explanation regarding the necessity of having adequate assurances as to the availability of Bolivian ores. I explained that our computations as to what outlay would be required by the American Government was based upon the present relationship between the price of Bolivian ores of various grades and the world price for refined tin (the prices that we had in mind were 41-42 cents a pound for the ores of 50-60 percent grades, and a 50 cent price for refined tin). I explained that if the relationship changed unfavorably, the Government outlay would be much more than anticipated and that was the reason for seeking assurances. I explained that the idea we had in mind was the preservation of approximately the present differential between the ore and the price of refined tin.

The Minister stated that he would consult his Government with regard to securing the desired assurances.

We talked a little about additional possibilities, either in connection with ores to be procured from the East, or from Belgian Congo, or of

<sup>14</sup> Sumner Welles, Under Secretary of State.

<sup>15</sup> Not printed.

additional Bolivian ore supplies (those coming from the Patiño properties). I said that I knew that other discussions were in prospect and that the plan contemplated in the memorandum was regarded by us as a minimum plan.

(2) The Bolivian Minister stated that his Government was becoming increasingly concerned over the possibility that the movement of Bolivian ores to Great Britain would be interrupted. In fact, one or more of the Bolivian tin companies, the Aramayo, had ceased shipments.

I said that we had not given direct consideration to how to deal with this situation and that if the actual interruption occurred we should be willing at once to discuss the problem with the Bolivian Government. I told the Minister that one thought that had been in our minds was that if we succeeded in completing arrangements for the creation of a smelter, the advance buying of ore might be carried out.

On talking the matter over with the Minister, I said that I would make a suggestion to him on my own responsibility (and asked him please to make clear to his Government, if he consulted them on this point, that it rested only on my responsibility). This suggestion was that he should ask his Government whether it wanted to make a direct sales offer to the Metals Reserve Company, namely, for the delivery of Bolivian ore over, say, the next six months. Such an offer would specify quantities, grades and prices. I said that if the Bolivian Government made such an offer I believed the Department would be entirely agreeable to putting it before the Metals Reserve Company and Mr. Jones for consideration. The Minister said that he had had some such idea in mind in calling upon us. He raised the question as to whether the offer should be a conditional one (that is, conditional upon their inability to dispose of their ore in customary channels) or unconditional one. I said that I thought that was for the Bolivian Government to decide.

H[ERBERT] F[EIS]

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811.6354/636 : Telegram

*The Secretary of State to the Acting Secretary of State*<sup>16</sup>

HABANA, July 26, 1940—11 p. m.

[Received July 26—11 p. m.]

17. Please send brief cable report on progress of negotiations regarding Bolivian tin.

HULL

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<sup>16</sup> Mr. Hull was at this time in Habana, Cuba, as United States delegate to the Second Meeting of the Ministers of Foreign Affairs of the American Republics, held July 21–30, 1940.

811.6354/636 : Telegram

*The Acting Secretary of State to the Secretary of State*

WASHINGTON, July 27, 1940—1 p. m.

37. Your 17, July 26. The present status of discussion is brought out by the following memorandum given to the Bolivian Minister on Thursday, July 25, with the approval of the Federal Loan Administrator.

"Discussions are being carried on between the Federal Loan Administrator and representatives of American enterprises for carrying out arrangements to smelt Bolivian tin ores in the United States. Plans for constructing a smelting plant or plants that shall have a minimum capacity of at least 1,000 tons per month, are contemplated.

The question arises at each discussion that successful and sustained operation will be entirely dependent upon securing continued supplies of Bolivian ores of proper grades, and at prices to enable the smelters to operate successfully.

The Federal Loan Administrator, therefore, wishes to know if such a plant or plants are constructed, will they be assured that Bolivian ores of proper grades will be available and at a reasonable price over a period of 20 to 25 years.

In order that the enterprise may operate successfully, the price for Bolivian concentrates should bear approximately the same relation to the current world price of refined tin as currently exists.

Your assurance on these points is desirable in order that the Federal Loan Administrator may be in a position to arrange for the construction of a smelter."

The American Smelting and Refining Company and the American Metals Company have submitted proposals to the Federal Loan Administrator which in their first form were not satisfactory and further discussions are planned with these companies for next week.

For your further confidential information, the Dutch interests that have smelters in the East and in Holland (and probably working along with Patiño though we are not certain of this) are showing initiative through the National Defense Commission to obtain United States Government help for a project whereby they will construct a large smelter which would use Bolivian ores as well as ores from the East. Whether the initiative of this group will be satisfactory to this Government or to the Bolivian Government is a matter requiring much further discussion and the Department has doubts. However it was suggested to this group that they too might submit a proposal.

The Department has done everything possible to impress on Mr. Jones the wisdom of quick decision in this matter and it is hoped that some decision will be reached shortly.

Airmail letter follows.

824.6354/282

*The Minister in Bolivia (Jenkins) to the Secretary of State*

No. 305

LA PAZ, August 2, 1940.

[Received August 9.]

SIR: I have the honor to report that negotiations have been under way for some time in London for a British-Bolivian agreement covering payment for tin shipments from Bolivia.

It is understood that the negotiations have been between the Bolivian and British Governments. The British Government appears to have insisted that, instead of Bolivian tin shipped to England being paid for entirely in free exchange, as has heretofore been the case, an arrangement be made for payment partly in dollars and partly in pounds, the latter usable only in Great Britain and the sterling area. Seemingly, any Bolivian firms shipping to Great Britain would have to accept payment on the terms suggested.

The British proposal is understood to be that two-thirds of the net price of tin in England would be paid for in free exchange (dollars) and one-third in pounds. The net price would be calculated not as the f. o. b. price from South America but on that basis minus freight and insurance and the cost of smelting, the latter being paid in pounds. In other words, with tin now quoted at about £270 per ton, the net price would be only some £180, meaning that the Bolivian sellers would get the equivalent of about £120 in dollars, free exchange, and the remaining £150 in pounds utilizable only for imports from or other expenses in Great Britain or the sterling area.

Last week, the Bolivian Cabinet approved a decree authorizing the signing of an agreement along the lines proposed by the Bolivian Minister in Great Britain, Mr. Antenor Patiño, whose father is not only the largest Bolivian tin producer but the principal stockholder in Williams Harvey, the smelting company which would be buying most of the Bolivian tin on these terms. The joker in the Bolivian Government decree is that it stipulates that the agreement should contain a provision whereby the Bolivian Government could insist on payment in full in dollars at any time. This does not, of course, meet British desires and negotiations have been continued. There would appear to be no way in which the Bolivians can keep from accepting the British proposal *in toto* within a short time since Great Britain is the only important market for Bolivian tin in the absence of the establishment of a large-scale tin smelting industry in the United States.

Respectfully yours,

DOUGLAS JENKINS

811.6354/658 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, August 21, 1940—5 p. m.

[Received 10 p. m.]

67. Minister of Finance<sup>17</sup> this afternoon informed me he had instructed Bolivian Minister in Washington by air mail as follows in regard to tin proposals: 1, That Bolivia would guarantee supply of minimum of 1000 tons fine a month if, 2, agreement were reached for a period of years and, 3, a fixed price for entire period could be agreed upon.

In the course of the conversation it developed that what the Bolivian Government apparently desires is a contract for at least 5 but preferably 20 years at fixed price of 45 cents a pound f. o. b. Bolivian railroad for entire Bolivian production of about 3000 tons fine a month. He said producers other than Patiño were in accord with his suggestions and that while he did not know opinion of latter he thought Patiño would undoubtedly agree to program. He added that he had instructed Bolivian Minister in Washington to keep in close touch with Patiño and Van den Broek.

The Minister said it was immaterial to Bolivia who did smelting, that being question for American Government. He does not oppose use of ore from Netherlands Indies or other sources and expressed belief that it might even be of assistance as tending to keep tin pool from breaking up.

Price suggested by Minister seems high as mine operators have mentioned 43 cents to me and would probably be willing to accept less giving present return to them for tin sold in England as about 40 cents.

Hochschild<sup>18</sup> left by plane for Washington today. He claimed in conversation with me to carry representation of other non-Patiño miners but they deny this although he appears to have been converted at last minute to fixed price, long term project after at first opposing it. From conversations here with officials and mine operators I feel that they place less confidence in Hochschild than in Patiño who is furthermore a more important factor if an extensive program is contemplated.

Full report by air mail.

JENKINS

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<sup>17</sup> Edmundo Vázquez.

<sup>18</sup> Mauricio Hochschild, owner of large tin mining properties in Bolivia.



811.6354/689

*Memorandum of Conversation, by Mr. Roy Veatch of the Office of the Adviser on International Economic Affairs*

[WASHINGTON,] August 28, 1940.

Participants: Señor Guachalla, Minister of Bolivia.  
Mr. Donovan.  
Mr. Veatch.

When Señor Guachalla called at the Department August 20, he mentioned the fact that he had some further instructions from his Government regarding supply of tin concentrates to the United States in connection with a smelting enterprise here. Since Mr. Veatch was not available at that time, he had not gone into detail and Mr. Veatch and Mr. Donovan suggested today therefore that he might wish to come to the Department and give them whatever further information he had received.

Señor Guachalla said that he had received a long letter from the Minister of Finance indicating that the Bolivian Government would wish to enter into a contract to supply all Bolivian concentrates other than the Patiño concentrates to the United States, stressing the fact that the thousand tons of tin in concentrates suggested by this Government should be considered as a minimum amount only, with the idea that maximum amounts would run up to 1700 tons or more. He said that the Minister of Finance had indicated that Patiño concentrates would not be available since the Patiño organization has entered into a contract with the British Government including an arrangement with the Bank of England providing for payment of two-thirds of the value of the concentrates in metallic gold, the rest to be paid in sterling. Señor Guachalla understands that Aramayo<sup>19</sup> has no contract for the delivery of concentrates to British smelters but that Hochschild has a contract covering the delivery of high grade concentrates to Williams Harvey and Company; this contract probably runs through December of this year.

Señor Guachalla said that he was informed that Mauricio Hochschild arrived early this week by plane from La Paz and that Señor Aramayo is coming by plane next week. Arrangements have also been made by the Bolivian Government to send a representative of the Banco Minero to represent the Government interests in the negotiations in Washington. Señor Guachalla understood that this representative would be coming by boat, leaving Chile next week and he expressed the opinion that he probably would arrive here too late to be of much value to his Government. He said therefore that he would

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<sup>19</sup> Carlos Victor Aramayo, owner of large tin mining properties in Bolivia.

suggest that this representative come by plane if, in the opinion of the Department of State, this would be desirable. Mr. Donovan and Mr. Veatch agreed that such action would be desirable.

In reply to a direct inquiry, Señor Guachalla said that he was certain that his Government would wish to sell Bolivian concentrates (other than Patiño concentrates) to this country irrespective of the establishment of a tin smelter although his Government would of course hope that a smelting industry could be set up in the United States.

Señor Guachalla was then asked whether it was his idea that a contract for the delivery of certain amounts of Bolivian concentrates to this Government or to private smelters here should be negotiated with the producers in Bolivia or directly with the Government. He said that he was strongly of the opinion that the Bolivian Government should sign the contract and that it in turn should then allocate to the various producers (other than Patiño) their share of the concentrates to be delivered to the United States, each producer making all arrangements for his own shipments under that contract and probably receiving payment directly. He said that he had made a recommendation along these lines to his Government and that he had received word that the recommendation was approved.

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811.6354/672

*Memorandum of Conversation, by the Adviser on International  
Economic Affairs (Feis)*

[WASHINGTON,] September 6, 1940.

In accordance with previous arrangements, the Bolivian Minister called upon me this morning to find out what progress was being made in our arrangements for the construction of a smelter in this country for Bolivian tin. I informed him that Mr. Duggan and myself had again discussed the matter with Mr. Jones yesterday, and were making every effort to get the necessary decisions made on this end. He said that he understood the variety and difficulty of some of the decisions. He again reiterated the importance of the matter in relations between the two countries and the great desirability of avoiding further protracted delay. For one thing, he emphasized the fact that the contracts for the supply of ores to English firms were expiring shortly and the question of their renewal would occur. He said definitely that the preference definitely both of the Bolivian Government and the Bolivian ore producers, outside of Patiño, was to have a long term arrangement for the shipment of their ores to the United States.

He asked whether it might not be possible to give his Government right now a fairly definite and precise commitment and to accom-

pany it by arrangements for immediate ore purchases. I said I did not know whether or not it could be done prior to the definite formulation of our own plans. He had brought into our last discussion a request from the Bolivian Government that we consider immediate ore purchases. This I discussed with Mr. Jones, who authorized us to tell the Minister to "have him make an offer". The reply was put in the form of an informal memorandum, the text of which was approved by Mr. Jones. I gave the Minister the Memorandum (copy is attached).<sup>20</sup> The Minister said he would send it down to La Paz at once, but perhaps when the reply came it might be the basis of an immediate ore purchasing arrangement even in advance of complete definition of our own plans. I said that I was sure we would be willing to discuss that possibility when the reply was received and I promised to introduce him to Mr. Jones.

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811.6354/672

*The Department of State to the Bolivian Legation*

MEMORANDUM

Referring to the Bolivian Minister's inquiry as to the possibility of immediate purchases by the Metals Reserve Company of Bolivian tin concentrates, the matter has been discussed with the Federal Loan Administrator. He states that the Metals Reserve Company might be willing to consider immediate arrangements for purchasing part of the Bolivian ore production, dependent upon the nature of the grades available and the price terms at which these ores are offered. It is suggested therefore that if the Bolivian Government wishes this matter to be further considered, necessary detail as to the amounts available in different grades and the price at which they would be sold to the Metals Reserve Company be supplied.

WASHINGTON, September 6, 1940.

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824.6354/282 : Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, September 12, 1940—7 p. m.

35. Your despatch No. 305, August 2. The Bolivian Minister has informed the Department that the British Treasury has refused authorization to convert 320,000 pounds sterling arising from sales of Bolivian tin ores into dollars. The British Treasury is reported to be

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<sup>20</sup> *Infra.*

disposed to convert into gold in Canada 50 per cent of the value of Bolivian tin exports in accord with paragraph 15 of a telegram from the Bank of England to the British Legation at La Paz. It is also reported that the conversion of the 320,000 pounds sterling already mentioned is subject to special negotiations depending upon the Bolivian Government facilitating the conclusion of negotiations in La Paz regarding tin deliveries.

Please report briefly by telegram and fully by mail any information available on these points and keep the Department informed regarding British-Bolivian negotiations with respect to tin supplies and exchange treatment.

HULL

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824.6354/288 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, September 13, 1940—5 p. m.

[Received 6:30 p. m.]

72. Department's 35, September 12, 7 p. m. British Government has offered to pay in gold in Canada two-thirds of the value of tin shipments to England by Bolivian exporters who sign exclusive contracts with British smelting interests, remainder to be paid in sterling. For such treatment British stipulate that contracts would have to be approved by the Bolivian Government. Other tin shipments would be paid for only 50% in gold.

Patiño contracts [*interests?*] have signed such a contract and a Bolivian Government resolution approving it has been issued but the contract has been referred to Patiño directors in New York for approval and so has not yet entered into effect. Banco Minero is also understood to be about to sign. There seems to be no question as to receipt by Bolivian interests of two-thirds or half of purchase price in gold depending upon whether contracts are completed or not.

Minister of Finance apparently does not desire Hochschild or Aramayo interests or medium miners to enter into British contracts, counting on their production to cover with a margin the shipment of 1,000 tons a month to the United States if tin agreement with us is reached.

320,000 pounds sterling to which the Department refers is the Bolivian Government's share of foreign exchange arising from tin deliveries in June and first half of July. British Treasury has offered to convert 50 percent of this into gold. Failure to receive this amount has been caused by Banco Central's unsuccessful efforts to obtain more favorable terms on grounds that transactions arose before putting into effect of British exchange regulations on June 18. Banco Central

obtained the equivalent of this exchange by 30 days credit of \$600,000 from Chemical National Bank which is due in a few days.

Any information the Department could furnish the Legation in regard to the progress of tin negotiations would be appreciated.

JENKINS

811.6354/685

*The Bolivian Legation to the Department of State*

MEMORANDUM

Complying with the request of the Metals Reserve Company, in connection with the possible purchase of Bolivian tin concentrates, that it be supplied with the necessary detail as to the amounts available in different grades and the price at which they could be sold to the Company, the Legation has been instructed to advance the following:

1. Price: \$0.45 per pound, delivered at the ports of Arica or Antofagasta (Chile).
2. Payment: 90% cash, against documents certifying delivery of the ores at the said ports.
3. Amounts: approximately, between 1,600 and 1,700 tons of tin concentrates monthly, the average grade being 45%, and the various quantities and grades being those already specified in the Legation's Memorandum of August 3 last, as follows:

1,144 tons	—	grade 50% to 65%
75 "	—	" 40% " 50%
199 "	—	" 20% " 40%
209 "	—	" under 20%.

The Bolivian Government understands that the purchase of Bolivian tin concentrates herein contemplated may serve as the basis for a later and more permanent agreement which would include the establishment of tin smelters in the United States. Some clause to that effect might be inserted in the sale contract to be now formulated.

Although the purchase will be limited, this time, to only part of the Bolivian tin production, it may be extended, later on, to include the totality of it, whenever conditions would advise it, as was indicated during the conversations preceding the original offer.

In this connection, the Bolivian Government wishes to reiterate to the Government of the United States its sincere desire to arrive at mutually convenient terms, so that a permanent and satisfactory arrangement may be reached with reference to this important strategic material.

WASHINGTON, September 16, 1940.

811.6354/706

*Memorandum of Conversation, by the Assistant Adviser on  
International Economic Affairs (Stinebower)*

[WASHINGTON,] September 25, 1940.

Participants: Mr. Jesse Jones, Secretary of Commerce,  
The Bolivian Minister,  
Mr. Mauricio Hochschild,  
Mr. Enrique Ellinger,  
Mr. Carlos Aramayo,  
Mr. Carlos Bowers,  
Senator Henderson }  
Mr. Gunderson } Metals Reserve Company,  
Mr. Feis,  
Mr. Donovan,  
Mr. Stinebower.

This meeting took place in the office of Mr. Jones for the purpose of discussion of possible arrangements between the United States and Bolivian tin interests for supplies of Bolivian concentrates to American smelters, if such smelters should be established.

As a preliminary, it was stated by Mr. Hochschild that present Bolivian production is about 3,200 tons per month (fine tin content) of which about 1,200 tons are produced by Patiño mines and 2,000 tons by the other Bolivian interests which were represented in the present conversations. Their contracts with British purchasers had run out or were about to run out and renewals of those contracts were being sought by the British. In the meantime, stocks were accumulating amounting to about 3,000 tons in Chilean ports. The miners, in order to maintain operations needed to know almost immediately whether to renew contracts with the British or whether they could conclude contracts with the United States.

Mr. Hochschild suggested a five year contract with the United States at a fixed price.

Mr. Jones replied that we would want a contract for not less than ten years with a price which could be fixed from year to year. He indicated that this Government is prepared to build a smelter, is willing to buy tin from Bolivia, and to make advances thereon, that the only question was one of arriving at the right price, and that this Government wanted to conclude discussions promptly as well as did the Bolivians. As far as the smelter was concerned, whether 1,000 tons a month, 2,000 tons a month, or some intermediate amount, that as well as the matter of price was a matter for consultation.

Mr. Hochschild and Mr. Aramayo were seriously hopeful that the United States would be able to take all, rather than a part, of their

production, indicating that they felt the international tin control would be inclined to work against them for concluding such a contract and that they needed to be protected. Mr. Hochschild suggested that if it would not be feasible to conclude a contract with a price fixed for the life of the contract, agreement be reached for a fixed price for at least one year while a smelter was being built. He suggested that such a price be 50 cents per pound for blocked tin, roughly the current price in the United States, with deductions for processing and shipping. According to Mr. Hochschild, this would leave a price of about 45 cents in Chilean ports. On this they desired an advance of 90 percent on delivery to the port in Chile, the balance to be paid on arrival in the United States. Later it was suggested that 50 cents did not seem to be an unreasonable price for pig tin and that the deduction should be the same as in England—in other words, that any additional smelting expense in the United States as compared with England would be borne by this Government, but that the price of the tin concentrates would be on the same basis as in England. There seemed to be general assent to this suggestion.

With respect to quantities, Mr. Aramayo suggested that it would be necessary to provide some flexibility rather than a fixed amount per month in order that Bolivia might maintain its obligations under the international tin control scheme. For example, if they should agree to provide 2,000 tons a month and the quotas under the tin scheme should be reduced, they would in effect break the international agreement which they did not want to do. It was indicated that this Government likewise did not care to participate in any action which would destroy the international tin control. Such a result would undoubtedly prove disastrous to Bolivia which is a high cost producer and is able to produce only because the world price is kept up by the control and would be disadvantageous to the United States which would find its producing costs far out of line with world tin prices if it should continue to smelt Bolivian ore while world prices fell.

In connection with the price basis, the suggestion was thrown out by Mr. Feis that although it was felt that there should be a fluctuating rather than a fixed basis, consideration might be given to holding the fluctuation within maximum and minimum limits.

When Mr. Hochschild again returned to the question of British pressure for the conclusion of contracts, Mr. Feis said that the British Government had also expressed to us its hope that no action taken by this Government would be such as to embarrass the British if in an emergency they should need Bolivian ores. We had given assurances that this would be carefully safeguarded and at the same time Mr. Feis stated that the British Government had been requested to cease

pressing Bolivians for a decision on the matter of contracts until we should have reasonable time to reach a decision.

The meeting was concluded by agreement that as soon as possible further discussions would be held relating to the precise terms of possible contracts, including the basis for price computation, quantities to be taken, and adjustments to possible British requirements. Mr. Henderson indicated that examination of these questions was currently being made by his staff and that he hoped to be able to meet with the Bolivian representatives early the following week.

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811.6354/726

*Memorandum by the Adviser on International Economic Affairs  
(Feis) to the Under Secretary of State (Welles)*

[WASHINGTON,] September 26, 1940.

MR. WELLES: This afternoon Sir Owen Chalkley of the British Embassy came at his request accompanied by Mr. Pierce who is an executive of a consolidated tin mining company which controls the large tin smelter of England (under Patiño control). Sir Owen stated that it had come to their knowledge that we were engaged in discussions with the Bolivian Government and tin producers of arrangements whereby a large part of Bolivian ore production would be bought by the United States Government. He said that he wanted to inform us that any such step on our part might work a serious disadvantage to Great Britain during this war crisis and afterwards. Mr. Pierce conveyed the same view though rather in terms of injury to the smelter. In response to my request for an explanation as to how the injury would come about, he explained that at present practically all of the Eastern tin is being smelted in the East where it is more cheaply handled and that the smelters in England were largely dependent upon continued supplies of Bolivian ore. They said that if the Bolivian ore was not available, their only recourse would be to substitute Straits' tin for it and this would mean, among other things, a loss of badly needed dollar exchange.

I said that I was certain this Government would not want to handle the matter in such a way as to injure Great Britain's efforts during this war emergency and therefore it had been contemplated right along to discuss the matter with the British Government when and as the discussions of the Bolivian interests had reached a point where plan of action had defined itself. I said that action contemplated by us would have some effect upon the financial prospects of tin smelter business in England but we could not permit that to be a decisive factor; this remark I made for Mr. Pierce's benefit since he seemed



to believe it should be a decisive factor. Sir Owen left the following informal notes for me and it was agreed that next week we would resume discussion on the subject:

“During the conversations which Sir Owen Chalkley has had with Mr. Henry F. Grady arising from the British Ambassador’s communication to the State Department of August 14, 1940, the request was made by Sir Owen Chalkley for consideration of any assistance or advice which the United States departments could extend in certain matters of which the following is one:—

7. Avoidance of diversion to the United States in connection with the proposal to erect a tin smelter of supplies of Bolivian tin ores which at present are shipped to and smelted in the United Kingdom.

Two-thirds of the tin ores used by the English smelting industry are derived from Bolivia; the average for the years 1935–1939 inclusive is 66.75 per cent.

“Mr. E. V. Pierce, Chairman and Managing Director of Consolidated Tin Smelters, who arrived recently from England, in association with Patiño Mines and Enterprises, New York, has submitted certain proposals to the Defense Council in connection with the proposed erection of a tin smelter in the United States to smelt Bolivian ores.

“This whole subject is extraordinarily complicated and the British Ambassador only wishes to suggest at the moment that an opportunity may be offered of putting the views of the British Government and the British industry before the competent authorities of the United States Government before Mr. Pierce returns to England at the end of next week.”

Later in the afternoon at Mr. Jones’ invitation I attended a meeting between himself, Senator Henderson of the Metals Reserve Company, the Bolivian Minister, and Messrs. Aramayo and Hochschild, owners of two of the large tin mining properties in Bolivia (a separate memorandum is being prepared regarding this matter). I told Mr. Jones of Chalkley’s visit and he heartily concluded in the assurances I had given, pointing out at the same time that the British were facilitating the current efforts of the Metals Reserve Company to acquire reserve stocks of tin.

In the course of this meeting, Mr. Hochschild stated that one reason why it was desirable to conclude the ore purchase contract with the American Government promptly was of course that the British were trying to force them immediately to sign contracts which would commit them to deliver their tin ore to England over a period of the next five years. The Bolivian Minister confirmed that some such effort was being made and said that if they had to dispose of all their ore in England, it would mean that they would have to accept half payment in blocked sterling, and they would become short of dollars.

I thereupon phoned Chalkley and informed him:

(1) That I had confirmed with Jones the assurances I had given him of our desire not to do anything that would materially injure the conduct of Great Britain's war efforts and that before we concluded any ore buying arrangements, with the Bolivians, we should be glad to talk the matter over with them.

(2) I added, however, that we were now informed that they were pressing the Bolivian ore producers to sign contracts which would make it impossible for us to build a smelter here and that I therefore wished to suggest to them that they do not bring any unfair pressure. Chalkley said that he did not know whether this charge was justified or not but he would certainly look into it.

Incidentally, there is every reason to believe that the real source of pressure is Patiño, majority owner of a smelter in England (whose interests are at stake).

H[ERBERT] F[EIS]

811.6354/695

*Memorandum by the Chief of the Division of the American Republics (Duggan) to the Adviser on International Economic Affairs (Feis)*

[WASHINGTON,] September 27, 1940.

DR. FEIS: I have read with interest your memorandum of conversation with Sir Owen Chalkley on the Bolivian tin situation. I was somewhat amazed at his bland disregard of the Bolivian needs. His statement that the purchase of Straits' tin would require no dollar exchange indicates that Great Britain hopes to be able to purchase Bolivian tin without exchange. Just how does he expect Bolivia is going to live?

I agree that probably Patiño is behind this maneuver but I frankly do not find it at all relishing that the British should be so completely impervious to the needs of Bolivia.<sup>21</sup>

LAURENCE DUGGAN

824.6354/302

*Memorandum by the Assistant Adviser on International Economic Affairs (Stinebower)*

[WASHINGTON,] October 7, 1940.

#### PURCHASE OF BOLIVIAN TIN

On the basis of consultation with Mr. Welles, Mr. Feis telephoned the following points to Mr. Jesse Jones as having been suggested

<sup>21</sup> The following notation appears at the bottom of this memorandum: "Mr. Duggan: Pinsent [Mr. G. H. S. Pinsent, Financial Counselor of the British Embassy] came to see me later on the same subject & I brought out your point more clearly. H[erbert] F[eis]."

by Mr. Welles in connection with the pending negotiations for the purchase of Bolivian tin concentrates:

(1) Mr. Welles thought that the suggestion of 1,000 tons a month or 12,000 tons a year (tin content) would prove disappointing to the Bolivians and was unduly low. He was inclined to agree with Mr. Jones' suggestion that purchases of Bolivian tin be divided approximately 50-50 between British and American purchasers, and to suggest that the United States contract be for 18,000 tons a year.

(2) With regard to the undertaking desired by the British that we would release to them our purchases of Bolivian tin in the event the British required these amounts for their war efforts, Mr. Welles was in full agreement in principle, but thought that the undertaking should be safeguarded to provide that such releases be made only after consultation between the British and American Governments regarding their respective defense requirements. In this suggestion he had in mind the possible development that the British might be interrupted in their ability to deliver tin to the United States from the Straits, in which event our own defense needs, as well as British war needs, would have to be weighed in reaching understanding about the release of American supplies from Bolivia.

(3) In connection with the British desire for Bolivian tin for their industrial requirements even after the war, Mr. Welles suggested that if we took 18,000 tons, we might agree to make all of that amount available to the British, on request and subject to the consultation suggested above, during the period of war emergency, and that we might agree to continue to release to the British 6,000 of the 18,000 even after the war emergency, but that we would not so agree with respect to the remaining 12,000.

(4) Mr. Welles had repeated the importance to be attached to negotiating the purchase contract with the Bolivian Government rather than with any single Bolivian producer or group of producers. At the same time we should make certain that the Bolivian Government will not give all the advantages of the contract to any single producer or group of producers.

(5) Mr. Welles had also reiterated that it was extremely important that the smelter to be constructed in this country should be entirely independent of any connection with the Patiño interests in as much as one of the purposes of constructing a smelter was to offer competition to the monopolistic position held by the Patiño interests in smelting Bolivian ores.

(6) Finally it was suggested that the understanding with the British Government should provide for compensation in tin for any Bolivian concentrates released to the British, but that if the British were unable to deliver tin, provision should be made for compensation in dollars.

811.6354/711

*Memorandum by the Assistant Adviser on International Economic  
Affairs (Stinebower)*

[WASHINGTON,] October 9, 1940.

BOLIVIAN TIN NEGOTIATIONS

A meeting was held at 11 o'clock October 9 in the office of the President of the Metals Reserve Company to discuss in a preliminary way the Company's proposal for the purchase of Bolivian tin. Present at the meeting were:

Senator Charles Henderson, President, Metals Reserve Company  
The Bolivian Minister  
Mr. Mauricio Hochschild  
Mr. Enrique Ellinger  
Mr. Carlos Aramayo  
Mr. Carlos Bowers  
Mr. Martinez Vargas  
Mr. Gunderson, Metals Reserve Company  
Mr. Vogelsang, Defense Commission  
Mr. Alexander Henderson, Defense Commission  
Mr. Donovan  
Mr. Stinebower

Copies of the revised memorandum outlining the terms on which the Metals Reserve Company would offer to purchase tin concentrates from the Bolivian Government were circulated and briefly examined. After some general protests, particularly from Mr. Hochschild, that the price terms were extremely unfavorable to the Bolivians, it was agreed that the Bolivian representatives should make available to the Metals Reserve Company the terms of their respective British contracts and should have time to study the Metals Reserve Company proposal, and that a further meeting would be held in the afternoon.

Mr. Aramayo was particularly interested that no quantity limit should be expressed in the contract, preferring that we should undertake to buy all of the Bolivian production outside the Patiño interests. In this suggestion it was assumed that Patiño had concluded a contract with the British smelters and that an undertaking by the United States to take 18,000 tons a year would leave a few hundred tons a month for which no market would be assured and which would be at the mercy of any terms which the British buyers wished to offer.

The meeting was reconvened at 3 o'clock in Senator Henderson's office, all of the foregoing being present except Mr. Alexander Henderson.

Mr. Gunderson explained that the objective of the price formula was to make the return to Bolivian producers the same or somewhat

better on their sales to the United States as compared to their sales to the United Kingdom. The particular returning charges and the other adjustments might not work out on an exact parity with similar terms offered by the British but we desired the net result to be equally favorable to the Bolivians.

The Bolivian representatives did not like the particular price formula and wanted the New York price for Straits tin, less a reasonable normal treatment charge. For this Mr. Hochschild suggested that he would like to prepare a proposal to apply to the New York price returning charges based on normal conditions, by which he meant pre-war returning charges in England figured at a \$4.68 rate for the pound.

It was agreed that the Bolivian representatives would prepare a counter proposal for a price formula and submit it to the Metals Reserve for study.

The points in the memorandum were then taken up seriatim with the following decisions:

(1) Mr. Aramayo objected to the suggestion that the contract would be between the Bolivian Government and the Metals Reserve Company. He said the Bolivian Government does not own ores and should not procure them to sell, that it should only guarantee the contract for the Bolivian producers. This question was left for settlement between Mr. Jones, the Bolivian Minister, and the State Department.

(2) The Bolivians resumed the request to take all Bolivian ore other than that produced by Patiño. In response to an inquiry it developed that this would amount to between 300 and 400 tons over the 1,500 tons a month proposed in the contract, but that these excess amounts would be practically all of ores of less than 35 percent tin content. In reply it was suggested that we hope at a later time to consider the smelting of low grade ores but we preferred to deal with that question separately and at this time to consider only ores of 35 percent or better. There was no objection, however, to Mr. Hochschild submitting a proposal on the lower grades.

(3) Price basis and treatment charges.

The Bolivians agreed to submit a counter proposal.

(4) Delivery.

The Bolivians pointed out that the port selected for delivery in the United States would have to be an accessible port, i. e., that it would be a port regularly reached by shipping services leaving Chile.

(5) The Bolivians wanted an advance of 90 percent on concentrates sold at a fixed price, 80 percent on other concentrates. This was to be included in their counter proposal.

It was agreed that after the counter proposal should have been received and studied, a further meeting would be held, probably on Friday afternoon, October 11.

811.6354/714a : Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, October 19, 1940—5 p. m.

42. An agreement has been reached between the Metals Reserve Company, a subsidiary of the Reconstruction Finance Corporation, and the Bolivian producers under which the Metals Reserve Company contracts for the purchase of tin concentrates containing 18,000 long tons of fine tin per year for 5 years.

The price basis as agreed upon is 1½ cents per pound less than the Metals Reserve Company's buying price or, in the absence of such a price, 1½ cents less than the current New York price. The treatment charges, penalties for impurities, and premiums are approximately the same as those provided in European contracts for Bolivian tin. Price includes delivery charges to United States port. Metals Reserve Company agrees to accept not more than 20 percent of total deliveries in concentrates of 18 to 35 percent tin content and specifies the percentages to be delivered in other grades.

Metals Reserve will advance 80 percent of purchase price on delivery at Chilean ports and an additional 10 percent if concentrates are held at those ports more than 4 months.

It is expected that settlement of final details and the drawing up of a definitive contract will be concluded shortly. This arrangement is to be entered into between the Metals Reserve Company as buyer, and Hochschild, Aramayo, the Mining Bank, and the Association of Medium Producers as sellers, and does not include any ores from Patiño properties.

The contract is to be approved and performance guaranteed by the Bolivian Government.

HULL

811.6354/730

*The President of the Metals Reserve Company (Charles B. Henderson) to the Secretary of State*

WASHINGTON, November 4, 1940.

MY DEAR MR. SECRETARY: I enclose two certified copies and six conformed copies of the Agreement between Metals Reserve Company and Compagnie Aramayo de Mines en Bolivie, The Compañía Minera de Oruro Group, Compañía Minera Unificada del Cerro de Potosí, Asociación Nacional de Mineros Medianos, and Banco Minero de Bolivia covering the purchase of Bolivian tin ores or concentrates neces-

sary to produce 18,000 tons of fine tin each year for the next five years.<sup>22</sup>

It will be greatly appreciated if you will indicate to the Government of the Republic of Bolivia and to this Company your approval thereof, and procure from the Government of the Republic of Bolivia an expression of its approval and its guarantee of performance of the terms and conditions of such Agreement.

Sincerely yours,

CHARLES B. HENDERSON

811.20 Defense (M)/681

*The Bolivian Minister (Guachalla) to the Secretary of State*

WASHINGTON, November 4, 1940.

EXCELLENCY: In the name of my Government I have the honor to express to Your Excellency the satisfaction with which it has viewed the signing of the contract between the Metals Reserve Company and certain producers of Bolivian tin for approximately 18,000 tons of fine tin yearly for a period of five years dating from the first of last July.

My Government is pleased fully to approve this agreement and to guarantee the performance of its terms on the part of the several signers thereof. The Government of Bolivia feels that this agreement has more than a purely commercial significance since for the first time it places the interchange between Bolivia and the United States on a basis of logical complementation in the plan of our continental economy. In the judgment of the Government of Bolivia the agreement signed today contains those elements which make its continuance highly to be desired, since to one of the parties it brings economic benefit and to the other it makes available a source of tin of strategic importance. It is therefore thought that in due course it will be found desirable to renew this agreement, adjusting if necessary its conditions in the light of changed circumstances, in the same spirit of equity and cooperation which has characterized the negotiations which have so happily been concluded. The signature of this contract marks the initial application of a wise and beneficial policy of inter-American solidarity and gives promise of even more auspicious understandings.

Accept [etc.]

LUIS GUACHALLA

811.20 Defense (M)/681

*The Secretary of State to the Bolivian Minister (Guachalla)*

WASHINGTON, November 6, 1940.

SIR: I have the honor to acknowledge the receipt of your note of November 4, 1940 expressing the satisfaction of your Government at

<sup>22</sup> Text of contract not printed.

the signature of the contract between the Metals Reserve Company and certain Bolivian interests for approximately 18,000 tons of fine tin yearly for a five-year period. I have noted that your Government is pleased fully to approve this agreement and to guarantee the performance of its terms on the part of the several signers.

I believe that the signature of this contract marks an important forward step in the development of sound economic relations between the United States and Bolivia. May I express my personal congratulations, as I know for how many years you have been working on this project, and ask that you convey an expression of appreciation to the producers who have signed the contract for the cordial and friendly spirit which they displayed during its negotiation. I believe that it will redound in benefits, not only to the United States but to Bolivia, and express the pleasure of this Government at its conclusion.

I have forwarded a copy of your note under acknowledgment to the Metals Reserve Company for its information.

Accept [etc.]

For the Secretary of State:  
SUMNER WELLES

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**SURVEY BY THE UNITED STATES AS TO COST AND FEASIBILITY OF COMPLETING RAILROAD BETWEEN ARICA, CHILE, AND SANTOS, BRAZIL, THROUGH BOLIVIA**

824.77/303 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, August 7, 1940—noon.  
[Received 2:32 p. m.]

62. Minister of Foreign Affairs<sup>23</sup> has asked me to express his thanks to the Secretary for support by our delegation at Habana of resolution favoring completion of so-called Santos Arica Railroad.<sup>24</sup>

The Minister gives me the impression that he believes our Government will advance necessary funds for this work. He tells me Bolivian Minister in Washington<sup>25</sup> has telegraphed him that American engineers will come down to start preliminary survey as soon as Bolivian Government is ready.

I would greatly appreciate information by telegraph as to whether or not our Government has promised any financial assistance in this matter and generally what our attitude is.

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<sup>23</sup> Alberto Ostria Gutiérrez.

<sup>24</sup> Resolution X; for text, see *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941), p. 68.

<sup>25</sup> Luis Fernando Guachalla.



My despatch No. 303<sup>26</sup> concerning Bolivian press comments respecting railway proposal and impression being created should reach Washington about August 9.

JENKINS

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824.77/303 : Telegram

*The Acting Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, August 8, 1940—6 p. m.

31. Your 62, August 7, noon. On August 6 the Bolivian Minister was given a memorandum<sup>26</sup> which after referring to the pertinent resolution at the Habana meeting regarding the proposed Arica to Santos railroad continued "In keeping with the spirit of this recommendation, arrangements are being made whereby an engineer of the Corps of Army Engineers and an assistant will proceed to La Paz, Bolivia, in order to make a thorough engineering and economic survey of the desirability, feasibility and cost of building those sections of the railway which have not yet been completed." There has been no commitment to finance the construction of any part of this railway.

No publicity is being given here of the sending of these engineers and the Bolivian Minister has indicated that the Bolivian Foreign Minister will be satisfied for the time being to make this commitment known confidentially to the Bolivian Congress in secret session.

WELLES

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824.77/312 : Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, September 27, 1940—6 p. m.

36. Your despatch no. 369, September 19.<sup>26</sup> Captain LeRoy Bartlett and Lieutenant Irving M. Parry, Engineer Corps, United States Army, will arrive in La Paz by air on October 11 according to present plans. They will make a survey on behalf of the Export-Import Bank of the feasibility and cost of completing the Vila Vila-Santa Cruz section of the railway without any obligation on the part of the bank for financing construction. Captain Bartlett has been requested to consult you upon arrival. Please extend all appropriate assistance.

HULL

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<sup>26</sup> Not printed.

824.77/316

*The Minister in Bolivia (Jenkins) to the Secretary of State*

No. 391

LA PAZ, October 1, 1940.

[Received October 9.]

SIR: I have the honor to refer to the Department's telegram No. 36, of September 27, 6 p. m., and to report that I called on Dr. Ostria Gutiérrez at the Foreign Office yesterday morning and informed him that Captain Leroy Bartlett and Lieutenant Irving M. Parry, of the Engineer Corps of the United States Army, were expected to arrive in La Paz on October 11, to survey the Vila Vila-Santa Cruz section of the so-called Santos-Arica railway.

I took advantage of the occasion to bring up the question of the financing of the line in the event construction was considered feasible after the survey. I told the Foreign Minister that the information I had from the Department was very specific and made it entirely clear that the survey would be made without any obligation on the part of the Export-Import Bank or other agency of our Government for financing construction. The Minister said he understood this but went on to say that we had promised to "help" construct the line. He added, however, that as yet no arrangement for financing had been made, although Dr. Guachalla had discussed the matter with the Department and the sum of \$6,000,000 had been mentioned tentatively.

At this point I repeated that no obligation could be assumed for financing as a result of the survey and expressed the hope that there would be no misunderstanding in this connection.

Dr. Ostria Gutiérrez looked very serious and concerned during our conversation, but I am certain I left him without any reason to misinterpret the situation.

Respectfully yours,

DOUGLAS JENKINS

824.77/314: Telegram

*The Secretary of State to the Minister in Bolivia (Jenkins)*

WASHINGTON, October 2, 1940—7 p. m.

37. Your no. 77, September 30, 4 p. m.<sup>29</sup> The Department now perceives no objection to the Foreign Minister's giving some short announcement to the press on this matter. The Department will release the following statement to the press on the morning of October 4. "At the request of the Bolivian Government, the Department of State has arranged for a survey of the cost and feasibility of completing the railway in Bolivia between Vila Vila and Santa Cruz.

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<sup>29</sup> Not printed.

Captain Le Roy Bartlett and Lieutenant Irving M. Parry, Engineer Corps, United States Army, are shortly to leave for Bolivia to undertake this survey." It is believed that any statement made by the Foreign Minister should be in conformity with the foregoing and that no mention should be made of the Export-Import Bank or of possible financing.

HULL

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824.77/321 : Telegram

*The Minister in Bolivia (Jenkins) to the Secretary of State*

LA PAZ, October 15, 1940—3 p. m.

[Received 5:30 p. m.]

85. Department's 37, October 2, 7 p. m. While Department's press release gives mission of officers as a survey of cost and feasibility of completing Vila Vila-Santa Cruz railway, Captain Bartlett's orders indicate that he should study entire uncompleted sections between Vila Vila and Corrumba.

Bartlett states that time at his disposal will be enough only to check existing survey between Vila Vila and Santa Cruz, to investigating alternate routes or making full study between Santa Cruz and Corrumba. We feel that in dealing with Bolivian officials Bartlett's mission should be described as in Department's press release although he contemplates making aerial reconnaissance between Santa Cruz and Corrumba as corollary to his work. Otherwise unfounded hopes may be raised locally (see the last paragraph of my despatch No. 401, October 5<sup>30</sup>). Request instructions.<sup>31</sup>

JENKINS

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824.77/327

*Memorandum of Conversation, by Mr. Walter N. Walmsley, Jr., of the Division of the American Republics*

[WASHINGTON,] November 15, 1940.

Participants: Mr. Arno Konder, Brazilian Chargé  
Mr. Bonsal<sup>32</sup>  
Mr. Walmsley

Dr. Konder called at 11:30, November 15, at his own request and delivered the attached memorandum, of which a translation follows,

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<sup>30</sup> Not printed.

<sup>31</sup> By telegram No. 41, October 16, 1940, 7 p. m., the Department replied that it had no objection to Captain Bartlett "undertaking such corollary work as may be necessary".

<sup>32</sup> Philip W. Bonsal, Assistant Chief of the Division of the American Republics.

with the request that he be informed as soon as possible of the status of the matter discussed in order that he might suitably communicate with his Government:

"I am confidentially informed by the Bolivian Legation in this capital that, in accordance with the stipulations of the recommendation inserted under No. X in the Final Act of the Second Consultative Meeting at Habana, the Government of the United States of America would be prepared to undertake at its own cost a survey of the proposal to construct the stretch between Vila Vila and Santa Cruz of the Arica-Santos Transcontinental Railway.

"I have also confidential information that the Export-Import Bank is now examining, under instructions [*instructions?*] of the Government of the United States of America, the possibility of financing the work on the said stretch.

"As Your Excellency knows, the stretch has an extension of 515 kilometers, the construction of which is estimated at approximately \$21,000,000.

"By the railway connection treaty which we signed in [*with*] Bolivia in 1938<sup>33</sup> we agreed to cooperate with that country 'in the manner and with the guaranties that might be set forth' in the matter of the construction of the Vila Vila to Santa Cruz stretch. This indicates in itself Brazil's interest in seeing completed the connection of the port of Santos to the port of Arica.

"I submit the foregoing to Your Excellency in order to facilitate your discussing this matter in the Department of State and to make known our support of any initiative which the Government of the United States might wish to take to the end that the development of this work of continental interest might be advanced."

Dr. Konder was informed that the matter would be looked into by the proper officers of the Department and that he would be given an indication of the Department's attitude in a day or two.

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824.77/328

*Memorandum of Conversation, by Mr. Walter N. Walmsley, Jr., of the Division of the American Republics*

[WASHINGTON,] November 19, 1940.

After consulting the appropriate officers of the Division, Mr. Walmsley spoke to Dr. Konder as follows with regard to the latter's inquiry of November 15 regarding the construction of the transcontinental Arica-Santos Railway. The Department, acceding to the request of the Bolivian Government, had obtained through the courtesy of the War Department the services of two officers of the Corps of Engi-

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<sup>33</sup> Signed at Rio de Janeiro, February 25, 1938; for text and correspondence, see Bolivia, Ministerio de Relaciones Exteriores, *Colección de tratados vigentes de la República de Bolivia*, tomo IV, *Convenciones bilaterales (A-CH)*, pp. 291-308.

neers, United States Army, to make a survey of the feasibility of constructing a line between Vila Vila and Santa Cruz in Bolivia and the possible cost. The project has not been further examined, but the Army Engineers in question are presently in Bolivia.

824.77/331

*The Minister in Bolivia (Jenkins) to the Secretary of State*

[Extracts]

No. 562

LA PAZ, January 6, 1941.

[Received January 13.]

SIR: I have the honor to refer to my despatch No. 524, of December 13, 1940,<sup>34</sup> concerning the financing of the Vila Vila-Santa Cruz section of the so-called Santos-Arica railway, and to inform the Department that the Legation has had an opportunity to examine carefully the preliminary report of Captain Leroy Bartlett, Jr., and Lieutenant Irwin M. Parry, of the United States Corps of Engineers, as to the feasibility of completing the construction of this line.<sup>35</sup> Very properly, the report of the two Army engineers is devoted primarily to questions of the cost and possible revenues, but various other matters are also considered in the document.

*Strategic Value.*

The engineers raise the question of the strategic value of the railway which was suggested in the resolution adopted at the Habana conference expressing the interest of all the American Republics in the completion of the line. In this connection the report states:

"It is the personal opinion of this Commission that a completed railroad between Arica and Santos would not be of great strategic value to the United States for the following reasons:

a) Being of meter gauge with 3% gradient and 75-meter radius curves, the daily tonnage which could be transported over this railroad would be insufficient to supply an army of any size.

b) Due to numerous bridges, tunnels and cuts, the railroad cannot be protected against sabotage, and its interruption for a considerable period of time could be easily accomplished by an individual or by air bombardment.

c) The terrain which it traverses is probably beyond the limit to which the United States would be willing to lend assistance in the form of a military expedition."

The Commission recognizes that the railroad might have real strategic importance to the major South American countries in

<sup>34</sup> Not printed.

<sup>35</sup> Copies of the final report were submitted by Lieut. Parry to Mr. William Franklin Busser of the Division of the American Republics with a letter of January 28, 1941. (824.77/334, 348.)

enabling transcontinental troop movements. The first two factors mentioned above would, however, operate as effectively in such a case as in one of assistance from the United States.

#### *Construction Costs.*

The report, as shown to the Legation, is of course a rough draft but will probably not be changed materially before presentation to the Export-Import Bank. In this connection, Captain Bartlett said in his covering letter to the Legation:

“I should like to emphasize again that some of the cost data will be subject to revision in the office of the Chief of Engineers, but I do not believe such revision will affect the costs more than 5%, plus or minus.”

The Commission's preliminary estimate of the cost of the railroad from Vila Vila to Santa Cruz is \$29,009,526 . . .

The Commission's cost estimates appear to be conservative despite the Bolivian officials' idea that the railroad could be built for \$20,000,000 to \$23,000,000. . . .

#### *Net Revenues.*

The net indicated maximum annual revenues after five years of operation would thus be:

Gross annual revenues	\$2,131,200
Annual costs	1,496,176
Net annual profits	\$635,024

This profit would be less than 2.2% of the cost of construction as estimated by the Commission which would obviously be insufficient to pay interest and amortization on a loan for the construction. Funds for the purpose would thus have to come in greater part from other sources.

#### *Possible Additional Revenues.*

In the past various revenues of the Bolivian Government have been allocated to the construction of the Cochabamba-Santa Cruz Railroad and have actually been used in part for the construction as far as Vila Vila. . . .

At the present time, the only one of these taxes which has not been diverted to other uses is the tobacco tax. Revenues from this for the year 1940 are estimated at about \$85,000. Those from the other taxes originally earmarked for the railroad but now diverted are estimated

at about \$78,000 for 1940. Thus, if all of these funds were again allocated to the railroad there might be another \$163,000 available to add to the possible net profits for interest and amortization purposes but this would still leave the total below 3% of the necessary capital investment.

There has, of course, been some talk in Bolivian circles of using future petroleum revenues for the Vila Vila-Santa Cruz Railroad but (a) this is entirely potential and (b) revenues from production south of the Parapetí River are pledged for the Yacuiba-Camiri Railroad supposedly to be built by Argentina while those from north of there are pledged to the continuation of the Corumbá-Santa Cruz Railroad already begun with Brazilian assistance.

Money for servicing a loan for the Vila Vila-Santa Cruz Railroad could hardly come from the ordinary revenues of the Bolivian Government since the budget is just about balanced and there is, if anything, a need for more funds for more vital public works and services. While additional Government funds might be secured by new internal taxation, this would be a most unpopular move politically. All in all, the chances of raising sufficient funds to service a loan of the size necessary to construct the Vila Vila-Santa Cruz Railroad appear slim.

. . . . .

#### *Possibility of Road Instead of Railroad.*

Having reached the conclusion that the construction of a railroad from Vila Vila to Santa Cruz was probably not economically feasible, the Commission had a report on a possible alternative highway prepared by Lieutenant Parry as an annex to the general report on the railroad. Lieutenant Parry had not completed this at the time of his departure although he had finished estimates that the cost of a road 454.6 kilometers long, between Vila Vila and Santa Cruz, with a surfaced width of 6 meters and a 2½ inch penetration bituminous top capable of a traffic of 800 vehicles daily would be \$6,982,660 as compared with the \$29,009,526 estimated for the railroad. The road report will recommend cost plus construction contracts, if a road is to be considered, with the Bolivian Government purchasing the machinery.

Lieutenant Parry was convinced of the advantages of a road over a railroad and intended to include the following arguments therefor in the road report:

1. Shorter distance because greater grades cut distance.
2. Lesser cost per kilometer because smaller quantities of earth would have to be moved and less material used.
3. More labor available for road than railroad construction and less total labor needed, important in view of shortage of labor in country.
4. Lack of trained personnel to manage and operate railroad whereas there are plenty of truck drivers.

5. Cheaper transportation.
6. Continuous two-way traffic.
7. Greater carrying capacity with truck fleet than with freight trains.
8. Trucking encourages local industry.
9. Road might help to develop gasoline industry from nearby deposits.
10. Less and easier maintenance; machinery used to build road could be utilized for maintenance.
11. Revenue to repay loan could be better assured by gasoline and toll taxes.
12. Highway is faster than railroad.
13. Less time to construct (three years for road as compared with at least four to six for railroad).

It should be noted that the highway report contemplates only a road only from Vila Vila to Santa Cruz and not from Cochabamba to Santa Cruz. The reason for this is the belief that a highway all the way from Cochabamba to Santa Cruz would kill practically all traffic on the completed Cochabamba-Vila Vila Railroad. While Lieutenant Parry recognizes that the use of a highway all the way would be more economic for shippers than transshipment from road to railroad or vice versa at Vila Vila, he is of the opinion that the Bolivian Government would be averse to losing the large investment which has already been made in the Cochabamba-Vila Vila Railroad. From the point of view of Bolivia's future, a road all the way from Cochabamba to Santa Cruz would appear to be advisable regardless of losses on present railroad investments.

#### *Recapitulation.*

I am very much in favor of the present policy of our Government to lend assistance wherever possible in the development of the industries and natural resources of the South American Republics and I would gladly recommend that aid be extended the Bolivian Government to complete the Vila Vila-Santa Cruz Railroad if the project appeared at all feasible. As an ordinary layman, however, I must confess it seems to me the expense of finishing this work would be out of all proportion to any return that may be expected, financially or otherwise. Besides the entire project would appear to be far beyond the resources of Bolivia when the present financial condition of the country is considered.

As the Legation has previously pointed out, President Peñaranda, Minister of Foreign Affairs Ostria Gutiérrez and other high officials in Bolivia are deeply interested in the completion of this railroad. Unfortunately, the impression has been unjustifiably created in Bolivia that financing by the United States is almost a foregone conclusion. There will consequently be great disappointment in the



country if it is learned that the United States Government is not prepared to lend money to finish the work.

Various factors enter into the Bolivian officials' interest in completing the railroad from the plateau to Santa Cruz. In the first place, they are naturally concerned both for economic and internal political reasons with improving communications to that potentially important section of Bolivia which under proper development might become the major agricultural section of the country and with which the existing means of communication are by airplane or by a bad road which can be used only in favorable weather. Being railroad-conscious, they have set their hearts on a railroad without considering adequately the economic feasibility of such a transportation system or the relative advantages and feasibility of a good highway. As indicated in the highway supplement to the Commission's report, it is estimated that an automobile road of first rate modern construction would cost about \$7,000,000 as compared with nearly \$30,000,000 for the railroad and would be as useful, if not more so, than the railroad under the present state of development of the country.

Another factor leading to the preoccupation with the completion of the Vila Vila-Santa Cruz Railroad is that, by arrangements with the Brazilian and Argentine Governments, construction of railroads from the Brazilian and Argentine borders into Bolivia from the east and south has been agreed upon. In the first case, construction is already well under way while in the second the arrangements are still tentative. Unless good means of communication from the plateau to the Santa Cruz region are completed, portions of these outlying areas will find themselves in closer relations with Brazil and Argentina than with the plateau and population centers of Bolivia. That this situation has arisen . . . does not alter the fact that the need for a railroad or good highway connection with Santa Cruz is acute and that if it is not supplied in the near future the consequences to Bolivia may be unfortunate. There has been much criticism of the Bolivian Government for entering into these agreements with Brazil and Argentina and the Government naturally wishes to overcome this criticism by linking Santa Cruz with the center of the country. Since a railroad is being built from Corumbá toward Santa Cruz, a railroad from Vila Vila to Santa Cruz rather than a highway would be most effective in satisfying domestic critics.

When the report is handed to the Minister of Foreign Affairs, I imagine the Department will not wish to raise the question of whether the United States Government would be willing to assist in financing the proposed railroad, merely transmitting the non-confidential report for the Bolivian Government's information as a cooperative ges-

ture under the Habana Resolution. Should the Bolivian Government then make a request for financial assistance, it might at that time be possible and appropriate to say quite frankly that the cost of a railroad would be out of proportion to possible income but that our Government would consider the possibility of lending assistance to the construction of a highway for motor traffic under satisfactory conditions of amortization on the basis of toll or other taxes.

In this general connection, I might say that I think other impartial non-Bolivian observers and more enlightened Bolivians who have not allowed political considerations to warp their thoughts share my feeling that Bolivia's transportation problem as a whole can be more effectively and cheaply solved by the building up of highways, possibly in connection with the extension of the Pan American Highway, than by expansion of the present railway system.

If financing of a highway from Vila Vila or Cochabamba to Santa Cruz is considered, it seems to me advisable that arrangements be made for the actual construction work to be carried on under the direction and control of American engineers and that provision should also be made for the purchase of road machinery and other supplies not available in Bolivia from the United States in keeping with the general policy of the Export-Import Bank in previous highway loans in Latin America. In addition, the fact should not be overlooked that the Bolivian Government has still failed to take any steps toward settling the Standard Oil case.<sup>36</sup> I am still of the opinion that no loans should be made to this country until the Standard Oil matter has been satisfactorily adjusted.

Respectfully yours,

DOUGLAS JENKINS

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<sup>36</sup> See pp. 513 ff.

## BRAZIL

### EFFORTS OF THE DEPARTMENT OF STATE TO SECURE A RESUMPTION OF PAYMENTS ON BRAZILIAN FOREIGN DEBTS<sup>1</sup>

832.51/1688

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

No. 2345

RIO DE JANEIRO, January 8, 1940.

[Received January 15.]

SIR: With reference to the Department's telegram No. 249 of December 29, 7 p. m.,<sup>2</sup> authorizing me to participate informally and independently in debt discussions with the Brazilian authorities for the purpose of ascertaining what terms the Brazilians are prepared to offer, I have the honor to enclose copies of a letter<sup>3</sup> and memorandum that I have sent to the Minister for Foreign Affairs<sup>3a</sup> following my recent conversation with him on the subject mentioned in my telegram No. 461 of December 30, 10 p. m.<sup>4</sup>

No discussions are being carried on with the Europeans at present.

I have the honor to suggest that the Treasury Department be informed appropriately.

Respectfully yours,

JEFFERSON CAFFERY

[Enclosure]

*Memorandum From the American Embassy to the Brazilian Ministry  
for Foreign Affairs*

[RIO DE JANEIRO, January 8, 1940.]

Is this a correct statement of the position of the Brazilian Government in regard to the dollar bonds of the Brazilian foreign debt?

The dollar bonds of all issues, state and municipal as well as Federal, are to be serviced.

The relative positions of the dollar issues in the Aranha Plan<sup>5</sup> will be preserved so that no dollar issue will receive service relatively less favorable than any issue in other currencies on the basis of the Aranha Plan schedules.

No agreement is to be made with other bondholders prior to an agreement with the American bondholders.

<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 357-379.

<sup>2</sup> *Ibid.*, p. 377.

<sup>3</sup> Not printed.

<sup>3a</sup> Oswaldo Aranha.

<sup>4</sup> *Foreign Relations*, 1939, vol. v, p. 378.

<sup>5</sup> See despatch No. 58, September 27, 1933, *ibid.*, 1933, vol. v, p. 76; also *ibid.*, 1934, vol. iv, pp. 602-623.

The state and municipal governments will obligate themselves in due form to provide the milreis payments on their foreign bonds up to the amount agreed upon.

The Federal Government will give appropriate guarantees to provide the foreign exchange required for the transfer of the payments of the states and municipalities as well as those of the Federal Government itself.

If this is a correct interpretation, the Embassy would be happy to hear what amounts in dollars will be available for the Federal dollar issues and what amounts in dollars will be available for the state and municipal dollar issues.

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832.51/1687 : Telegram

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

[Extract]

RIO DE JANEIRO, January 13, 1940—noon.

[Received 3 p. m.]

16. My despatch Number 2345, January 8. The Brazilian Minister for Foreign Affairs informed me today that he agrees with my memorandum. He went on to review his whole position in regard to the debt matter and to say how important it is in his opinion for the Brazilian Government to start again making some payments against the foreign debt. . . .

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CAFFERY

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832.51/1692 : Telegram

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

RIO DE JANEIRO, January 17, 1940—5 p. m.

[Received 5:19 p. m.]

27. My 16, January 13, noon. Aranha tells me he discussed the debt situation yesterday with President Vargas who agreed to a provisional arrangement for the assumption of payments under the Aranha plan on the basis of 50% of all dollar payments due under the first year of the Aranha plan with increases in subsequent years on the basis set out in the Aranha plan. I reminded him that the other day he had spoken only of "50% of all dollar payments due in the last year of the Aranha plan". . . .

Aranha said that a Cabinet meeting has been called for tomorrow, Thursday, afternoon to consider this debt matter.

He leaves for Buenos Aires by air early Friday morning.

I would appreciate an indication of the Department's attitude.

CAFFERY

832.51/1692 : Telegram

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

WASHINGTON, January 18, 1940—noon.

13. Your 27, January 17. Assuming that the Brazilian Government makes clear that its offer is not a permanent settlement, you may, while avoiding any responsibility for the action of the Brazilian Government, indicate to Aranha that if the Brazilian Government should make an offer of one-half of the payments scheduled for the last year of the Aranha Plan, with the indicated progression in subsequent years that this Government would regard it as a step forward.

HULL

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832.51/1694 : Telegram

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

RIO DE JANEIRO, January 18, 1940—5 p. m.

[Received 5 : 14 p. m.]

29. My conversation with Economic Adviser.<sup>6</sup> Aranha says he will endeavor to persuade President and Cabinet to agree to resume payments on basis of one half of payments scheduled for the last year of the Aranha plan but he is doubtful of their agreeing to "last year"; although he believes they would agree to one half of payments scheduled for first effective year of the Aranha plan that is, April 1934 to March 31, 1935.

He says that as contracts for some loans stipulate payments in either dollars or pounds their annual dollar payments will now relatively be increased and dollars are expensive and pounds cheap.

CAFFERY

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832.51/1695 : Telegram

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

RIO DE JANEIRO, January 19, 1940—2 p. m.

[Received 3 : 18 p. m.]

30. Department's 13, January 18, noon. Aranha, who left for Buenos Aires early this morning, sent me word that the Cabinet voted unanimously to authorize the Minister of Finance<sup>7</sup> to make arrangements to resume foreign debt payments on the basis of one half of the amounts scheduled for the first effective year April 1, 1934 to

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<sup>6</sup>The Adviser on International Economic Affairs, Herbert Feis, telephoned from Washington to the Ambassador in Brazil.

<sup>7</sup>Arthur de Souza Costa.

March 31, 1935 of the Aranha plan with the increases in the subsequent years as set out in the plan. The President and Cabinet refused to approve the plan for resumption of initial payments based on the last year of the plan alleging insufficient resources at this juncture.

Aranha promised me yesterday afternoon that the Brazilian Government would make clear that its offer was not a permanent settlement.

Aranha sent me word also that I should send a representative to meet with Souza Costa this afternoon at 2:30, when the Minister will probably announce the Government's intentions to the representatives of all the interested bondholders.

I repeat that they have in mind April 1, 1934 to March 31, 1935 (as the Department is aware payments in 1934 began only on April 1).

Please inform Treasury.

CAFFERY

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832.51/1696 : Telegram

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

RIO DE JANEIRO, January 19, 1940—5 p. m.

[Received 6:07 p. m.]

32. My 30, January 19, 2 p. m. Souza Costa received my representative privately and explained what he was about to do. He thereafter received the Europeans and handed a statement to each representative which recites that the Government had hoped to make a permanent settlement but now feels compelled to make only a temporary settlement and concludes "I propose since it is not possible to conclude a definite agreement to resume the payment on the foreign debt in April 1940 on the basis of 50% of the obligations assumed under the Aranha plan." He then stated that the Government intends to avail itself of the provisions of numbered paragraph 6 of article I of the Aranha plan.<sup>7a</sup>

CAFFERY

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832.51/1695 : Telegram

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

WASHINGTON, January 20, 1940—4 p. m.

14. Your 30, January 19. The Brazilian Government is of course acting on its own responsibility and this Department does not want

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<sup>7a</sup> Decree No. 23829, February 5, 1934, embodying the Aranha Plan; for text, see *Diario Oficial*, February 7, 1934, p. 2689.

to be in a position of definitely standing in the way of any offer that it wishes to put before those who hold its dollar bonds. However because of the fact that a satisfactory settlement would create the basis for so much mutually beneficial future development between the two countries and on the contrary one that seemed to the bondholders unreasonably harsh would stand as an obstacle to such development, we think it desirable that you should put before the Minister of Finance our estimation of the offer which he is considering making. For this purpose it is believed that you should see the Minister of Finance personally before the 23d.

The offer based on the first year of the Aranha Plan would mean  $17\frac{1}{2}$  percent of coupon rate for holders of bonds in Grade III, Federal Loans, 10 percent for holders of bonds in Grade VI, the securities of the important Brazilian States, and  $8\frac{3}{4}$  percent for holders of Grade VII, securities of big municipalities and some other States of Brazil. Even though they may have pretty clear recognition of the fact that the Brazilian economy is facing many difficulties and obstacles and that the problem of securing exchange for the service of debts is not an easy one, it is unlikely that the holders of these securities will feel satisfied with this offer. Many of them might accept it but our best judgment is it would not create a prospect by which American private capital would feel any assurance for further undertakings in Brazil.

The three grades cited are those in which the American holdings are most substantial. This offer would therefore be open to the criticism that it extends decidedly more favorable treatment to the European bondholders than to the main classes of American bondholders. For example, a holder of a Federal bond in Grade III, to which the full credit of the Brazilian Government was pledged, would find himself receiving less than one-fifth of the contractual interest, while European holders of Grades I and II would be getting full one-half. We feel that this distribution of payment would be all the more certain to be in the forefront of discussion here because of the fact that American purchases of Brazilian products create so large a part of the exchange for all of the bond payment.

It is realized that it is important for Brazil to have the prospect of a substantial and comparatively rapid reduction of its debt. However, when the method envisaged in paragraph 6 of Article I is used in connection with bonds being serviced at so low a percentage of their coupon rate as Grades III to VIII would be if the schedules of the first year of the Aranha Plan were applied, criticism might well again be invited.

In the light of all the foregoing (and it is our most earnest desire that the disposal of the bond question be such as to restore firmly the basis of financial operations between Brazil and America) we greatly hope that the Minister of Finance will use instead as the basis of his

offer the fourth year of the Aranha Plan which yields distinctly improved percentages to the holders of Grades III to VIII and thereby also lessens the difference in treatment between the main American interests concerned and the main European interests concerned.

In handling this presentation you will, of course, avoid any possible attempt by the Minister to use our observations as justification for doing nothing.

HULL

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832.51/1711

*The Secretary of the Treasury (Morgenthau) to the Secretary of State*

WASHINGTON, January 20, 1940.

MY DEAR CORDELL: I am writing to confirm a decision with respect to the Brazilian debt negotiations of which Mr. Gaston <sup>7b</sup> advised Mr. Feis by telephone today. This decision is that the Treasury will not participate in the present deliberations and negotiations looking to a settlement of the Brazilian debt matter, but will, however, stand ready and willing to supply any technical assistance in the way of research or computations that the State Department may desire.

I am impelled to reach this decision by the history and present status of the Brazilian negotiations.

You will recall my telephone conversation with you on Thursday, in which I told you that we had been asked to give within a matter of a few minutes our approval or disapproval to a despatch which it was proposed to transmit that day to Ambassador Caffery for communication to the Brazilian government. This despatch was to inform the Brazilian government that an offer in certain terms for a temporary settlement of the Brazilian dollar obligations would be regarded by this government as a "step forward."

It seemed to me clearly impossible, as I informed you then, for us to reach an intelligent decision on so important a matter in the time afforded, particularly in view of the fact that we had been so lately informed of the negotiations in which Ambassador Caffery was engaged. Since the offer under discussion affected the interests of private creditors, I also had in mind our obligation to the Bondholders' Protective Council, the representative of those creditors. I was impressed, too, by the fact that the proposed despatch undertook to state the considered view of this government, which seemed to me to suggest that it ought to have the careful consideration of all of us who have been asked to confer together on these problems.

I therefore suggested that the matter should be given more mature consideration at a meeting on this subject already scheduled for that

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<sup>7b</sup> Herbert E. Gaston, Assistant Secretary of the Treasury.



afternoon, at which Mr. Feis, Mr. Gaston and others were to be present. Mr. Feis was therefore advised that in advance of that meeting the Treasury could give no decision and make no comment on the proposed despatch to Rio. The matter being considered in the State Department to be urgent, the despatch was, however, sent and the Treasury Department so advised.

I am now informed that a reply has been received from Rio which calls for a new decision and that the Treasury is invited to participate in the consideration of what further steps are to be taken.

The negotiations are now quite obviously far advanced and their pattern has been set. Without implying any criticism of what has been done, I do not feel that the Treasury can contribute anything of value by entering into the discussions at this late stage.

Sincerely,

HENRY MORGENTHAU, JR.

832.51/1698 : Telegram

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

RIO DE JANEIRO, January 22, 1940—4 p. m.

[Received 5:45 p. m.]

35. Department's 14, January 20, 4 p. m. I talked over the situation this afternoon with the Minister of Finance. He instructed his debt expert to draw up a new schedule satisfactory to us of payments reversing the present favorable treatment the European bondholders enjoy under the first year of the Aranha plan. He directed his expert also to postpone the meeting set for tomorrow until Thursday afternoon.

He says, however, that the present state of his budget does not allow him to increase the global figure (the amount required for the first year of the Aranha plan) set aside for the payments of the first year to begin on April 1st next.

CAFFERY

832.51/1698 : Telegram

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

WASHINGTON, January 23, 1940—2 p. m.

17. Your 35, January 22. The position taken by the Minister of Finance that the global amount to be devoted to debts shall not exceed one-half of the amount allocated in the first year of the Aranha Plan would mean that even though he revises the percentages offered to the different grades (for example using perhaps the relative positions of the different grades as they worked out in the fourth year of the Aranha Plan) the offer to the bondholders is likely to appear rather

meager even as the basis of a temporary settlement. Considering on the one hand the advantage of having Brazil resume payment at all rather than have an indefinite prolongation of complete default, and on the other hand the possible criticism of this offer, it seems to us that the only line open is a continuation of your endeavors to secure the most favorable consideration possible while making it clear that we are not sharing responsibility for the offer. The Department realizes that you have proceeded completely along these lines, and leaves it to your best judgment as to what extent to enter into the further discussion of details.

HULL

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832.51/1700 : Telegram

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

RIO DE JANEIRO, January 25, 1940—3 p. m.

[Received January 25—2: 11 p. m.]

39. Department's 17, January 23, 2 p. m. I have had another talk with the Minister of Finance. He has promised to try to get more money for the coffee realization loan. He has singled out this loan because at least part of the milreis proceeds of the coffee tax have already been deposited for it.

CAFFERY

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832.51/1695 : Telegram

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

WASHINGTON, January 25, 1940—5 p. m.

18. We have informed the Council<sup>8</sup> of the main points of the debt adjustment plan which the Finance Minister has been developing and of the informal efforts you have been making first to assure a larger total payment to American bondholders, and under any circumstances to procure better relative treatment.

The Council, without accepting any responsibility or indicating any judgment in the matter, has been reviewing the financial facts and suggests that a rearrangement of the following type would be a useful basis for improving the position of the American holders: that Grades I and III be combined, all of them being Federal obligations, the amount available for service in those two grades to be prorated equally among all the bonds, that Grades II, V and VI be similarly combined as they are all State obligations, and similarly treated, that the relative positions of Grades IV and VII be maintained as in

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<sup>8</sup> Foreign Bondholders Protective Council.

the Aranha Plan, but that the bonds of the State of Ceara be included in Grade VII. Another alternative which the Council mentions is to give the bonds the following percentages of their contractual interest rate (note the percentages are of contractual service and not of service under the Aranha Plan) : Grade I, 50 percent; Grade III, 30 percent; Grade IV, 20 percent; Grades II, V and VI, 15 percent; Grade VII, including Ceara, 10 percent.

The Department transmits these suggestions of the Council as of possible interest, without of course engaging its responsibility as regards an offer on these terms.

HULL

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832.51/1708 : Telegram

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

RIO DE JANEIRO, January 31, 1940—1 p. m.

[Received 3 : 11 p. m.]

45. My 35, January 22, 4 p. m. The British are making a big fight against plan now being considered by the Ministry of Finance basing payments on the relative positions of the last year of the Aranha plan (i. e. paying during the coming 4 years 41.25%, 42%, 44% and 50% respectively of the last year of the Aranha plan instead of 50% of each of the successive years of that plan). They have handed him a memorandum stating that that plan is "totally unacceptable to us and we should protest strongly against it.

It is quite inconsistent with the whole basis of the Aranha plan, as accepted by the Americans in 1933, and takes no account of the priority rights and superior security of the loans in grades I and II, as established in their respective contracts and confirmed by articles 1 and 4 of the Aranha plan decree.

If contractual rules are to be thus ignored, there is no justification for not giving grade IV as good terms as grade III, and all grades would again be subject to further debate.

Grades I and II would already be making a heavy sacrifice by giving up 50% and any further reduction, in respect of either interest or sinking fund, is out of the question.

The proposal would involve depleting grades I and II by pounds 418,000 the first year, pounds 385,000 the second and pounds 298,000 the third; all of which would be diverted to inferior and partly municipal grades.

We attach great importance to sinking funds of grades I and II and in no circumstances could agree to further reduction of these".

CAFFERY

832.51/1708 : Telegram

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

WASHINGTON, February 2, 1940—3 p. m.

24. Your 45, January 31. For such use as may present itself, the memorandum of the British creditors prompts the following observations:

The assertion about ignoring "contractual rules" has no basis known to the Department. Reuben Clark in greater or lesser measure assented to the schedules in January 1934<sup>9</sup> when he could get no more satisfactory recognition for the grades of securities primarily in American hands; he carefully let the Aranha plan stand as a unilateral act. How an arrangement of relative percentages of payment contained in this plan should attain a higher degree of sanctity than the contracts contained in the original bonds is difficult for us to perceive.

As to Grade II, the Coffee Realization Loan, its "superior security" is irrelevant in the face of a general transfer moratorium. It may or may not be true as compared with various other loans engaging the full credit and responsibility of Brazilian public authorities. In short, the whole argument can be recognized as a defense of British interests in the form of an assertion of legal right.

HULL

832.51/1711

*The Secretary of State to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, February 6, 1940.

MY DEAR MR. SECRETARY: I wish to acknowledge your letter of January 20, 1940 written to confirm the decision of the Treasury to abstain from participation in the present deliberations and negotiations having to do with the Brazilian debt. I realize the circumstances that have prompted this decision.

Though I think probably members of your Department understand the circumstances which have controlled our decisions, it might be well to review them for your information. Current discussions which are taking place in Rio de Janeiro arose out of the fact that our Ambassador in Rio de Janeiro reported to us that the Brazilian Government independently and on its own responsibility had reached a

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<sup>9</sup> J. Reuben Clark, Jr., was at that time in Brazil as representative of the Foreign Bondholders Protective Council. See *Foreign Relations*, 1934, vol. iv, pp. 602 ff.

decision to make some kind of an offer to the holders of its external bonds now in complete default; it further reported that this action had been preceded by discussions with representatives of the European bondholders. The information which he sent to us regarding the character of the plans under consideration by the Brazilian Government was such as to lead us to believe that a real danger existed that events in this matter might develop into a very unsatisfactory outcome to the American bondholders. In the face of that possibility it was essential that the Ambassador informally advise the Brazilian authorities of our thoughts in the situation, while carefully avoiding any responsibility of action that the Brazilian Government might take more or less irrespective of our views. The situation seemed to make it a matter of imperative duty that we do what we could, within the limits of our established policy, to try to serve the American interests involved.

The subsequent instructions to the Ambassador were entirely dictated by this same purpose, and the time limits within which they had to be despatched and the manner in which they were handled was dictated entirely by the circumstances with which the Ambassador had to deal. In the first case we were required to get instruction to the Ambassador by noon on the basis of information received from him only at nine o'clock the same morning, and needed by him before a meeting of the Brazilian Cabinet in the early afternoon of the same day. In the second instance we were required to get the guiding instruction back to him in a similarly short period, so that he could take advantage of an opportunity afforded him by the Minister of Finance to present observations before the Minister of Finance met with the creditors' representatives. These circumstances determined the timetable.

I understand too that my colleagues have been mindful of the obligations to the Foreign Bondholders Protective Council, and every care has been taken to in no way commit that organization, or anyone else, to the decisions the Brazilian Government might make. But the manner in which the situation has shaped itself up has made it impossible to exchange views with them. We have not, I repeat, undertaken to negotiate with the Brazilian Government. We have been faced by the fact, as reported by our representative, that it was very likely that the Brazilian Government would, on its own responsibility, undertake to make an offer to the bondholders and have tried to do the best we can to assure that if the Brazilian Government should do so, it would be as satisfactory an offer as they could be prevailed upon to make.

Sincerely yours,

CORDELL HULL

832.51/1714: Telegram

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

RIO DE JANEIRO, February 12, 1940—6 p. m.

[Received 6:17 p. m.]

54. My 45, January 31, 1 p. m. Aranha has observed to me several times recently that one of the chief drawbacks to a solution to the debt controversy is that the British and French have definitely declared that their bondholders council will publicly announce that they are satisfied with the plan of paying 50% of the Aranha plan beginning with the first year of the plan while our bondholders council is unwilling to do anything of the kind in connection with the plan for payments based on the last year of the plan (they also have in mind our council's remarks about "mock dry" [*mockery*] last summer and fear possible future repetition) and the Department of State is willing to say only that it is a step in the right direction.

I have of course explained all the circumstances to Aranha and he is to talk to the President on the subject at Petropolis tomorrow.

CAFFERY

832.51/1715: Telegram

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

RIO DE JANEIRO, February 14, 1940—10 p. m.

[Received 11 p. m.]

60. My 54, February 12, 6 p. m., and 45, January 31, 1 p. m.; Department's 14, January 20, 4 p. m., especially penultimate paragraph. As the Department is aware the Europeans accepted Costa's plan for payments at 50% of the rates of each of the 4 successive years of the Aranha plan; the Department did not agree. Aranha now suggests that Europeans be paid on that basis and we be paid on the basis for which Department has expressed preference that is 41.25%, 42, 44 and 50% of the last year of Aranha plan in the 4 successive years of the new plan. I shall appreciate the Department's early opinion on this.

CAFFERY

832.51/1718: Telegram

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

RIO DE JANEIRO, February 16, 1940—6 p. m.

[Received 7:10 p. m.]

63. I do not like Aranha's suggestion set out in my 60, February 14, 10 p. m. Interest rates on identical loans received by American and

British bondholders respectively in the first year would be in grade I 2 and 2.5, grade II 2.9 and 3.5, grade III 1.44 and 1.14, grade VI State of Sao Paulo 8% loan 1.15 and .8, grade VII .9 and .6.

We would be getting \$675,000 more under the plan based on the last year of the Aranha plan than under Costa's plan. It might be difficult, however, to have our public understand the situation:

It would be necessary to explain to the public that we were being paid on the basis of 41.25% plus of the last year of the Aranha plan, while the Europeans were being paid 50% of the entire Aranha plan, the first year paid on the basis of 50% of the first year of that plan. In my opinion the European terms might sound better to the press and public.

Aranha this morning presented a new plan; interest and amortization would be paid at 50% and 40% respectively of the rates of the last year of the Aranha plan throughout the 4 years of the new plan for grades I and II and interest at 40%, 41%, 43% and 50% of the rates of the last year of the Aranha plan in the respective 4 successive years of the new plan for grades III to VII inclusive.

This plan would obviously cost the Brazilian Government considerably more money than any of the plans previously discussed; and we would get more money too than the other plans provided.

I strongly recommend a prompt expression of the Department's opinion since final action will have to be taken very soon if Costa is not to be given an excuse for delaying execution of the new plan beyond April 1st when the semi-annual coupon on many American issues becomes due.

CAFFERY

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832.51/1719 : Telegram

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

RIO DE JANEIRO, February 17, 1940—noon.

[Received February 17—11:40 a. m.]

64. My 63, February 16, 6 p. m. In discussing his last suggestion for a debt settlement again last evening Aranha said positively that the Brazilian Government is definitely willing to go through with it if we do not object to it.

He said that if we assent to it the Brazilian Government will simply announce that it has made a final decision to resume service on that basis.

In my opinion this is as good an offer as we will get out of the Brazilian Government at this time.

CAFFERY

832.51/1715 : Telegram

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

WASHINGTON, February 17, 1940—3 p. m.

33. Your 60, February 14, 10 p. m. The Department has considered carefully Aranha's new suggestion. It notes that although American holders of securities of grades III to VI would receive a greater percentage of coupon than European holders of securities in such grades, Europeans, as holders of sterling bonds in grades I and II would receive 50 percent of coupon and amortization while American holders of precisely similar dollar securities would receive but 41.25 percent. Public reaction in the United States would undoubtedly be unfavorable to any debt offer of the Brazilian Government which discriminated in this way in favor of European holders in connection with the Federal and coffee realization bonds, and the Department, especially in view of the repeated statements of Brazilian authorities that Americans would get at least as favorable treatment as the Europeans, would not be able to approach the Council to give it a favorable reception.

The grading relationship in the last year of the Aranha Plan appears to provide a fairly equitable and reasonable distribution as among all parties concerned. The Department therefore, in so far as concerns distribution among the grades, would interpose no objection to any proposal based as regards dollar bonds on the last year of the Aranha Plan provided that in no grades the treatment accorded Europeans as regards percentage of coupon and of amortization is greater than that accorded American holders of securities in the same grades. If the Brazilian Government unilaterally offers to resume payment on such a basis offering to the American holders of dollar securities the suggested percentage (41.25 percent for the first year of the new plan) of the last year of the Aranha Plan, the Department will use its best offices to obtain for the offer as favorable a reception as possible from the Council, which has given no indication of attitude except for the suggestions it volunteered as reported in the Department's 18, January 25.

Your 63, February 16. Aranha's suggestion of February 16 would alter the grading relationship established under the Aranha Plan of 1934 to provide, as we understand your telegram, 50% of the interest for grades I and II during the last year of the Aranha plan throughout the 4 years of the new plan; and to provide for 40% of the amortization for grades I and II during the last year of the Aranha plan throughout the 4 years of the new plan. Your telegram might also be interpreted, however, to mean that Aranha's suggestion of February



16 would alter the grading relationship established under the Aranha plan of 1934 insofar as it concerns grades I and II, demoting grade II slightly in order to give grade I uniform service of 50% of contractual interest and amortization. Although the Department hopes that the first interpretation is correct, it does not perceive that it need object to the proposal under either interpretation if it would serve to solve the difficulties on the European side, which apparently have stood in the way of a prompt announcement of the resumption of service under the new provisional basis.

HULL

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832.51/1720 : Telegram

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

RIO DE JANEIRO, February 18, 1940—6 p. m.

[Received 7:12 p. m.]

65. Department's 33, February 17, 3 p. m. As the Department correctly understood Aranha's last offer would give each of grades I and II interest at 50% and amortization at 40% of the Aranha plan rates which were constant throughout the 4 years. All other grades would receive in the four successive years of the new plan 40%, 41%, 43% and 50 respectively of the rates of the last year of the Aranha plan.

Referring to my telegrams 54, February 12, 6 p. m., especially the parentheses, and to the last paragraph of my telegram No. 63, February 16, 6 p. m., Aranha before proceeding further will of course make direct inquiry of me regarding the public attitude the Council would take in the premises.

CAFFERY

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832.51/1722 : Telegram

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

RIO DE JANEIRO, February 20, 1940—1 p. m.

[Received 1:30 p. m.]

66. My 65, February 18, 5 [6] p. m. I cannot stress too strongly the dangers inherent in any delay in getting to Aranha the Council's attitude toward the last debt settlement plan suggested by him. Sentiment in favor of paying the debt, which as the Department knows has been far from strong, is waning fast; delay might not only lose for us the payment on the April coupons which make up a large part [of] a whole year's payment on the dollar debt but also place the entire negotiations in jeopardy.

CAFFERY

832.51/1722 : Telegram

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

WASHINGTON, February 20, 1940—5 p. m.

34. Your 66, February 20, 1 p. m. White<sup>10</sup> will discuss matter at Department Wednesday, having put it before his Executive Committee today. Department will telegraph tomorrow afternoon.

HULL

832.51/1726a : Telegram

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

WASHINGTON, February 21, 1940—7 p. m.

36. We met with Francis White today and reviewed the status of the Brazilian debt offer. The Council is still of the judgment that the offer in its latest form is still not adequate and would afford comparatively greater consideration to the holders of sterling than to the holders of dollar bonds. White quite definitely is of the opinion that the Council could not make any positive recommendation to the bondholders.

The Department has fully explained to the Council that this offer is one that the Brazilian Government has shaped up itself and is not to be regarded as a negotiated settlement. It has explained why in its judgment there are strong reasons for regarding even a comparatively unsatisfactory offer as a step forward. Moved by these considerations it has said to the Council that if the Brazilian Government went forward with the offer, particularly if the Brazilian Government would improve its terms on the vital point explained below, it might consider requesting the Council to abstain from comment on the offer and merely state that it understood the offer to be the unilateral offer of the Brazilian Government and it would not undertake to advise the bondholders in regard to it. White stated that should we make any such request of the Council, he would discuss it with his Executive Committee; in that contingency the Department would use its best influence.

The prospective offer as it now stands has one leading feature certain to give rise to dissatisfaction and criticism in the United States. You are therefore requested to bring this aspect of the question before the Brazilian officials with emphasis and thoroughness and to continue your effort to secure a modification that will be more satisfactory. The Department has in mind the relative treatment of the securities in Grades I, II and III. You know of course the preponderant Ameri-

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<sup>10</sup> Francis White, President of the Foreign Bondholders Protective Council.

can interest in Grade III. It is felt that the proposed treatment of these grades is not in correspondence with the underlying equities and that there is no basic reason for retaining them because they were established in the original Aranha plan. The securities in Grade III rest upon the full credit of the Brazilian Government besides possessing specific pledges in every instance. It is therefore most difficult to find justification for the markedly better terms offered the securities in Grades I and II. The extent of the comparative favor shown Grades I and II is borne out by the following calculations, the full weight of which is all the more clear since the Sao Paulo Coffee Realization Loan is only a State security and not one of the Federal Government. According to our calculations, 82 separate loan issues would be serviced under the plan. The principal of these 82 issues totals approximately \$996,000,000. Of these, the Sao Paulo Coffee Realization Loan makes up \$44,000,000 or approximately 4½ percent of the total principal of the bonds involved. Under the scheme of payment now proposed, however, these bonds would receive as interest and amortization approximately \$3,200,000 out of a total service that would range in different years from approximately \$16,000,000 to approximately \$18,000,000. In other words, bonds making up 4.5 percent of the total principal would receive 20 percent of the total payments and of the foreign exchange provided. The American holders of Federal securities and of other Brazilian State securities are apt to believe this an overpaid position in comparison with the terms accorded to them.

The same conclusion is indicated when it is remembered that the prospective plan calls for the use in amortization of the securities placed in Grades I and II of approximately 22 percent of the total exchange to be remitted. These also go preponderantly to the holders of sterling securities.

The Department greatly hopes that the Brazilian Government will appreciate the clear advisability of modifying its offer to rectify this situation.

The whole offer would be certain of more satisfactory reception here if the Federal loans in Grade III received as good treatment as the Federal loans now in Grade I and if part of the funds now allocated for amortization in Grades I and II were distributed either as interest or amortization to include Grade III loans on terms not less favorable than those received by any Brazilian issue.

Finally, I believe that it would be preferable if the plan were for 3 years instead of 4, the annual scale of payment being modified so that the payment in the third year would be the same as now being discussed for the fourth year.

832.51/1726b : Telegram

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

WASHINGTON, February 21, 1940—8 p. m.

37. Department's 36, Feb. 21, 7 p. m. The Council has outlined the terms on the basis of which it will make a favorable recommendation to the bondholders as follows: 50 percent of the contractual interest on the Federal bonds; 40 percent of the contractual interest on the State bonds; 30 percent of the contractual interest on the municipal bonds, and they hope to have Ceara included in at least the lower category of the municipal bonds.

The Council also states that it would prefer that the above offer be made for 2 years rather than for 4.

HULL

832.51/1727 : Telegram

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

RIO DE JANEIRO, February 23, 1940—5 p. m.

[Received February 23—3 p. m.]

70. Department's 36, 7 p. m. and 38 [37], 8 p. m., February 21. . . .

Aranha has repeatedly told me that he was proceeding on the premise that the United States Government would welcome reestablishment of the principle of paying even if the initial scale of payments were small, it would be a beginning at least: No agreement would be made: The Brazilian Government would unilaterally and voluntarily resume payments on a reduced scale.

Of course it is possible that Brazil's foreign exchange situation will be much better in a year or two if the war continues and it then might be easier to secure a more satisfactory settlement than now.

Aranha referred yesterday to the Colombian debt agreement<sup>12</sup> and said Brazil would gladly make a similar one leaving aside the state and municipal debts.

He remarked with asperity on what he termed the different attitudes of the European bondholders council on the one hand and ours on the other. Incidentally the French have acceded to the Brazilian view of the gold clause in franc loans.

His manner was discouraged but he promised to look once more into the situation.

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<sup>12</sup> See pp. 695 ff.

The Director of Exchange informs me that the British want to negotiate a clearing agreement with Brazil: As the Department is aware recent British war purchases have turned a favorable British balance of trade into an unfavorable one.

CAFFERY

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832.51/1727: Telegram

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

WASHINGTON, February 24, 1940—noon.

38. Your 70, February 23. The background of the negotiations had been explained to the Council and was explained again this morning.

The suggestions made by the Department would not require a larger total debt outlay on the part of the Brazilian Government. They pivot around the idea of distributing more equitably the payments in prospect on securities of Grades I, II and III. In urging this upon the Brazilian Government, the Department is not seeking to add to Aranha's difficulties; in a sense, it is trying to assure that the debt proposal would receive a satisfactory reception in the United States that would cause Aranha's very-much-appreciated effort to have the satisfactory results he seeks.

The Department is wondering whether the distribution between Grades I, II and III as contemplated in the latest Brazilian proposal accounts for the comparatively responsive attitude of the European bondholders council group. Correspondingly, the Council here feels that the bondholders it represents are at a disadvantage.

The last paragraph of your 70 touches upon the underlying concern which the Department entertains. It has been aware of the possibility that the British Government would seek to negotiate a clearing agreement with Brazil on the basis of its increased war purchases. Such a British-Brazilian clearing agreement the Department might have to discuss with the British Government. However, if it should develop that such an agreement was connected with a debt plan that accorded more favorable comparative treatment to the holders of sterling bonds than to the holders of dollar bonds the reaction in this country would be critical and severe. It would be felt that Brazil was ignoring the commercial advantages possessed in the American market and the fact that these purchases created more exchange than is allocated here. There is little doubt that such a series of developments would lead to the impression that the general line of our good-neighbor policy was not effective in the face of diplomatic maneuvers of another sort.

HULL

832.51/1728 : Telegram

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

RIO DE JANEIRO, February 24, 1940—1 p. m.

[Received 2 p. m.]

71. My 70, February 23, 1 [5] p. m. Aranha says that he and the Minister of Finance devoted considerable time last evening to a study of the debt situation with the end in view of doing the best they can for us. They are considering recommending to President Vargas that grade III be raised to 50% of the last year of the Aranha plan for each year of the new plan. (They calculate that they will be increasing the payments to grade III by \$1,776,000 over the 4 years; also they estimate that the present plan as compared with the original plan of the Minister of Finance will reduce the amounts devoted to amortization of grades I and II by 3.6 million dollars and increase the total amount devoted to interest in all grades by 5.4 million dollars). They are considering also if the Department so desires the possibility of making a private commitment with us to amortize dollar bonds by buying in the open market in the amount of 10 million dollars over the 4 years. They believe President Vargas would authorize that amount for amortizing dollar bonds by buying in the open market but he definitely refuses to authorize them to use the amount for any other debt purposes.

The two Ministers contend that this is the maximum that they can do at this time (the remainder of Aranha's plan of February 16 would remain unchanged).

They are to speak to President Vargas this afternoon at Petropolis on the debt situation. . . .

CAFFERY

832.51/1729 : Telegram

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

RIO DE JANEIRO, February 25, 1940—8 p. m.

[Received 10 : 35 p. m.]

72. Department's telegram No. 38, February 24, noon. I very respectfully submit that I feel that I must report that Aranha is being very critical and has reminded me with emphasis that early in December I told him that "The comparative position of the dollar issues including state and municipal issues should be recognized as they were in the original Aranha plan which was accepted as being relatively fair as between the holders of different issues". I quoted this from Department's telegram No. 235, December 12, 4 p. m.<sup>13</sup> Around the

<sup>13</sup> *Foreign Relations*, 1939, vol. v, p. 374.

middle of January I carried out instructions in Department's telegram No. 13, January 18, noon as follows "Indicate to Aranha that an offer . . . based on schedules for the last year of the Aranha plan . . . would be a step forward", and a few days later instructions in Department's telegram No. 14, January 20, 4 p. m. as follows "We greatly hope that the Minister of Finance will use instead as the basis of his offer the fourth year of the Aranha plan which yields distinctly improved percentages to the holders of grades III to VIII".

Some days later the Council's own suggestion in telegram No. 18, January 25, 5 p. m. was "grade I 50%, grade III 30%"; then on February 17 instructions in telegram 33, February 17, 3 p. m. as follows "the grading relationship in the last year of the Aranha plan appears to provide a fairly equitable and reasonable distribution as among all parties concerned. The Department therefore in so far as concerns distribution among the grades would interpose no objection to any proposal based as regards dollar bonds on the last year of the Aranha plan".

CAFFERY

832.51/1729 : Telegram

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

WASHINGTON, February 28, 1940—6 p. m.

44. Your 72, February 25, 8 p. m. As your recital indicates, there has been some change in the Department's attitude since its endeavors to have the distribution based on the last rather than the first year distribution of the Aranha Plan. The Department had not fully appreciated the degree of advantage extended to Grades I and II as set forth in figures in the Department's 36, February 21, 7 p. m., which weigh heavily with the Council and in any presentation to an informed public. These figures of effective preference for British holders and the prospect of a clearing agreement with Great Britain have influenced the Department's present position. We are not asking for a larger total payment but for a rearrangement of the amounts allocated for interest and amortization for the first three grades which will permit Grade III loans to receive better and non-discriminatory treatment.

Your 71, February 24, 1 p. m. A commitment to amortize dollar bonds by expenditures in a specified amount over and above the expenditures promised in the official proposal would not be well regarded by the Council and commentators here in view of the frequently expressed opinion that available funds should be devoted to interest payments rather than to purchasing bonds at depreciated prices. The

Department understands of course that the official offer may include a statement that the Brazilian Government retains a right to apply additional funds to purchase of bonds as it did under the Aranha Plan of 1934. Favorable judgment of the proposal in this country will depend on the interest rates offered.

Have you any report on Aranha's conversation with the President at Petropolis?

HULL

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832.51/1733 : Telegram

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

RIO DE JANEIRO, February 28, 1940—9 p. m.

[Received 9:45 p. m.]

74. Bouças<sup>14</sup> has just informed me that he has just been told that press despatches from New York have been received here this evening that the Bondholders Council has rejected the Brazilian offer for resumption of payments on the foreign debt.

I assume that this is not accurate because surely the Council would understand that any publicity given to any action or decision of theirs in the premises before the Brazilian Government had received or considered their decision would seriously prejudice possible negotiations of theirs in future years. It is also needless to say the Brazilian Government would highly resent such publicity at this juncture. Bouças added that the censor is not permitting the above despatch to be published here at least for a few days.

CAFFERY

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832.51/1733 : Telegram

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

WASHINGTON, February 29, 1940—3 p. m.

45. Your 74, February 28, 9 p. m. Francis White states that the Council has refrained from all comment of any type whatsoever, formal or informal, as regards the possibility of a debt settlement with Brazil.

Please correct Bouças' impression and, if necessary, any impression that Aranha may have to the contrary.

HULL

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<sup>14</sup> Valentim Fernandes Bouças, Brazilian financier.



832.51/1735 : Telegram

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

RIO DE JANEIRO, February 29, 1940—7 p. m.

[Received 7:14 p. m.]

78. Department's 44, February 28, 6 p. m. It is becoming more difficult to deal with Aranha on the debt question. (President Vargas leaves on March 6 for Rio Grande do Sul for at least a month and the whole business should be settled before that time.) Has the Department in mind dropping it until after the war if the Brazilian Government is unwilling or unable to meet the Council's terms?

Aranha is now willing to stand by his offer of February 16 (my 63, February 16, 6 p. m.) with the improvement of increasing grade III to 50% of the last year of the Aranha plan for each year of the plan, in other words he is willing to accord grade III similar interest treatment to grades I and II under the last year of the Aranha plan.

As I endeavored to set out in my 71, February 24, 1 p. m. although Aranha and Costa had an engagement to talk to the President about the debt that afternoon . . . They told the President merely that they had nothing to report: Negotiations were proceeding. If the Department is able to persuade the Council to make no public adverse statement they are willing to suggest to the President and to the subsequent and necessary full meeting of the Cabinet that grade III be improved in the manner set out in my previous. And they confidentially believe they can secure their approval.

CAFFERY

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832.51/1736 : Telegram

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

RIO DE JANEIRO, March 1, 1940—3 p. m.

[Received 3:39 p. m.]

79. My telegram 78, February 29, 7 p. m. Aranha reminded me again today that President Vargas is leaving on March 6 (the Minister of Finance who is ill is also leaving on the 8th for an extended stay in the south) so that if any debt settlement is to be made it must be done before then.

He again stood firmly by his view that the Aranha plan interrelationships were fair; he believes that as far as the underlying equities are concerned a court of law and equity would give grades I and II even more advantage over grade III than is provided for in the new plan being offered. . . .

Otherwise he says his offer stands as already reported. He said that as it works out the United States holding only 35.4% of the capi-

tal amount of the Brazilian foreign debt would get 38.1% of the payments to be made while the British holding 60.8% would get only 59.1%.

I have had great difficulty in securing these favorable percentages. (We now have no unfavorable balance of trade with Brazil about which even to talk; while the British and French do have rapidly growing unfavorable balances now.)

CAFFERY

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832.51/1735: Telegram

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

WASHINGTON, March 2, 1940—5 p. m.

48. Your 78 and 79. We have taken up the matter as vigorously as possible with White and separately with Traphagen<sup>15</sup> of the Council. It will be considered at a special meeting of the Executive Committee on Monday morning and we will telegraph you as soon as possible thereafter.

HULL

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832.51/1738: Telegram

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

RIO DE JANEIRO, March 3, 1940—4 p. m.

[Received 5:15 p. m.]

82. My 79, March 1, 3 p. m. Upon checking more closely Aranha says that under his last offer dollar bondholders holding only 35.4% of the debt would receive 38.9% of the payment to be made; the respective percentages for the others would be: Sterling 60.8 and 58.4; francs 3.4 and 2.4; florins .4 and .3.

CAFFERY

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832.51/1735: Telegram

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

WASHINGTON, March 4, 1940—9 p. m.

51. Department's 48, March 2, 5 p. m. The Executive Committee did not meet today. We did however have a very thorough discussion of all aspects of the Brazilian debt situation with Mr. White this afternoon. He still finds the Brazilian proposal inadequate in the total and unsatisfactory in distribution between sterling and dollar bonds.

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<sup>15</sup> John C. Traphagen.

It is the Department's view that since in your judgment this is the best available offer in present circumstances it is desirable that the way should be cleared to the bondholders. An agreement was finally worked out with Mr. White to the effect that should the Brazilian Government proceed with the offer precisely as outlined in your cables 63 of February 16 (as amended with regard to Grade III by your 71 of February 24), and 78 of February 29 (second paragraph), the Council would refrain from passing upon the merits of the offer, but would call the attention of the bondholders to it in the following terms

"Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government, received through the Department of State, to the remark that negotiation at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave it to the bondholders to determine whether or not they will accept what is now offered"

In conveying this information to the Brazilian authorities you may make quite clear the fact that the Department has exerted itself to the utmost to bring about this possible arrangement but it is by no means easy for the Council to refrain from analytical comment on an important bond offer of this type.

Mr. White must submit this arrangement to his executive committee for confirmation. He will endeavor to do so as soon as possible tomorrow morning and at the latest by 1 o'clock.

This was the best form of statement we could work out this afternoon. Naturally we would not want to come to an issue over a phrase and would accordingly be prepared to engage if necessary in further discussions of the text.

HULL

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832.51/1767

*Memorandum by Mr. Ellis O. Briggs of the Division of the American Republics*

[WASHINGTON, undated.]

The immediate background of Mr. White's call on the Secretary of State on March 4 was as follows:

1. On Friday, March 1, Mr. Livesey<sup>16</sup> telephoned to Mr. White in New York to inform him of the substance of Ambassador Caffery's telegrams, including no. 78 of March 1 [*February 29*], and to inquire whether the Council was prepared to refrain from adverse comment on the debt offer suggested by Mr. Aranha.

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<sup>16</sup> Frederick Livesey, Assistant Adviser on International Economic Affairs.

2. On Saturday morning, March 2, Mr. White telephoned Mr. Livesey to say that he had canvassed his Executive Committee and that the Council was not prepared to refrain from adverse comment.

3. The situation was reported to Mr. Berle,<sup>17</sup> who thereupon telephoned to Mr. Traphagen, indicating the seriousness with which the Department viewed the situation. Mr. Traphagen said that he would endeavor to arrange a meeting of the Executive Committee on Monday, March 4, and asked Mr. Berle if the latter would send him a letter outlining the situation as we saw it. (Such a letter was drafted and sent to Mr. Traphagen by special delivery that afternoon—copy attached as enclosure 2.)<sup>18</sup>

4. Mr. White telephoned the Secretary's office on March 3 and arranged an appointment with Mr. Hull at 3:45 p. m., March 4.

5. A telegram was received from Mr. Traphagen on the morning of March 4 reporting that he had been unable to arrange for the suggested meeting that day of the Executive Committee because no quorum was available. See also Mr. Traphagen's letter of March 4.<sup>18</sup>

The meeting with Mr. White mentioned in paragraph 4 above took place from about 4:30 to 6:40 p. m. March 4.

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832.51/1777

*Memorandum of Conversation, by the Adviser on International Economic Affairs (Feis) and the Assistant Adviser on International Economic Affairs (Livesey)*

[WASHINGTON,] March 5, 1940.

Participants: Mr. Francis White, President, Foreign Bondholders Protective Council, Inc.  
 The Secretary of State  
 Assistant Secretary Berle  
 Mr. Feis  
 Mr. Livesey  
 Mr. Briggs  
 Mr. Collado<sup>19</sup>

The circumstances of Mr. White's seeking an interview with the Secretary are stated in other memoranda.

Mr. White, starting from the circumstances under which the original Niemeyer proposal of about October 1933<sup>20</sup> had been discussed

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<sup>17</sup> Adolf A. Berle, Jr., Assistant Secretary of State.

<sup>18</sup> Not printed.

<sup>19</sup> Emilio G. Collado, of the Division of the American Republics.

<sup>20</sup> Apparently plan proposed by the Brazilian Government for adjustment of the national, state, and municipal debts after consultation with Sir Otto Niemeyer of the Bank of England. See telegram No. 82, September 16, 1933, 5 p. m., and despatch No. 58, September 27, 1933, from the Ambassador in Brazil, *Foreign Relations*, 1933, vol. v, pp. 75 and 76, respectively.

by Mr. Reuben Clark at Rio de Janeiro in January 1934<sup>21</sup> and qualified somewhat to the advantage of various American bond issues before it was issued as the Aranha Plan of 1934, expounded the unsatisfactory allocation of funds as between the sterling and dollar issues, and notably the treatment given the São Paulo Coffee Realization Loan, as the reasons why the Council could not recommend the present Aranha proposal.

Mr. Berle and Mr. Feis reminded Mr. White that it was not at present a question of the Council recommending the proposal. The Brazilian Government had been giving serious study to the possibility of making a four-year offer to the holders of its external bonds; the Council, though the suggestion had been put before it by the Department,<sup>22</sup> had no one present in Brazil to represent the bondholders—a fact which Mr. White explained on the score of the limited resources of the Council; the American Ambassador therefore had been endeavoring in discussion with the Brazilian authorities to secure for the American bondholders as favorable terms as it was possible to secure. In these endeavors the Department and the Ambassador had been moved by concern for the interests of the bondholders, who had not received payment for some years, and by the fact that the longer the debt remained in complete default the dimmer the prospect of resumption of payment might become; the Ambassador had reported to the Department three times in the past week that he felt he had achieved everything that was possible at the present time in the way of improving the terms of settlement. He had conveyed to the Department several times the statement of Aranha that he hoped that the Brazilian offer would not be opposed by the Council, and that he would not go forward with any offer if the Council were going to make adverse comment; the situation thus created was that the Council had the choice of refraining from adverse statement or of assuming the responsibility of preventing any offer being made at the present time, in which event, according to the opinion of Ambassador Caffery, the whole matter of resumption of payment might be deferred until after the end of the war. The Department's own judgment of the best course for the bondholders was that their best interests would be served if the offer could be placed before the bondholders; of course there was no way of being sure that this would in fact prove to be the best course for the bondholders but the Council would obviously be assuming a heavy responsibility if it should veto a pro-

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<sup>21</sup> See *Foreign Relations*, 1934, vol. iv, pp. 602 ff.

<sup>22</sup> This suggestion was presented to Mr. White by Mr. Feis in a conversation at New York on December 30, 1939. Memorandum of conversation dated January 2, 1940, not printed.

posal to make payments in the amount of about twenty-five million dollars to American bondholders over the next four years.

Mr. White went into a very long and critical analysis of the offer both on the score of the total amounts to be paid and on the distribution of the amounts as between the different grades of bonds. His criticism, however, centered chiefly on the fact that certain preferences, which he deemed unjustified, established in the Aranha Plan of 1934, would be retained in this offer, and in his judgment they represented much more favorable treatment to the holders of sterling bonds than to the holders of dollar bonds. (The Brazilian Government had transmitted through Mr. Caffery its estimates that the percentage of total payments going to the holders of dollar bonds was greater by several percent than the proportion of the total bonds which are dollar bonds; this is probably roughly correct as to proportions based on principal amounts; however, the Council takes as its basis of criticism not percentages of principal but percentages of contractual service, and on this basis the amounts paid on the dollar bonds are several percent less than their proportion of service on the original bond contracts.) Mr. White went on to present the situation as one in which the Council had a trustee relationship to the bondholders and to interpret the Department's presentation as a request to the Council to refrain from disclosure of pertinent facts. In various forms he gave the impression of a belief that the Council's duty to the bondholders lay in denouncing the offer, and that requests were being made of him to neglect that duty. This made it necessary repeatedly to make counter-assertions and clarifications to the effect that the question before the Council was simple. The Brazilian Government stated it would make an offer to the bondholders on condition that the Council would not comment adversely upon it. Our Ambassador reported that this was the best offer obtainable at the moment. It would represent a payment to American bondholders of a total amount of about twenty-five million dollars over four years. The question, emanating from Mr. Aranha, therefore, was whether the Council would veto Mr. Aranha's proposal for such payments by taking the position that it must make an adverse statement if the proposal were made. Mr. White never squarely met that simple question. He tried repeatedly to treat the matter as a request from the Department that the Council refrain from disclosing facts, or to elicit a request from the Department. Thus he suggested that if the Department, which is concerned with national policy, should request the Council, which is concerned solely with bondholders' interests, to take action or to refrain from action because of considerations of national policy, the Council would cheerfully comply, since it never wishes to oppose the national policies of the Government.

Finally the Secretary of State pointed out to Mr. White that the Government's interest in our bondholders was as great as that of the Council and similar to that of the Council. Both should be moved by the same desire to work things out to the best interest of the bondholders. Our steady purpose along this line was shown by our activity in a score of situations in which the Department had backed the Council and extended every effort to assist the Council's endeavor. Therefore it seemed to him that we were all working for the same purpose and what the situation called for was the best cooperative efforts of all in the interests of the bondholders and not for a sharp dispute and long discussion among ourselves as to the respective duties and endeavors of the Council and of the Department. It was not a question as to loyalty to bondholders but as to how to make the Council's loyalty to bondholders effective.

Mr. White agreed with these general ideas without, however, substantially modifying his position. Finally—it then being after six o'clock and Mr. White having stated that he had to catch a seven o'clock train to New York, the Secretary suggested that the situation might be met if the Council would merely limit itself to a statement that it was putting before the bondholders an offer of the Brazilian Government transmitted through the Department of State. The suggestion was agreed to by Mr. White, who said he would bring it before his Executive Committee in a meeting the following day.

After the meeting had left the Secretary's office, Mr. White in Mr. Briggs' office drafted the following statement as embodying Secretary Hull's suggestion, and as the statement which he would submit to the Executive Committee:

“Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government, received through the Department of State, to the remark that negotiation at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave it to the bondholders to determine whether or not they will accept what is now offered.”

During the meeting with the Secretary, Mr. White at one time had suggested that the Council might refrain from making a public statement but might circularize bondholders transmitting the Brazilian proposal, commenting thereon in these letters of transmittal and in ensuing correspondence with bondholders. In discussion of this, however, it was brought out that such letters to bondholders would inevitably come to the attention of the press and be reported in the press and that the result would hardly be different from that of a public statement.

832.51/1769

*Memorandum by the Adviser on International Economic  
Affairs (Feis)*

[WASHINGTON,] March 5, 1940.

Ambassador Caffery telephoned me this morning from Rio de Janeiro. He stated that Aranha was going up to the country to see President Vargas today and talk through with him the debt offer which has been under discussion. Mr. Caffery said that he had spoken to Aranha earlier this morning and that Aranha had said that he would accept the text of the possible statement to be issued by the Council, as cabled him last night in the Department's 51 of March 4.

The Ambassador then said he wanted to make clear that we understood that Grade IV bonds would be elevated to 45 percent. He explained that the Brazilian Government had found it necessary to do this when it increased the percentages allocated to Grade III because of the fact that the French had given up their position in regard to payment in gold francs. I replied that I had not been aware of this fact myself, and on inquiry of Mr. Livesey and Mr. Briggs, who were present, I ascertained that this information had been contained in a cable that came in late Friday afternoon and had been discussed in the Department but the Council had not been advised on this point. The Department had made no comment on it in its subsequent cables to Ambassador Caffery and therefore the Ambassador was raising the question.

I said to the Ambassador that I had not been on duty in the Department last week and that the point was new to me; I regretted that it arose at this time but in view of the advanced stage of the discussions between himself and the Brazilian authorities, I saw no alternative but to continue working as we had been working during the past several days and see whether the Council would accept the Brazilian offer as it stood—with this point included—or whether it would refuse to do so.

The Ambassador then reiterated his explanations of the fact that the situation seemed to him to require prompt decision. I told him that we had not yet received any confirmation from Mr. White of the agreement worked out in the meeting in the Secretary of State's office last night but that as soon as we had done so, I would telephone him.

Messrs. Briggs and Livesey and myself immediately consulted with Mr. Berle and came to the judgment that Mr. White should be advised of this telephone conversation. I thereupon telephoned to Mr. White and recounted it to him. Mr. White said that of course this improvement in the treatment of Grade IV gave further advantage to



the sterling bondholders and I agreed that this was so but added that this left the situation unchanged as to whether the Council would interpose itself. Mr. White again then went into an exposition of the Council's viewpoint, basing it on the same ground as he had last night and trying to make a distinction between the fact that they were working for the bondholders' interests and that the Department was engaged in serving the national interest. I again, as directly as I could, restated the situation, to wit: that the Brazilian Government had agreed to make this offer unilaterally; that since the Council had had no representative present, the Ambassador had done his utmost to secure as favorable terms as possible for the American bondholders; that he now reported that in his judgment the present offer was the best that could be obtained; that the Brazilian Government was taking the position that they would only make this offer if assured that the Council would pass upon it favorably or at worst abstain from adverse public comment; that this decision was put before the Council by the Department, and in doing this we were as deeply animated by our desire to serve the bondholders' interests as was the Council.

Mr. White brought up again the fact that he had been advised that the Brazilian Government might use \$10,000,000 in the course of the four years to buy up bonds in the market. He said he was of the opinion that if the Brazilian Government was going to do that, it should certainly so state publicly in its offer, thus making the information available to the bondholders. He said that the Council was opposed to the practice while such low interest rates were being paid and certainly was opposed to having it done without advice to the bondholders. I said I would convey these views to Caffery when I spoke to him over the telephone this afternoon. (The Department had already in a previous cable, no. 44 of February 28, conveyed the Council's views to this effect). Mr. White then again brought up the question of what the Council would say in private letters to correspondents asking for advice regarding the Brazilian bond offer, indicating distinctly that the Council might make critical comment. I said that it was my understanding in the talk with the Secretary of State last evening that the formula suggested was to apply to both the private and public comment of the Council. I interrupted the conversation to consult Messrs. Berle, Livesey and Briggs, who all agreed with this view of the conclusion reached last evening. I reported this unanimity of opinion to Mr. White and he said he would put it up to the Executive Committee in this sense. I said that it was plain that if the Brazilian Government went ahead in the belief that the Council had met its condition and then the Council distributed

adverse comment, which was sure to be reported, it would certainly be believed that bad faith had been shown. The conversation terminated in a renewed emphasis on the part of Mr. White, as the representative of the Council, and in renewed emphasis by myself to the effect that our prime purpose, guided by the advice of our diplomatic representative, was to have the bondholders have the opportunity to accept or reject the offer.

The four of us then reported the two preceding conversations to the Secretary of State.

Since on the basis of our telegram last night and our earlier conversation with him this morning, it would have been natural for Ambassador Caffery to conclude that the Council would in all probability give its acquiescence, it seemed advisable to telephone him at once and tell him that no word had yet been received from the Council but Mr. White was continuing his objections and that we did not know what their decision would be, so that he might not encourage the Brazilian Government with premature or undue optimism. I telephoned him and so explained.

He said that Aranha had already left but that he had arranged to telephone him and would wait for a further report from me. I promised to let him know as soon as we had further word from the Council later this afternoon. I explained that the Secretary's present attitude was that if the Council felt that it could not respond to the Brazilian Government's offer, that we should have to let the responsibility rest upon them and let the situation drift until the question of our relations to the Council was made more satisfactory. Caffery said that of course he was doubtful as to whether it could drift, whether what would not happen was postponement of any action until after the war. I replied that I knew that was his judgment.

I inquired of him as to whether there was any chance that the Brazilian Government might go ahead even if it knew that the Council might make adverse comment. He said he thought it possible if the State Department would be willing to give out a strong enough statement.

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832.51/1743 : Telegram

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

RIO DE JANEIRO, March 5, 1940—5 p. m.

[Received March 5—4:45 p. m.]

86. My telegram No. 79, March 1, 3 p. m., Department's No. 48, March 2, 5 p. m. and 51, March 4, 9 p. m. Confirming my conversation with the Economic Adviser the reason Aranha gives for being forced to improve grade IV to 45% is to pacify the French for losing

further application of the gold clause in franc loans. The French have been claiming a 1 to 13.8 ratio instead of a 1 to 5 ratio and have the Hague Court decision of 1928 [1929]<sup>23</sup> in their favor to back their claims. However the Brazilians are assisting in [*insisting on*] the 1 to 5 ratio.

In order partly to meet the increase in grade IV and our much larger increase amounts were deducted (in the face of strong British opposition) from the amortizations in grades I and II. As I have previously reported the Brazilians are perfectly willing to spend an additional \$10,000,000 in amortization of dollar loans in the next 4 years in the United States.

As I have previously reported we hold only 35.4% of the entire debt [*debt?*] and are to receive 38.9% of the payments to be made while the British hold 60.8 and are to receive only 58.4; the French 3.4 and to receive 2.4; and the Dutch .4 and are to receive .3.

Aranha promised me this morning that he would not object to the proposed statement to be made by the Bondholders Council as set forth in the Department's No. 51 of March 4, 9 p. m.

CAFFERY

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832.51/1735 : Telegram

*The Assistant Secretary of State (Berle) to the President of the Foreign Bondholders Protective Council (White)*

WASHINGTON, March 5, 1940.

Have requested Caffery to try to hold matters open pending our receipt of further word from you.

The Department's position is that it has obtained the best offer possible. The Council's decision as to the course it follows must be exclusively its own responsibility. The Department believes it should not accept your telephone communication in view of the fact that you coupled it with the statement that it was taken only on the assumption that Department had requested such action.

A. A. BERLE, JR.

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832.51/1735 : Telegram

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

WASHINGTON, March 5, 1940—9 p. m.

54. Discussions still continue with Council but hope for favorable result tomorrow. Please try to hold matters open. Possibly Aranha

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<sup>23</sup> *Brazilian Federal Loans Case*, Permanent Court of International Justice, Judgment 15, July 12, 1929, ser. A, nos. 20/21, p. 93; II Hudson, *World Court Reports* (1935), 404.

could obtain authority to make offer immediately upon receiving proposed assurances.

HULL

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832.51/1743½

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

[WASHINGTON,] March 6, 1940.

Mr. Francis White telephoned me last night about seven o'clock. He stated that the Council of Foreign Bondholders agreed to our formula but it added a phrase, "pursuant to consultation with the Department of State". I pointed out that, as phrased, this meant that the statement of the Foreign Bondholders had been issued on such consultation, and that we could not agree to that.

Mr. White then stated that he merely meant that their impression that this was the best offer that could be obtained was derived from such consultation, and agreed to shift the position of that phrase so that this impression should be conveyed.

He then stated that his committee did not like the idea of doing this; that they resented the pressure of the Department; that they had done it only because the Department had requested it; and that the Council did not care to be the mouthpiece of the Department, and it was thought that a meeting ought to be held by the Council to determine whether or not they should not close up, if they could only act as our mouthpiece.

I instantly stated that in that case the formula had been adopted by the Bondholders Council on a misapprehension. We had made no request, and would make none. We had put up to them the decision as to whether or not they would take the responsibility, in view of the condition of the Brazilian offer, of turning down the only offer which appeared likely. Under the circumstances, I could not accept their agreement. We could not take advantage of an agreement which apparently had been based on a complete misapprehension of fact.

Mr. White then withdrew some of his words about resentment and pressure; but he still said that the formula was accepted only because they understood it to be the wish of the Department.

I said under those circumstances I still could not accept their agreement.

Mr. White said that he would be guided by my judgment in the matter. I said my judgment was that he should make contact with the members of his committee in the morning, explain to them that the Department would express no wish, and the decision must be

taken on the responsibility of the Council; that I would try to hold matters open, pending word from him.

I then sent our cable No. 54, March 5, 1940, 9 p. m., to Rio; and my own telegram, dated March 5, 1940, to Mr. White, a copy of which is attached.<sup>24</sup>

A. A. BERLE, JR.

832.51/1744 : Telegram

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

RIO DE JANEIRO, March 6, 1940—1 p. m.

[Received 1:06 p. m.]

89. Department's No. 54, March 5, 9 p. m. I have arranged to hold the matter open all today.

CAFFERY

832.51/1758

*Memorandum by the Adviser on International Economic Affairs  
(Feis)*

[WASHINGTON,] March 6, 1940.

By instructions of Mr. Berle, I telephoned Mr. Francis White at 10:40 a. m. and read him, first, Mr. Berle's telegram to him of March 5, second, Department's telegram 54 to the Embassy at Rio de Janeiro (which I asked him not to take down textually), and third, the amended formula for the first sentence of the announcement to be made by the Council.

On the latter Mr. White said that the concluding phrase as he had it was "no favorable prospect of obtaining any better offer", whereas the text I had read said "no favorable prospect of obtaining a better offer." He said the choice of "a" or "any" was indifferent to him. We tentatively agreed to keep the word "any". He said that this was of course not the complete formula, the second sentence, which he had not discussed with Mr. Berle yesterday, remaining as before. The complete formula would therefore be as follows:

"Without passing in any way on the merits of the Brazilian proposal which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government received through the Department of State to the remark that pursuant to consultation with the Department of State, negotiations at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave to bondholders to determine whether or not they will accept what is now offered."

<sup>24</sup> *Ante*, p. 591.

Mr. White said that he is working on the matter but had not had much success in contacting the Executive Committee members, all of whom seemed to be tied up with very important business. He was keeping at it and would telephone as soon as he was in a position to report.

He briefly discussed the last sentence of the telegram to Rio de Janeiro and we agreed that its intent was to suggest that even though President Vargas is leaving Rio today, it might be possible for Aranha to obtain authority from him before he leaves to make the debt offer whenever the proposed assurances from the Council are received by Aranha.

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832.51/1745 : Telegram

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

RIO DE JANEIRO, March 6, 1940—3 p. m.

[Received March 6—2: 52 p. m.]

90. Referring to my conversation with the Economic Adviser. I explained to Aranha what happened at the Department in regard to grade IV and he states that in a further effort to demonstrate his "extreme good will" he is willing (although he very much prefers not to do so) to reduce the British and French held grade IV again first year from 45 to 40 percent if the Department so desires ("no matter what the French say or do").

CAFFERY

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832.51/1746 : Telegram

*The Secretary of State to the President of the Foreign Bondholders Protective Council (White)*

WASHINGTON, March 6, 1940.

The terms of debt service contemplated to be proposed by the Brazilian Government to cover a period of 4 years which have been transmitted through the Embassy at Rio and which have been under discussion with the Council are as follows:

(Percentages of service provided for the last year of the so-called Aranha plan of 1934)

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|-----------|--|
| Grade I   | Interest—50 percent; amortization—40 percent in each of the next four years. |
| Grade II  | Interest—50 percent; amortization—40 percent in each of the next four years. |
| Grade III | 50 percent in each of the next four years.                                   |

Grade IV	45 percent first year, 50 percent fourth year. It is not entirely clear whether in the second and third years the percentage is to remain at 45 percent or to increase.
Grades V, VI, VII, and VIII	40 percent, 41 percent, 43 percent, and 50 percent during the first, second, third and fourth years, respectively.

The Brazilian Government would reserve the right, under numbered paragraph 6 of Article I of the so-called Aranha plan of 1934,<sup>24a</sup> to put additional amounts of funds into purchases of bonds on the market. It has been stated separately that the Government of Brazil would be prepared to devote in this manner \$10,000,000 over the 4 years to the purchase of dollar bonds.

All these terms are of course strictly confidential.

HULL

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832.51/1746 : Telegram

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

WASHINGTON, March 6, 1940—7 p. m.

56. The Council has telegraphed to the Department the following comment on the possible Brazilian debt offer:

“Council’s statement to be published when offer is made, assuming that offer, text of which we have not yet received, is as we understand it from Department’s verbal statements, as follows:

‘Without passing in any way on the merits of the Brazilian proposal, which was not negotiated by it, the Council limits its comment on the proposal of the Brazilian Government received through the Department of State to the remark that pursuant to consultation with the Department of State negotiations at present would seem to hold no favorable prospect of obtaining any better offer. The Council must leave to bondholders to determine whether or not they will accept what is now offered.’

“It is further understood that the offer will disclose to the bondholders the whole picture including any repatriation of bonds and that should there be modifications of the present offer the Council reserves the right to review the situation anew with full liberty of action with respect thereto.”

You are authorized to communicate this to the Brazilian authorities.

HULL

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832.51/1745 : Telegram

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

WASHINGTON, March 7, 1940—1 p. m.

57. In regard to repurchase of bonds by the Brazilian Government, as discussed in your 71, February 24, 1 p. m. and Department’s 44,

<sup>24a</sup> Decree No. 23829, February 5, 1934, *Diario Oficial*, February 7, 1934, p. 2689.

February 28, 6 p. m., the Department believes it essential that the Brazilian Government set forth fully in any debt offer what they propose to do so that the bondholders may have full knowledge.

Your 90, March 6, 3 p. m. Department would not want to make a particular issue of the prospective treatment to be offered to bondholders of Grade IV if the Brazilian Government feels itself faced by serious exigencies in the matter. Its leading wish has been and remains to secure an improvement in the comparative terms offered to the bonds in Grade III with reference to Grades I and II. It therefore still retains the hope that the Brazilian Government, in working out the terms of the offer, can find a way to do something in that regard. As already several times expressed to you, it is the Department's sense that such action would be not only equitable but would produce beneficial results, from the Brazilian point of view, in greatly increasing the chances that the offer would receive a favorable reception among the bondholders.

HULL

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832.51/1749 : Telegram

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

RIO DE JANEIRO, March 7, 1940—2 p. m.

[Received 2:14 p. m.]

93. Referring to the penultimate paragraph of the Department's telegram No. 56 of March 6, 7 p. m., Aranha is considering attaching the following statement to the debt announcement in order to take care of the exigencies of the Bondholders Council in the premises:

"The Brazilian Government has not worked out plans for now or the near future for the repatriation of bonds in the open market. The Brazilian Government hopes that in due time improving trade and exchange conditions may permit it to avail itself of the provisions of article No. 1 (6) of the Aranha plan decree which permits repurchases in the open market. Under no conditions, however, does the Brazilian Government intend to make more than moderate purchases of this character; and will make no such purchases without consulting the interested government."

CAFFERY

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832.51/1749 : Telegram

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

WASHINGTON, March 7, 1940—7 p. m.

58. Your 93, March 7, 2 p. m. The Department does not like the last clause, which would imply that this Government is to give its



approval before purchases are made in the open market. This clause might be stricken out or might be replaced by a statement that the amounts of such purchases will be disclosed from time to time.

The phrasing used appears to exclude repurchases in the open market even for amortization of grades I and II. The text might be clarified by substituting, for the last four words of the first sentence, "in excess of the amortization indicated in this proposal", and inserting "such additional" before "repurchases" in the second sentence.

HULL

832.51/1751 : Telegram

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

RIO DE JANEIRO, March 7, 1940—midnight.

[Received March 8—1:40 a. m.]

95. Resumption of services on the Brazilian foreign debt on the plan specified in the Department's telegrams 51, March 4, 9 p. m. and 56, March 6, 7 p. m. is provided for in a decree-law in the following text which the Minister of Finance says will be signed by the President tonight. This is to be held confidential until released for publication here probably tomorrow.

[Here follows the text of Decree-Law 2,085 approved March 8, 1940. See Brazil, *Diario Oficial*, March 9, 1940, page 4150.]

Before receiving the Department's 57, March 7, 1 p. m., I had already persuaded Aranha to drop the idea of raising Grade IV above the foregoing figures.

CAFFERY

832.51/1752 : Telegram

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

RIO DE JANEIRO, March 8, 1940—noon.

[Received 1:02 p. m.]

96. My telegram No. 95, the Debt Service Decree was signed by the President at 00:30 this morning. It will be released for publication here and abroad tomorrow.

Department's No. 58, March 7, 7 p. m., Aranha has changed his statement to conform to the Department's wishes.

CAFFERY

832.51/1757 : Telegram

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

RIO DE JANEIRO, March 9, 1940—3 p. m.

[Received 3:54 p. m.]

102. Department's telegram No. 61, March 9, 10 a. m., last paragraph my 98, March 8, 7 p. m.<sup>25</sup> I have received the following letter from the Brazilian Minister of Foreign Affairs:

(Translation) "Rio de Janeiro March 8th. Mr. Ambassador, I have the honor to inform Your Excellency that the Brazilian Government has no worked-out plans for now or the near future for the repatriation of bonds in excess of the amortization indicated in this proposal. The Brazilian Government hopes that in due time improving trade and exchange conditions may permit it to avail itself of the provisions of article I (6) of the Aranha plan decree which permits such additional repurchases of this character. Please accept the expressions of my highest consideration. Oswaldo Aranha."

CAFFERY

832.51/1787

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

No. 2715

RIO DE JANEIRO, March 12, 1940.

[Received March 21.]

SIR: Referring to recent correspondence regarding the Brazilian foreign debt situation, I have the honor to report that the Brazilian Minister for Foreign Affairs has repeatedly invited my attention to the fact that the price of Brazilian coffee on the world market is now roughly 60% of the price it commanded at the time the Aranha Plan was formulated. At the same time, he invited my attention to the original Brazilian offer to pay "one-half of the Aranha Plan".

As the Department is aware, the Decree signed on March 8, 1940 provided for payments which reach roughly "53% of the Aranha Plan".

Respectfully yours,

JEFFERSON CAFFERY

832.51/1781 : Telegram

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

WASHINGTON, March 18, 1940—2 p. m.

76. In its acknowledgment of receipt of Aranha's letter to you regarding repatriation (your 102, March 9, 3 p. m.) Council inquires

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<sup>25</sup> Neither printed.

“whether the Brazilian Government will advise bondholders in advance of purchases for repatriation of bonds to be made under Section 6 of Article I of the Aranha plan”.

In view of the fact that the Council's promise as regards the public statement which it said it would issue was placed definitely on the understanding “that the offer will disclose to bondholders the whole picture including any repatriation of bonds” (Dept's 56, March 6, 7 p. m.) there are obvious troublemaking potentialities in this situation if the Council should choose to stress the importance of this question. Therefore the giving of assurances by the Brazilian Government that full disclosure in suitable detail will be made would seem to be greatly desirable and Department hopes that you may be able to arrange such a reply.

HULL

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832.51/1782 : Telegram

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

RIO DE JANEIRO, March 19, 1940—2 p. m.

[Received 2:30 p. m.]

117. Department's 76, March 18, 2 p. m. Aranha says that he is willing for the Brazilian Government to promise to “advise bondholders in advance of purchases, et cetera, et cetera” as set out in the Council's inquiry and he feels reasonably sure the Minister of Finance will agree. Souza Costa is in Pocos de Caldas and Aranha will go there on Saturday, discuss the matter with him and send me a reply to the question in writing.<sup>25a</sup>

CAFFERY

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832.51/1795 : Telegram

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

RIO DE JANEIRO, March 25, 1940—noon.

[Received 12:18 p. m.]

123. My 119, March 19, 4 p. m., and 120, March 20, 1 p. m.<sup>26</sup> The Director of Exchange informs me that acting upon instructions of the Minister of Finance he is today arranging for the distribution of foreign exchange to cover the April payments on the Brazilian foreign debt.

CAFFERY

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<sup>25a</sup> Affirmative reply in writing contained in telegram No. 126, March 25, 1940, 5 p. m., from Rio de Janeiro; not printed.

<sup>26</sup> Neither printed.

ASSISTANCE BY THE DEPARTMENT OF STATE TO THE GOVERNMENT  
OF BRAZIL IN ESTABLISHING A STEEL INDUSTRY

832.6511/63

*Memorandum of Conversation, by the Adviser on International  
Economic Affairs (Feis)*

[WASHINGTON,] January 22, 1940.

The Brazilian Ambassador <sup>27</sup> called upon the Secretary by appointment. I was present.

The purposes of the Ambassador's visit were two:

(a) To convey to the Secretary the sharp disappointment of President Vargas that the decision of the United States Steel was not to go ahead with the plan for development of the iron and steel industry in Brazil.

(b) To see if he could arrange, according to instruction from President Vargas, to see President Roosevelt.

The Ambassador explained that the fact that the United States Steel Company had sent down its large commission of experts <sup>28</sup> and that this experts commission had reported that there was no technical obstacle to the development had led to real expectations that the American company would be willing to contribute to the undertaking. He explained further that President Vargas had expressed views to him to the effect that the achievement of this seemed to him to be a most important test of the good-neighbor policy, and that further, the President had stated he would greatly prefer to have this thing carried out with the assistance of American enterprise and capital but that if this were not forthcoming, he would turn in other directions. The Secretary made it clear that we shared the disappointment of the Brazilian Government. He explained that we of course were in no position to influence the decision of private American interests like the United States Steel. The Secretary said that he would be glad to explore all means by which further possibilities could be examined.

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<sup>27</sup> Carlos Martins.

<sup>28</sup> Major Macedo Soares came to the United States in May, 1939, on behalf of the Brazilian Government to discuss with American steel interests the establishment of a steel plant in Brazil. Following this visit, the United States Steel Corporation sent a party to Brazil, headed by Mr. Heman Greenwood, Vice President of the United States Steel Products Company, to investigate the proposal. The Department of State was informed of these developments, but apparently took no part except to express informally its interest and willingness to be of assistance.

As to discussion with President Roosevelt, the Secretary explained that he was speaking for the President in this matter, and that he reflected the President's really positive wish to have something accomplished, but that he did not feel there was anything the President could add to the explanations he gave.

The Ambassador then manifested an increasing measure of emphasis and anxiety as regards President Vargas's deep interest in the matter. He said that he was much worried over the fact that a despatch had gone down to Rio to the effect that this steel question was involved with the debt question<sup>29</sup> and that the two were combined together in some way in a plan worked out by the Department of Commerce; . . . I went into a rather elaborate explanation to the Ambassador—stating of course that I could only give it as my conjecture not as something within my knowledge—that the story had grown out of a plan that an individual in the Department of Commerce had been trying to promote for some time and which he had no doubt discussed with newspapermen. I assured him that the plan had no official recognition whatsoever and that the current discussions and interchanges on Brazilian debts would be handled entirely inside the Department. I was not at all sure that the Ambassador believed these completely accurate explanations.

It being apparent that the Ambassador felt at a loss as to what to report to Vargas that might in any way check the disappointment, I suggested that if the Secretary thought it wise, we might, by Wednesday at the latest, get together a small committee to meet with the Ambassador and completely review the situation with him with a view to seeing what new initiatives might be taken in the matter either by himself or by us. The Secretary said that he thought we should do this as promptly as possible, and I agreed with the Ambassador to hold such a meeting on Wednesday.

Incidentally, from the Ambassador's remarks it could be discerned that one reason President Vargas was so interested in this plan was the fact that the military in Brazil was apparently exceedingly interested in it.

H[ERBERT] F[EIS]

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<sup>29</sup> See pp. 559 ff.

832.6511/47

*Memorandum of Conversation, by Mr. Walter N. Walmsley, Jr., and  
Mr. Ellis O. Briggs of the Division of the American Republics*

[WASHINGTON,] January 24, 1940.

Participants: The Brazilian Ambassador, Dr. Carlos Martins  
Mr. Noble, Under Secretary of Commerce  
Mr. Pierson, President, Export-Import Bank  
Dr. Feis  
Mr. Duggan  
Mr. Briggs  
Mr. Joseph Cotton, Jr., Treasury  
Mr. Schmidt, Treasury  
Mr. Walmsley  
Mr. Harry Mulligan (RFC)<sup>30</sup>

The meeting was called at 3 p. m. and according to arrangement the Brazilian Ambassador joined the group at 3:45. The period prior to his arrival was utilized for a discussion of the general background by Dr. Feis and a summary of the project by Mr. Walmsley. It was explained that since the Steel Corporation has turned down the project, President Vargas now apparently expects the United States Government "to do something concrete in the light of the Good Neighbor policy".

When at 3:40 the Brazilian Ambassador joined the group, he was invited by Dr. Feis to state the position of his Government in the matter. Dr. Martins stated that Brazil had for 50 years listened to various propositions to build a steel industry but that the coal problem had always been the stumbling block. With the discovery by the Steel Commission that Santa Catharina coal might be used, the Brazilian hopes for a steel industry were revived. It was the Ambassador's understanding that all the technical problems were found by the Commission to be susceptible of solution. It was therefore difficult for his Government to understand why the Steel Corporation had said of the report that while there were no insurmountable technical problems, the Corporation was not interested. The Brazilian Government felt that after President Vargas' approval in principle of the report, the conditions could be discussed, but now the Steel Corporation's action closed this approach.

Dr. Feis restated, with the concurrence of the Ambassador, the Brazilian Government's position: "President Vargas, in approving the Commission's report meant he was ready to discuss the conditions

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<sup>30</sup> Reconstruction Finance Corporation.

stipulated by the Commission, and that therefore the conditions in themselves should be no reason for the adverse decision of the Steel Corporation". Dr. Feis explained to Dr. Martins that while the Department knew of the Steel Corporation Commission's activities, this Government had of course made no commitment of any kind regarding the project, and the present was, in fact, the first time the Department had had the matter before it. We were pleased to have an opportunity to consider the situation, which would however require some time to examine its various details and possibilities.

The Ambassador indicated his understanding of our position and the meeting terminated with the suggestion that a further discussion be held within the Department with an officer of United States Steel present, and that on January 31 another meeting with the Ambassador be held.<sup>31</sup>

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832.6511/68a

*The Secretary of State to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, February 24, 1940.

MY DEAR MR. SECRETARY: The Department has had recently before it the matter of the Brazilian steel project, on the technical phases of which a Commission of the United States Steel Corporation in the latter part of 1939 rendered a favorable report. The proposal envisages a modern steel plant with an initial capacity of 285,000 tons of finished steel products and financed jointly in Brazil and in the United States. Although details have not yet been elaborated, it is estimated that Brazil would contribute a minimum of 26,000 contos (\$13,000,000) in milreis, and United States interests, between \$17,000,000 and \$25,000,000, principally for equipment.

Early in January 1940 the Board of Directors of the Steel Corporation decided against participation of the Corporation in the venture, but the matter has been kept alive by the Brazilian Government which continues to be very much interested in the proposal. In fact, the Brazilian Ambassador has stated to the Department that the establishment of a steel industry is one of the major aspirations of President Vargas' administration.

Shortly after the decision of the United States Steel Corporation was made known, the Department was apprized by the Corporation of the serious consideration which had been given the project by Ford, Bacon and Davis, Incorporated, of New York. On February 15, Mr.

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<sup>31</sup> It would appear from the records of the Department of State that no meeting with the Brazilian Ambassador was held on January 31.

George W. Bacon, Chairman of the Board of the firm, confirmed to the Department that his company had been giving the matter serious thought. However, before it could proceed with a thorough exploration of the project, Mr. Bacon affirmed, it desired to ascertain this Government's attitude, including, it was inferred, the availability and extent of possible financial participation by governmental agencies.

It would appear that the matter is one which might now properly be examined by the Committee<sup>32</sup> of which you, Mr. Jesse Jones,<sup>33</sup> and Mr. Welles<sup>34</sup> of this Department, are the members. I believe that a meeting of the Committee for this purpose should be held at as early a date as practicable and that Mr. Bacon and his associates be heard by the Committee following a preliminary discussion. In the absence of both Mr. Welles and Dr. Feis, I shall request Mr. Duggan, Chief of the Division of the American Republics, to represent this Department. When I have heard from you concerning the convenient date for the meeting, I shall be glad to arrange with Mr. Bacon for his presence in Washington.

I am enclosing for your information copies of a brief memorandum describing the Brazilian steel project, and of a memorandum of conversation of February 23 with the Brazilian Ambassador.<sup>35</sup> The Office of the Economic Adviser and the Division of the American Republics have assembled a considerable file on the steel project which is at your disposal should you wish additional information on the subject.

Sincerely yours,

CORDELL HULL

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832.6511/78

*The Secretary of the Treasury (Morgenthau) to the Secretary of State*

WASHINGTON, March 5, 1940.

MY DEAR MR. SECRETARY: I have considered carefully the suggestion in your letter to me of February 24, that the possibilities relative to the development of a local steel industry in Brazil should be explored by the so-called Committee of Three.

In my view, the Committee of Three was dissolved upon the conclusion of the temporary settlement of the Colombian debt last month. Accordingly, I do not feel able to participate in the Brazilian steel

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<sup>32</sup> The "Committee of Three" established to discuss questions concerning the Colombian debt; see pp. 695 ff.

<sup>33</sup> Secretary of Commerce and Administrator of the Federal Loan Agency.

<sup>34</sup> Sumner Welles, Under Secretary of State.

<sup>35</sup> Neither printed.



matter. Further, in so far as purely technical cooperation might be desired, I feel that, due to the press of business, the Treasury should not assume a new additional burden of this nature. If the Department of State desires the help of other departments or agencies of this Government in the consideration of this matter, I venture to suggest that the Export-Import Bank and the Department of Commerce are the more appropriate agencies.

I am sending copies of this letter to Mr. Jones and Mr. Noble.

Sincerely,

H. MORGENTHAU, JR.

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832.6511/100

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

[WASHINGTON,] April 11, 1940.

At a meeting at the White House yesterday, attended by the Federal Loan Administrator and Mr. Welles, the President requested Mr. Jones to discuss the Brazilian steel project with Mr. Stettinius, of the United States Steel Corporation, with a view to having the matter reconsidered by the United States Steel Corporation. Along with that, Mr. Jones will discuss the project with certain high officials of the Inland Steel Company the latter part of this week.

LAURENCE DUGGAN

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832.6511/105 : Telegram

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

RIO DE JANEIRO, May 22, 1940—4 p. m.

[Received 4: 40 p. m.]

227. For the Under Secretary. Your note 25, May 3.<sup>36</sup> President Vargas says he is highly appreciative of Washington's efforts. As matters now stand he is no longer interested in the financial cooperation of the United States Steel or other steel corporation. He is highly satisfied with the report which was drawn up by the United States Steel representatives here and, proceeding on the basis of that report, will be able to raise sufficient funds, governmental and otherwise, here to take care of all local costs. He is very much interested however in having the Export-Import Bank finance the purchase of the necessary machinery to be acquired in the United States. He told me that

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<sup>36</sup> Not found in Department files.

he would give me the figures involved in a few weeks. He added "this financing would come under the credit mentioned in the Secretary of State's letter to Aranha of March 9, 1939".<sup>37</sup>

CAFFERY

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832.6511/105: Telegram

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

WASHINGTON, May 25, 1940—3 p. m.

138. From the Under Secretary. Your 227, May 22, 4 p. m. Ambassador Martins called on Jesse Jones on May 23 under instructions from his Government to make a vigorous and urgent plea for assistance in the steel project along the lines of your conversation with President Vargas. Feis was present. The Ambassador presented the case substantially as follows:

Delay having occurred in developing a steel project with the cooperation of the United States Steel Corporation or any other steel making company in this country, President Vargas had decided to carry the project forward with a Brazilian corporation. The financial assistance required of this Government for the purchase of machinery under such a setup would be approximately \$17,000,000. The Ambassador laid emphasis on the political aspects of the problem, pointing out the importance of assuring for the President internal Brazilian stability by some real progress in the matter in question. Referring to President Vargas' efforts to cooperate with the United States and to respond favorably to requests from us for a concerted policy, the Ambassador stated that the President was under the strong obligation to demonstrate that Brazilian-American relations were based upon reciprocity.

Mr. Jones stated that he was still hopeful of obtaining the participation in the Brazilian steel project of a strong American steel company and that he was shortly to confer again with officers of both the United States Steel and of Bethlehem. He showed some reluctance to proceed along the lines of the Ambassador's exposition, but is entirely willing to leave the matter open for further discussion should his new conversations with the steel people bear no fruit.

I shall present the case strongly to Jones during the coming week. It would, in this connection, be useful if you could obtain the figures which you mentioned in your penultimate sentence before my conversation with him. [Welles.]

HULL

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<sup>37</sup> *Foreign Relations*, 1939, vol. v, p. 354.

832.6511/107 : Telegram

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

RIO DE JANEIRO, May 29, 1940—2 p. m.

[Received 2:08 p. m.]

234. For the Under Secretary. Last paragraph of your telegram 138, May 25, 4 [3] p. m. President Vargas is not yet in a position to give me the figures involved. He is awaiting a report of his commission which is going into the business in great detail. Rough estimates vary from 15 to 20 million dollars.

CAFFERY

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832.6511/109 : Telegram

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

WASHINGTON, May 31, 1940—5 p. m.

147. The Federal Loan Administrator has authorized us in his name to inform the Brazilian Government that he is prepared to take a firm commitment to loan funds necessary to purchase in the United States equipment for the installation and the operation of an iron and steel plant in Brazil on the understanding that such commitment shall become effective when he and the Brazilian authorities shall have agreed upon a plan for construction and operation. His purpose is the same as that of the Brazilian Government to assure that the enterprise will be soundly conceived and efficiently operated so that the investment of all parties will be safeguarded. He has prepared to proceed promptly with discussions looking towards carrying the plan to execution.

He adds that he has received reports to the effect that 10 million dollars would probably be sufficient for any enterprise that it would be advisable to try to establish now and this sum should be regarded as the outside amount of his commitment. However, should further study establish the fact that additional funds are needed, he would be willing to consider increase in the amount.

Confidential for your information: The Federal Loan Administrator is still firmly of the opinion that the best way in which it would be possible to assure well-planned and efficient construction and operation would be if an American steel company of experience had responsibilities in construction and operation. . . .

HULL

832.6511/110 : Telegram

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

RIO DE JANEIRO, June 1, 1940—8 p. m.

[Received 9:09 p. m.]

242. President Vargas is delighted with news in the Department's telegram 147, May 31, 5 p. m. He tells me that he will send a commission to the United States very soon to proceed with the business.

CAFFERY

832.6511/121 : Telegram

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

RIO DE JANEIRO, July 8, 1940—3 p. m.

[Received 4:26 p. m.]

339. Last paragraph of my 308, June 27, 4 p. m.<sup>38</sup> Krupp's agents here have been working hard and with some success in army circles to persuade them to bring pressure on President Vargas to give Krupp the contract for the steel plant;<sup>39</sup> the agents emphasize that Krupp is offering extremely advantageous terms. President Vargas has given no indication that he will yield to their suggestions. The Steel Commission has tickets to sail on July 24 to New York.

There has been delay on the part of McKee<sup>40</sup> in delivering his report. He now promises to deliver it tomorrow and Guinle<sup>41</sup> expects to see President Vargas about it on Friday.

CAFFERY

832.6511/126a : Telegram

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

WASHINGTON, July 24, 1940—4 p. m.

222. The Federal Loan Administrator has again informed me in the clearest terms that he is waiting only for the arrival of the Brazilian representatives to begin discussion of plans for the con-

<sup>38</sup> Not printed.

<sup>39</sup> The interest of Krupp in this project had been reported by the Ambassador in Brazil in telegram No. 161, May 17, 1939, 4 p. m. (832.51/1463). See also *Documents on German Foreign Policy, 1918-1945*, series D, vol. x (Washington, Government Printing Office, 1957), pp. 177-178.

<sup>40</sup> The Arthur J. McKee & Company of Cleveland, Ohio, who were making a study of the proposed steel plant.

<sup>41</sup> Dr. Guilherme Guinle, Chairman of the Executive Committee of the Brazilian Metallurgic Project (Comissão Executiva do Plano Siderurgical Brasileiro).

struction of the iron and steel plant. There is no intention of limiting any credit that is extended to 5 years.

The Federal Loan Administrator is also prepared to discuss possible plans for iron ore development in Brazil if the Brazilian Government wishes.

WELLES

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832.6511/136a

*The Acting Secretary of State to the Federal Loan Administrator  
(Jones)*

WASHINGTON, August 7, 1940.

MY DEAR MR. JONES: AS you are aware Dr. Guilherme Guinle, President of the Executive Committee of the Brazilian steel plan, accompanied by Lieutenant Colonel Edmundo Macedo Soares da Silva and Dr. Ary Torres, arrived in New York on August 5. They have been sent to the United States by President Vargas of Brazil to enter into conversations with you and with other officers of the Government as well as with manufacturers and consulting engineers looking to conclusion of arrangements for the construction of a steel plant in Brazil.

The members of the Committee enjoy the complete confidence of President Vargas. Furthermore, they are leaders in their respective fields in Brazil. Enclosed you will find brief biographies.<sup>42</sup>

As you are probably also aware President Vargas, the leading members of his Government and the principal elements of the Army and Navy consider the Brazilian steel project by far the most important item on the program of economic and industrial development. In order to assure the success of the project the Brazilian Government would evidently be prepared if necessary to sacrifice everything else.

One of the understandings reached by this Government with Dr. Oswaldo Aranha, the Foreign Minister of Brazil, on the occasion of his visit to Washington in early 1939 was that this Government would cooperate in every way possible in the Brazilian development program.<sup>43</sup> The Department feels that the steel project is of the utmost importance and would be pleased to see it undertaken through the cooperation of the appropriate governmental agencies and of American technical talent and manufacturers. In this connection it is pointed out that failure on the part of this Government to assist

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<sup>42</sup> Not printed.

<sup>43</sup> See *Foreign Relations*, 1939, vol. v, pp. 348 ff.

the Brazilians in this matter will in all probability according to the American Ambassador to Brazil result in the immediate acceptance by Brazil of a German offer to build the plant, which the Germans are prepared to do on terms which they will allow the Brazilians to write themselves. Germany's predominance in Brazilian economic and military life would thereby be assured for many years.

A memorandum was sent to you yesterday describing the current situation of the project. Should you require further details prior to the arrival of the Committee I shall be glad to have them sent to you.

Sincerely yours,

SUMNER WELLES

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832.6511/132 : Telegram

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

WASHINGTON, August 30, 1940—6 p. m.

278. Your 425, August 26, 3 p. m.<sup>44</sup> Steel Commission has had a number of conversations with Jesse Jones and Warren Pierson, and with various private companies. Delay in definite action is due principally to fact that Congress has not yet passed Bill authorizing 500 million dollar increase for Export-Import Bank and removing 20 million dollar limitation. The Department and Jones and Pierson are making every effort to push Bill and it is expected it will be acted upon by the Senate soon. If it is enacted, negotiations should proceed rapidly towards definite agreement.

HULL

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832.6511/148

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

No. 3530

RIO DE JANEIRO, September 5, 1940.

[Received September 11.]

SIR: I have the honor to report that Aranha told me last night that he had received another letter from Krupp making very attractive offers in connection with the construction of the steel plant.

Respectfully yours,

JEFFERSON CAFFERY

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<sup>44</sup>Not printed; the Ambassador in Brazil asked for information as to the progress of steel plant negotiations (832.6511/133).

832.6511/154 : Telegram

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

WASHINGTON, September 24, 1940—7 p. m.

315. The Department's 278 of August 30, 6 p. m. Jones and Guinle Monday afternoon agreed on the essential portions of a proposed exchange of letters on the steel project. Jones is ready to sign as soon as various drafting questions and minor points are settled and Guinle, who has cabled the terms to his Government, receives authorization to sign.

The principal points of the draft letters as they now stand are as follows:

Contingent upon the investment by the Brazilian Government of milreis to the value of \$25,000,000 in the form of junior money, the Export-Import Bank confirms its tentative commitment of \$10,000,000 and will increase the commitment to a cumulative total of \$20,000,000, as work progresses, for the purchase in the United States of materials and equipment for the mill and for the hiring of engineering and professional talent. The loan will be made to the Brazilian steel company endorsed by the Bank of Brazil and guaranteed by the Brazilian Government. Repayment will be made in 20 semi-annual instalments, the first of which will become due 3 years from the date of the first advance. The loan will constitute a first claim against the mill and the Export-Import Bank shall have the privilege of concurring in the selection of managerial officers, engineers, contractors and materials. The Bank would expect the mill to employ officers and engineers experienced in the manufacture of steel in the United States until successful operation has been assured.

With regard to interest, Jones is asking 4 percent per annum during the first 3 years and 4½ percent thereafter, payable semi-annually. Guinle, we understand, would not make an issue of the 4½ percent rate, but Ambassador Martins informed President Vargas some weeks ago that Pierson agreed to a flat rate of 4 percent. When we see Jones tomorrow we shall take up this matter with the hope of settling upon a 4 percent rate throughout.

The texts of the letters will be sent you by telegraph when they are signed.

HULL

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832.6511/154 : Telegram

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

WASHINGTON, September 25, 1940—6 p. m.

318. Department's 315, September 24, 7 p. m. Jones has agreed to the flat 4 percent per annum interest rate, and is ready to sign as

soon as Guinle receives the Brazilian Government's authority. The texts of the letters agreed to by Jones and Guinle are being transmitted by separate telegram.

HULL

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832.6511/154 : Telegram

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

WASHINGTON, September 25, 1940—7 p. m.

319. There follow for your information the texts of the letters agreed to by Guinle and Jones on United States cooperation with Brazil in the Brazilian steel project. The Department will cable you promptly regarding plans for signature and public announcement:

"Dear Mr. Jones: With regard to the extensive discussions of the project to construct an iron and steel mill in Brazil, which have taken place between representatives of my government and the Export-Import Bank, I have the honor to inquire whether the Bank is in a position to make available to Brazil and to Brazilian interests, and on what terms, the credit necessary for the purchase, in the United States, of materials and equipment for the construction of the mill, which the Government of Brazil considers of paramount importance to its economic progress.

It is estimated that we will need \$20,000,000 United States funds to cover these purchases, \$10,000,000 of which will be required during the next 12 to 18 months, and the balance, up to a maximum cumulative total of \$20,000,000 thereafter as the work progresses. It will probably require 2½ years to complete the mill.

If the credit is available, we will establish an office in Pittsburgh or other suitable center with a corps of engineers and executives to handle the task of the design of the mill, the purchase of the equipment, and the construction of the plant. This organization will be composed of Americans and Brazilians acceptable to both parties. We will, if you think it advisable, establish a supplemental or consulting office in Washington or New York. All of this, of course, will be at our expense, and become a part of the cost of the mill.

The Brazilian Government, in conjunction with certain Brazilian savings banks and investors, is prepared to invest milreis to the value of \$25,000,000 in this project in the form of equity money or otherwise represented by securities junior to the Export-Import Bank's loan. We would expect the plans, specifications, et cetera, and the construction and operation of the mill to be satisfactory to you, and for you, if you wish, to have your special representatives to inspect the work as it is being carried on.

I should be very happy to hear from you at your early convenience. Sincerely yours."

"Dear Dr. Guinle: Receipt is acknowledged of your letter of September . . . , 1940, in which you state that the Brazilian Government desires that an iron and steel mill be constructed in Brazil and that the Brazilian Government, together with certain Brazilian sav-



ings banks and other investors, is prepared to invest milreis to the value of \$25,000,000 in the enterprise, but desires to borrow up to \$20,000,000 for the purchase in the United States of materials and equipment for the construction of the mill.

In line with our several conversations on the subject and conditional upon the investment of milreis to the value of \$25,000,000 as above provided in the form of junior money, I am pleased to advise you that the Export-Import Bank now confirms the tentative commitment of \$10,000,000 heretofore approved by the Bank for this project, and agrees to increase the sum, as the work progresses to a cumulative total of \$20,000,000.

The loan will be made by the Export-Import Bank to the company which is to own and operate the mill, and endorsed by the Bank of Brazil, and guarantied by the Brazilian Government. The loan will be payable in 20 semi-annual instalments, the first of which will become due in 3 years from the date of the first advance. Interest, payable semi-annually, at 4 percent will run from the date each advance is made.

Satisfactory provisions will be required to assure that the loan will constitute a first claim against the mill, and all legal matters in connection with the loan shall be subject to the approval of the Export-Import Bank. We should also want the privilege of concurring in the selection of the managerial officers of the mill company, the engineers, and contractors, and the purchase of materials.

The Export-Import Bank will expect continuing assurances from the Bank of Brazil and the Brazilian Government that the mill will be completed from the proceeds of the loan and funds to be supplied in Brazil and that the mill company will have ample working capital.

In view of the fact that the experience of Brazilians in the manufacture of steel on a large scale has been limited, the management of the enterprise should include managerial officers and engineers experienced in the manufacture of steel in the United States until successful operation has been assured to the mutual satisfaction of the Export-Import Bank and Brazilian investors. I have every confidence that with sufficient experience Brazilians will be able successfully to manufacture steel, and I am in thorough sympathy with your President and your people in their desire to build this industry. Very truly yours."

HULL

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832.6511/154: Telegram

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

WASHINGTON, September 26, 1940—6 p. m.

320. The Department's 319, September 25, 7 p. m. Jones and Guinle signed, at 3:30 p. m. today, the exchange of letters on the steel project and the texts as cabled to you yesterday were immediately released to the press.

HULL

832.6511/169 : Telegram

*The Brazilian Minister for Foreign Affairs (Aranha) to the Under Secretary of State (Welles)*[Translation]<sup>45</sup>

RIO DE JANEIRO, September 30, 1940—2:03 p. m.

[Received September 30—1:50 p. m.]

I wish to express to you my satisfaction for the signing of the agreement for financial and technical assistance by the United States in the establishment in Brazil of a large scale iron and steel industry, and to thank the Department of State and my dear friend for the interest which they have always given to this undertaking from the beginning of our conversations at the time I served as Ambassador there. No factor may better reveal the decision of the United States to collaborate for the prosperity of Brazil and of the American continent. Cordial greetings.

OSWALDO ARANHA

832.6511/169 : Telegram

*The Under Secretary of State (Welles) to the Brazilian Minister for Foreign Affairs (Aranha)*

WASHINGTON, October 1, 1940.

I have received with the deepest satisfaction your particularly gratifying telegram of yesterday. The exchange of letters with regard to the establishment of the iron and steel industry in your great country is a source of the greatest pleasure to this Government. I remember well the many conversations which you and I had with regard to it and it is, therefore, now all the more satisfying to see that the hopes which we then expressed have been realized. I believe unquestionably that this agreement marks the reaffirmation of a policy of close practical and intimate cooperation between our two Governments to our reciprocal advantage and the advantage of the New World. Please accept my warmest personal greetings.

SUMNER WELLES

832.6511/164 : Telegram

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

RIO DE JANEIRO, October 4, 1940—2 p. m.

[Received 3:48 p. m.]

504. President Vargas yesterday spoke enthusiastically of the recently signed agreement for the construction of a steel plant in Brazil;

<sup>45</sup> Translation supplied by the editors.

he said that he was receiving telegrams of congratulations from all over Brazil. He said also that he was particularly appreciative of the effective interest and part which he had reason to believe President Roosevelt took in this business.

CAFFERY

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REPERCUSSIONS OF A SPEECH BY PRESIDENT VARGAS OF BRAZIL,  
DELIVERED JUNE 11, 1940

832.00N/117 : Telegram

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

RIO DE JANEIRO, May 27, 1940—3 p. m.  
[Received 3:55 p. m.]

232. My 226, May 21, 5 p. m.<sup>46</sup> People here and notably the Government, including Aranha,<sup>47</sup> are thoroughly frightened of a possible Integralista movement.<sup>48</sup> . . .

Aranha and others repeat that Brazilian sentiment 90% in favor of the Allies, but the 90% are unorganized while the 10% in favor of the Germans are getting better organized every day.

If Italy joins the war the situation will become more dangerous owing to the fact that the Italian population ranks second only to Portuguese in numbers of foreign born.

CAFFERY

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740.0011 European War 1939/3711a : Telegram

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

WASHINGTON, June 11, 1940—6 p. m.

164. From the Under Secretary. A broadcast this afternoon announced that "President Vargas of Brazil in a public speech has alluded to the European dictatorships in a complimentary manner". Please telegraph immediately any basis there may be for this report. [Welles.]

HULL

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<sup>46</sup> Not printed.

<sup>47</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>48</sup> Fascist-type movement in Brazil.

740.0011 European War 1939/3680 : Telegram

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

RIO DE JANEIRO, undated.

[Received June 11—6:50 p. m.]

265. Italy's entrance into the war has increased the concern of the Government as to the attitude of the large German and Italian populations here. This was demonstrated today in a speech made by President Vargas for Navy Day: While he praised Pan-American ideals and so on, in several places he made statements which are manifestly sops to those groups.

CAFFERY

740.0011 European War 1939/3712 : Telegram

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

RIO DE JANEIRO, June 11, 1940—noon.

[Received June 12—7:04 a. m.]

266. Department's No. 164, June 11, 6 p. m. For Under Secretary. As I have reported they would, the entry of Italy into the war and the continued German victories have complicated matters: President Vargas . . . without informing his Cabinet apparently, . . . made, in an effort to appease those elements, the speech reporting [*reported?*] in my telegram No. 264 [265] (the Associated Press has been telegraphed a translation of the objectionable paragraphs). Would you like the whole speech telegraphed?

Vargas believes I hear that our good neighbor policy might prevent us from interfering with what to all appearances would be a purely Brazilian movement; hence he would like to appease the Germans and Italians.

CAFFERY

740.0011 European War 1939/3721 : Telegram

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

RIO DE JANEIRO, June 11, 1940—8 a. m.

[Received June 12—11:55 a. m.]

267. My 266, June 10 [11], noon. President Vargas first stated in his Navy Day address that "there are no longer any differences on this Continent. We are united by bonds of close solidarity to all of the American nations in ideals and aspirations and in the common interest of our defense". He then went on to say: "We and all humanity are passing through a historical moment of grave repercussions resulting from rapid and violent changes in values. We are headed for a future

different from anything we have known in the line of economic, social or political organization and we feel that the old systems and antiquated formulas have entered into decline. It is not however the end of civilization as the pessimists and staunch conservatives claim, but the tumultuous and fruitful beginning of a new era. Vigorous peoples, ready to face life, must follow the line of their aspirations instead of wasting time in the contemplation of that which is tottering and falling in ruins. It is therefore necessary to understand our times and remove the hindrances of dead ideas and sterile ideals". Further on he said: "Political order is no longer made in the shadow of the vague rhetorical humanitarianism which sought to abolish frontiers and create an international society without characteristics or friction, united and fraternal, enjoying peace as a natural right and not as a day to day conquest. Instead of this panorama of balance and of just distribution of the world's riches we are witnessing the exasperation of nationalism, strong nations imposing their will by the sentiment of nationality and being sustained by the conviction of their own superiority. The era of improvident liberalism, sterile demagoguery, useless individualism and the sowers of disorder has passed. Political democracy is being substituted for economic democracy where the power, emanating directly from the people and instituted for the defense of their interests, organizes labor—the source of national greatness—and not ways for private fortune. There is no longer room for regimes founded on privilege and class distinction; only those which incorporate the nation in the same duties and offer equitable social justice and opportunities in the struggle for life can survive". He continued: "The order created by new circumstances which are guiding nations is incompatible with individualism, at least when it clashes with the collective interest. It does not recognize rights which interfere with obligations to the nation. Happily in Brazil we have established a regime which is adequate for our necessities without imitating or affiliating itself with any of the current ideologies. It is a Brazilian regime of order and peace in accordance with the nature and traditions of our people, capable of bringing about more rapidly our general progress and of guaranteeing the security of all."

CAFFERY

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740.0011 European War 1939/3670½ : Telegram

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

BUENOS AIRES, June 11, 1940—8 p. m.

[Received June 11—6:57 p. m.]

206. Associated Press has just received substance of Vargas' speech today and interprets a passage as possible endorsement of totalitarian

form of government as differentiated from the ideals enunciated by President Roosevelt last night.<sup>49</sup> I should appreciate receiving for our confidential background here any comments.

ARMOUR

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740.0011 European War 1939/3730 : Telegram

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

BUENOS AIRES, June 12, 1940—noon.

[Received 1:46 p. m.]

209. The Minister for Foreign Affairs<sup>50</sup> telephoned me last night to say that he and the President<sup>50a</sup> had just been reading with some concern the Associated Press text of President Vargas's speech delivered in Rio yesterday. Dr. Cantilo said that, while he did not wish to pass judgment until they had the full text, the sentiments expressed by President Vargas would seem to be at variance with the views held by the Argentine Government and what he and the President had supposed also represented those of the other American Republics. Dr. Cantilo indicated that if fuller accounts substantiated this early impression he might wish to discuss this matter with me further today.

Telegrams from Washington in the morning papers today indicate some concern in official circles regarding the speech. I should appreciate any background the Department feels might be useful in the event the Minister of Foreign Affairs desires to discuss the matter further.

ARMOUR

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740.0011 European War 1939/3729 : Telegram

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

RIO DE JANEIRO, June 12, 1940—5 p. m.

[Received June 12—2:32 p. m.]

271. For the Under Secretary. My 266, June 11, midnight [noon]. Aranha has not seen President Vargas since he made his speech yesterday and insists that not one in the Cabinet knew anything about it. . . . he contends (lamely) that the President thought that he was talking merely for home consumption and did not realize that there would be repercussions abroad.

Aranha . . . will see Vargas this afternoon.

CAFFERY

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<sup>49</sup> Address by President Roosevelt at Charlottesville, Virginia, June 10, 1940, Department of State *Bulletin*, June 15, 1940, p. 635.

<sup>50</sup> José María Cantilo.

<sup>50a</sup> Roberto M. Ortiz.

740.0011 European War 1939/3712: Telegram

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

WASHINGTON, June 12, 1940—6 p. m.

167. Whereas no editorial comment has yet appeared on President Vargas' speech of June 11, the headlines are frankly alarmist. The *New York Times* head to the Associated Press story reads "Vargas Backs the 'Virile'; Predicts New World Order. Attack on 'Sterile Demagoguery of Political Democracy' by Brazil's President Seen as Divergence From Roosevelt". The *New York Herald Tribune* begins "Vargas Defends Force", and continues "Lauds Aim of 'Vigorous Peoples' ". Other headlines are in a similar vein.

The Associated Press story emphasizes the contrast between President Vargas' speech of June 11 and President Roosevelt's Charlottesville address of June 10, and also states that it is reliably reported in Buenos Aires that both Argentina and Paraguay have strengthened their frontier garrisons.

A story filed by John W. White (*New York Times*) from Montevideo avers that diplomats and editors in that city describe the speech as "the first outspoken Fascist speech by any South American president". This story adds that the *Critica* of Buenos Aires carries a streamer as follows: "Vargas, with Fascist language, justifies the aggression of the barbarians". White goes on to say that comment was caused in Montevideo "by the fact that the Brazilian censorship had prevented correspondents from commenting on today's speech by the President and have permitted them to file the texts or résumés only". A *New York Times* story under a Washington date line states that while Aranha, so long as he remains in office, will do nothing at variance with American international policy, President Vargas on the other hand has not always been patient with American ways in foreign policy, especially with the delays of democratic processes.

A résumé of editorial comment will be telegraphed to you tomorrow.

(A United Press telegram from London in the *New York Mirror* concerning the assumption by Brazilian consulates of Italian interests in Great Britain is published under the head "Brazil a Pal".)

The Secretary at his press conference today, in reply to a request for comment on the speech, said "I don't think we make a practice of commenting on speeches delivered by heads of other governments to their own people. Of course, as I say, I have not seen the speech either nor the background. I may add that I do not recall any period when the relations between our two countries were more intimate and wholehearted in their understanding and friendliness and spirit of cooperation than those relations are today."

HULL

740.0011 European War 1939/3748 : Telegram

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

RIO DE JANEIRO, JUNE 12, 1940—8 p. m.

[Received 8 : 45 p. m.]

272. 266, June 11, midnight [*noon*]. For Under Secretary. President Vargas . . . promises to have a statement issued that his speech was misinterpreted and that the only international issue in his speech was the defense of Pan American ideals and solidarity, etc, et cetera.

He promises also to take early opportunity to make another speech correcting the impression made.

My interpretation remains that of 266, June 11, midnight [*noon*] although I admit that Vargas did not realize the full international complications.

CAFFERY

740.0011 European War 1939/3721

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, JUNE 12, 1940.

MY DEAR MR. PRESIDENT: You may not have seen the attached telegram<sup>51</sup> sent by Caffery and reporting on the speech of President Vargas yesterday.

President Vargas certainly chose a singularly unfortunate moment for his speech but I think you will agree, after reading the text quoted by Caffery, that there is nothing whatever in the speech except one or two ill-chosen phrases which justify the onslaught being made upon President Vargas by the American press today. It was clearly a speech intended solely for domestic consumption and the last page of the telegram makes it thoroughly clear that in all of the references which he makes to political systems he is talking solely about the Brazilian Government and in no sense about the German or Italian dictatorships.

The criticisms of our own press will be reprinted in the German and Italian controlled papers in Brazil and will undoubtedly be used to advantage to stir up feeling against the United States.

If, at your press conference on Friday, you were to find it possible to say a few words of regard for President Vargas and for the exceedingly close and friendly relationship between the two governments, I believe it would have an admirable effect. I may remind you that at this very moment the secret military and naval conversations are going on in Rio between our officers and members of the Brazilian

<sup>51</sup> Telegram No. 267, June 11, 8 a. m., p. 616.



Government<sup>52</sup> and that the Brazilian Government has offered us every possible form of cooperation in the realm of national defense. We have fortunately been able so far to avoid any publicity with regard to these conversations.

Believe me

Faithfully yours,

SUMNER WELLES

740.0011 European War 1939/3947

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] June 13, 1940.

The Ambassador<sup>52a</sup> called to thank me for what I had said to the press yesterday explanatory of the criticism of the speech of President Vargas. He said that President Vargas went away in the forenoon to deliver his speech and that he did not know that President Roosevelt had delivered his Charlottesville speech the night before; that his speech was entirely to his own people and was intended entirely for domestic consumption and application. He then added that tomorrow President Vargas would issue a statement fully explaining his speech. I thanked him.

C[ORDELL] H[ULL]

740.0011 European War 1939/3780 : Telegram

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

RIO DE JANEIRO, June 13, 1940—8 p. m.

[Received June 13—1:57 p. m.]

275. My 272, June 11, midnight [*June 12, 8 p. m.*]. The President issued late this afternoon through the Department of Press and Propaganda the statement mentioned which the press associations will carry. He assures me his sentiments have not changed and he is still prepared to cooperate 100 percent with us.

CAFFERY

740.0011 European War 1939/3731a

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, June 14, 1940.

MY DEAR MR. PRESIDENT: The Brazilian Ambassador came to see me this morning and handed me a telegram of which I enclose the translation herewith, which he had just received from President Vargas.

<sup>52</sup> See pp. 40 ff.

<sup>52a</sup> Carlos Martins, Brazilian Ambassador.

I told the Ambassador I would transmit this message to you and I asked if the Ambassador saw any objection to having the message made public. He assured me there was no objection.

I had hoped that you would, at your press conference this morning, say something on the subject of our relations with Brazil but I realize that due to the tremendous pressure under which you are, it undoubtedly escaped your mind. Do you not think it would be well for Steve Early<sup>53</sup> to let the press have the text of this message and see that proper emphasis is given to it by the press?<sup>54</sup>

Believe me

Faithfully yours,

SUMNER WELLES

[Enclosure—Translation]

*The President of Brazil (Vargas) to the Brazilian Embassy in Washington*

[RIO DE JANEIRO,] June 13, 1940.

Speech delivered June 11 can in no sense be regarded as contradictory to that of President Roosevelt whose speech I had not read at that time. My speech is a warning, a call to reality, addressed to Brazilians and which might cause surprise only to persons devoted to routine, not to a far-seeing mind like that of Roosevelt, who is liberal minded, progressive and forward looking, crying out as the voice of the whole continent regarding perils which threaten America and who knows that Brazil will not fail him in loyalty.

GETULIO VARGAS

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740.0011 European War 1939/4048

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

No. 3148

RIO DE JANEIRO, June 14, 1940.

[Received June 20.]

SIR: With reference to my telegram No. 275 of June 13, 8 p. m., I have the honor to transmit herewith a copy and translation of the text of the official statement issued through the Department of Press and Propaganda, for the purpose of clarifying the address which President

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<sup>53</sup> Secretary to the President.

<sup>54</sup> The message was released by the White House, June 15, 1940. Printed in Department of State *Bulletin*, June 15, 1940, p. 666.

Vargas made on June 11, the text of which was transmitted under cover of my despatch No. 3140 of even date.<sup>55</sup>

Respectfully yours,

For the Ambassador:  
 RANDOLPH HARRISON, JR.  
*Second Secretary of Embassy*

[Enclosure—Translation]

COMMUNIQUE ISSUED BY THE DEPARTMENT OF PRESS AND PROPAGANDA

The address made by President Getulio Vargas on June 11 does not bring about any alteration in Brazil's foreign policy. Its only object was the internal life of the country as well as to call the attention of the Brazilian people to the transformation the world is undergoing, thus justifying the necessity of strengthening the State both economically and militarily.

The President of the Republic sought, moreover, to arouse the attention of his countrymen, warning them against discouragement and pessimism. As regards ideas on political, social and economic organization, what he said merely reiterates previous assertions. This speech is a warning, a call to reality, which disconcerts only apathetic spirits, accustomed to every-day comfort.

Brazil's foreign policy is one of entire American solidarity in the common defense of our Continent against any attack from outside. Our country, on the other hand, does not intervene in European conflicts, maintaining strict neutrality. The relations between Brazil and the other American nations, especially the United States, have never been as good as they are now.

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832.00/1296 : Telegram

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

RIO DE JANEIRO, June 17, 1940—4 p. m.

[Received 6:25 p. m.]

287. In my opinion 70% of the Brazilian population, which has any opinion on the European war, is pro-Ally; 30% which has an opinion on the war is pro-German or Italian. The pro-Ally elements are entirely unorganized; the pro-Germans and Italians are very well organized. It is very possible that more than half of the population has no opinion on the war at all. The pro-Ally proportion of the

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<sup>55</sup> Not printed.

population received the Vargas' speech on June 11 with much indignation and a great many of them have been saying what they think about it.

Since the speech the Vargas opponents (aside from the Integralistas) who have been lying very low since November 1937<sup>56</sup> have been getting together and they are beginning again to plot on every side. (I am receiving communications which lead me to believe that attempts will be made to involve me by way of demonstrations, et cetera, with one or another of the groups opposed to Vargas.)

CAFFERY

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740.0011 European War 1939/4173a

*The Under Secretary of State (Welles) to President Roosevelt*

[WASHINGTON,] June 25, 1940.

MY DEAR MR. PRESIDENT: From personal letters and telegrams which I have recently had from Jeff Caffery it is obvious that the Brazilian Government is supersensitive as a result of Dr. Vargas' recent speech and the bitter criticism which resulted therefrom.

In my judgment a friendly telegram from you to President Vargas at this juncture would have very helpful results. I am submitting herewith a suggested telegram. I believe the phrase "complete respect for the sovereignty of one another" would be particularly useful in this connection. If you approve the telegram, please have it sent back to me and I will have it sent to Rio immediately.

Believe me

Faithfully yours,

SUMNER WELLES

[Enclosure]

*Draft of Telegram From President Roosevelt to the President of Brazil (Vargas)*<sup>57</sup>

Your Excellency's telegram to your Ambassador in Washington was duly communicated to me. Your message was a further and gratifying proof of the understanding and close friendship between our two nations. I feel sure that at the forthcoming Consultative Meeting of the Foreign Ministers of the American Republics<sup>58</sup> the representatives of Brazil and of the United States will cooperate once

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<sup>56</sup> See *Foreign Relations*, 1937, vol. v, pp. 312-316.

<sup>57</sup> Notation on copy in Franklin D. Roosevelt Library, Hyde Park, N. Y., reads: "Original sent to State for transmittal 6/26/40."

<sup>58</sup> Second Meeting of the Foreign Ministers of the American Republics, held at Habana, July 21-30, 1940; for correspondence, see pp. 180 ff.

more in their traditional way to further the ideals of our New World—complete respect for the sovereignty of one another and whole-hearted cooperation in all that relates to the preservation of the peace and security of this hemisphere and of the common welfare of the American Republics.

Please accept the assurances of my warm personal regard.

FRANKLIN D. ROOSEVELT

740.0011 European War 1939/4260 : Telegram

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

RIO DE JANEIRO, June 28, 1940—5 p. m.

[Received 5 : 33 p. m.]

313. For the Under Secretary. Aranha tells me that President Vargas has become most incensed over the attacks that were made upon him in the United States in regard to his much publicized speech. Vargas told him last night that he had decided to make another speech tomorrow emphasizing two points; the first, his Pan Americanism: the second, his contention that Pan Americanism has nothing to do with the form of government adopted by any American country: he would recall that Brazil was an empire until 1889; he would assert that the other American countries were free to adopt any system of government they chose including "their own interpretation of a democracy:" but that Brazil stood by the Estado Novo.

I told Aranha that in my opinion such a speech would be very badly received in the United States. Aranha promised me to see the President again this afternoon and urge him strongly not to make it.

CAFFERY

740.0011 European War 1939/4296 : Telegram

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

RIO DE JANEIRO, June 29, 1940—8 p. m.

[Received June 30—7 : 54 a. m.]

318. My telegram no. 313, June 28, 5 p. m. Vargas insisted on answering and taking issue with his critics in the United States. His speech this afternoon, although reaffirming and stressing Pan American solidarity and necessity for united front against foreign threats, was petulant and directed directly against those critics who, he said "had interpreted his address of June 11 with false commentary and tendentious publication of isolated phrases." He asserted right of each country to adopt form of government best suited to it

and contended that Brazil had always understood Monroe Doctrine in that manner.

Associated Press has telegraphed principal paragraphs. I assume that Department will see papers carrying them in full.

CAFFERY

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GOOD OFFICES OF THE DEPARTMENT OF STATE IN SETTLING THE DISPUTE BETWEEN BRAZIL AND THE UNITED KINGDOM CONCERNING THE DETENTION OF THE BRAZILIAN VESSEL "SIQUEIRA CAMPOS"<sup>60</sup>

832.24/255 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 1, 1940—3 p. m.

[Received 6 p. m.]

561. For Ambassador Caffery. Aranha<sup>60</sup> sent for me today and requested me to telegraph you the following.

As you are aware, Brazil has received part of the large military equipment order placed with Germany. The Brazilians are now especially anxious to receive an order, filled by Krupp, for sixty-four 75-millimeters Brazilian Army-type field guns and forty-eight 88-millimeters anti-aircraft guns with several thousand rounds of ammunition for each type. About one third of this order is now on board a Brazilian ship at Lisbon and the other two thirds are believed to be en route between Essen and Lisbon.

Aranha says that Brazil has already paid Germany 3,000,000 pounds sterling on this account; that equipment worth about 1,000,000 pounds has been delivered in Brazil.

Aranha states that Knox<sup>61</sup> urged his Government to grant permission to ship the equipment from Lisbon, but the Brazilian Ambassador in London yesterday telegraphed Aranha that the British Committee of Economic Blockade has definitely refused the permission.

Knox has seen Aranha and expressed concern and regrets, saying that he had done all he could and felt that it was a mistake not to permit the shipment, but was overruled.

In view of this situation, Aranha, who either really felt or simulated considerable agitation, said that his Government was resolved to attempt the shipment regardless of the British and that President

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<sup>60</sup> For the official Brazilian exposition on this detention of the *Siqueira Campos*, see Brasil, Ministério das Relações Exteriores, *Relatório . . . Ano de 1940*, pp. 18-19.

<sup>60</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

<sup>61</sup> Sir Geoffrey George Knox, British Ambassador in Brazil.

Vargas had concurred in this view. Aranha said the Brazilians would take their chances on the ship or ships transporting this material being held up by the British. If held up, his Government would issue a formal declaration to all the American Republics condemning the British attitude toward Brazil, and the British economic mission would not be received here. Finally, Aranha said that the Army is most insistent and that if Brazil fails to overcome this British objection, he would resign and permit the designation as Minister for Foreign Affairs of a successor who holds views different from his own. He remarked that this material was for the defense of the Natal area, . . . However, I judge that his concern is due to heavy pressure from the Army.

Aranha said that as you are thoroughly familiar with this subject he felt that you would appreciate its gravity and endeavor to help him.

BURDETT

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832.24/255 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, November 2, 1940—5 p. m.

372. From the Ambassador. Your telegram No. 561, November 1, 3 p. m. Please tell Aranha I spoke this afternoon on the subject in which he is interested to the British Chargé d'Affaires here who promised to telegraph at once about the matter to his government. [Caffery.]

HULL

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832.24/257 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 16, 1940—4 p. m.

[Received 5:50 p. m.]

593. For Ambassador Caffery. Referring to your telegram No. 372, November 2, 5 p. m., Aranha just informed me that in view of the fact that his Government is still without news that the British have granted permission to ship this material to Brazil it has instructed the Brazilian steamer *Siqueira Campos* to sail from Lisbon with the material on November 17 regardless of the attitude of the British Government.

The Willingdon Mission<sup>62</sup> is expected to arrive at Rio de Janeiro on November 17.

BURDETT

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<sup>62</sup> The British Economic Mission, headed by the Marquis of Willingdon.

832.24/257 : Telegram

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

WASHINGTON, November 18, 1940—7 p. m.

402. From the Ambassador. Your 593, November 16, 4 p. m. Please tell Aranha that the Acting Secretary and I have both been pressing this matter continually at the British Embassy here during the past fortnight. I am to speak on the subject again with the British Chargé d'Affaires this afternoon. [Caffery.]

WELLES

832.24/258 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 22, 1940—4 p. m.

[Received 6:40 p. m.]

599. Reference Department's telegram 372 of November 2, 5 p. m. Lord Willingdon told me this morning that his Government informed him last night that the *Siqueira Campos* had been stopped and taken into arrest by the British. He said this was a grave mistake, that he had recommended that the ship be merely stopped and then allowed to proceed on its voyage and that he had sent a personal telegram to Lord Halifax<sup>68</sup> urging against detaining the ship. He said that he was told by the Ministry of Blockade which felt that nonseizure of this ship after the Brazilians had decided to disregard the blockade would be a bad precedent and afford grounds for other American Republics on various pretexts to request passage through the blockade.

He said he knew that the American Government did not view favorably the detention of this ship. He will see Aranha this afternoon. Last night Aranha pointedly failed to attend a banquet for Willingdon.

The seizure of this ship may undo any good the Willingdon Mission can accomplish. The Mission was received most favorably here, has had a good press, been extensively entertained, and the visit marked by felicitous speeches. Aranha made an anti-German speech at the Foreign Office banquet to the Willingdon party.

Now Aranha is indignant and worried. He requests me to telegraph the Department the following statement:

"We are informed by the British Government that it has directed the control authorities to detain the military equipment carried in the *Siqueira Campos*.

The Brazilian Embassy at London states that the British authorities insinuate that they have taken this step in accord with the Ameri-

<sup>68</sup> British Secretary of State for Foreign Affairs.



can Government. I sent a denial of this insinuation. We hope that the decision of the British Government is only a formality. We cannot understand such arbitrary action. If this brutality is carried out, we will be forced into an attitude that may unfortunately perturb the continental policy which with our help has been one of good will toward England. There is present proof of this in the manner in which we are receiving and negotiating with the British Economic Mission."

I repeated to Aranha the sense of the Department's telegrams 372, November 2, 5 p. m. and 402, November 18, 7 p. m.

Original correspondence the above to Ambassador Caffery.

BURDETT

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832.24/259 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 23, 1940—8 p. m.

[Received 9 : 25 p. m.]

603. Reference Embassy's telegram 599, November 22, 4 p. m. The Minister for Foreign Affairs requested me to telegraph the Department that he had today received telegrams from Lisbon and from Gibraltar stating that after seizing the Brazilian ship the British had taken it to Gibraltar.

No mention whatsoever has yet appeared in the Brazilian press regarding the ship.

The Willingdon Mission leaves here tonight for São Paulo via Santos.

BURDETT

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832.24/258 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, November 25, 1940—4 p. m.

408. From the Under Secretary. Please see Aranha immediately and give him the following personal message from me:

I was very deeply concerned to learn that the British had stopped and detained the *Siqueira Campos* in the face of all the efforts that have been made by our two Governments. Within the last few days, Caffery and I had fully explained to the British Chargé d'Affaires here the circumstances surrounding the purchase of the arms and all of the reasons that counseled the desirability of permitting the ship to proceed to Brazil. We could not have been more emphatic or more precise in our views.

Lord Lothian, the British Ambassador, returned yesterday. I will speak with him most directly and vigorously today, or tomorrow at the latest, in the expectation that he will understand the importance

of permitting the ship to proceed and will accordingly urge this view upon his Government.

In addition General Marshall <sup>64</sup> is speaking today with Sir Walter Layton, who has come to Washington on a special mission for the British Government, pointing out that from the standpoint of assisting Brazil to repel any aggression it is essential that these supplies be permitted to reach Brazil in order to make usable the equipment already furnished.

I have just received from the British Chargé d'Affaires a statement setting forth the opinion of his Government. His memorandum contains a number of inconsequential arguments which it is hardly worth cabling. For instance, that the arrival of the shipment in Brazil "would provide a golden opportunity for the German propagandists to claim that the British blockade had collapsed" and that the delivery of the arms "would strengthen the pro-German element" in the Brazilian Army. The memorandum's principal points may be summarized as follows:

Between the outbreak of war and the putting into force at the end of November, 1939, of the Reprisals Order in Council to control German exports, two shipments of German arms were made to Brazil. In April last exemption was granted by the British authorities for a large shipment of 48 artillery cars, 6 anti-aircraft batteries, ammunition plant and machinery for reserves. Although the ship carrying this consignment had sailed from Genoa without an export pass and was found at Gibraltar to be carrying additional quantities of German goods not covered by the exemption, in June another larger shipment was allowed including anti-aircraft gun barrels and shells, field guns, ammunition wagons, sound detectors, etc. As a condition of grant of exemption the Counsellor of the Brazilian Embassy in London undertook that no further applications for similar concessions would be made for the duration of the war and that the Embassy would recommend the dismissal of German technicians in certain key posts in Brazil.

It will thus be seen that the Brazilian Government have in fact been treated with every consideration by the British Government and have been granted special exemption from the terms of the Reprisals Order in Council in respect of two large shipments of arms from Germany. Furthermore, despite the Brazilian Embassy's undertaking to the contrary, further applications for similar exemption were made on July 29th, September 2nd, September 12th and October 14th. Now, although no exemption has been granted the goods have been loaded on a Brazilian vessel which sailed from Lisbon on November 19th without ship's navicert.

Brazil would, no doubt, shortly ask for further concessions, and many similar applications which it would be difficult to refuse would, no doubt, be put forward by other South American countries. In spite of repeated requests the Brazilian Government has never produced for the British Government any documentary evidence that the arms now in question have been paid for, although, if this was

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<sup>64</sup> Gen. George C. Marshall, Chief of Staff, United States Army.

the case, there should be no difficulty in proving it. Furthermore, the total amount of the order has been stated at one time to be 6 million pounds sterling and upon another 2 million pounds sterling. The Counsellor of the Brazilian Embassy in London has admitted that the payments in advance were simply deposits on the whole order and that payments in full for specific items have not been made. According to the information available in London, Brazil is heavily indebted to Germany in the clearing arrangement so that no question of using blocked marks arises. In fact, the delivering of the arms would merely serve to increase the Brazilian currency resources at the disposal of Germany which might well be used for subversive activities in this continent. End of résumé of memorandum.

Until this matter is satisfactorily settled, I will take every opportunity of keeping it before Lord Lothian. For future discussions with him I would appreciate having Aranha's comment on the British statement. It would be particularly helpful to know whether the British could be assured that this is the last shipment for which an exception [*exemption?*] will be requested, and whether the payment for this shipment has already been made, and if not, whether it could be deferred until after the war is over, or deposited in escrow in Brazil.

[Welles]  
HULL

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832.24/260 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 25, 1940—8 p. m.

[Received 11 : 25 p. m.]

605. Reference my telegram 399 [599] of November 22, 4 p. m. The Minister for Foreign Affairs gave me late today copy of a note which his Ambassador in London will present to the British Foreign Office tomorrow.

In substance it sets forth the following.

[Here follows summary of text given in translation in telegram No. 611, November 27, 10 a.m., page 635.]

Aranha said that in view of the attitude of the army here he regards the matter as highly dangerous. He believes the Generals will take it badly and said that he is counting on the help of the Department to avoid an intolerable situation. He said that the success of all his efforts to maintain Brazilian opinion favorable to the democracies is menaced by this lamentable incident.

I shall see the British Ambassador tomorrow.

BURDETT

832.24/261 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 25, 1940—midnight.

[Received November 26—1:20 a. m.]

606. For the Under Secretary. Reference your telegram No. 408, November 25, 4 p. m. Your telegram was communicated to Aranha tonight. He requested me to convey his personal deep appreciation of the efforts you and Ambassador Caffery have put forth in his behalf. He said that he was doing everything possible to keep the incident on a conciliatory plane and that he hoped Great Britain would understand Brazil's position.

He will study your message overnight and will cable you his comments tomorrow. In the meantime he can give assurance that Brazil does not propose to transport further shipments of military material without a previous understanding with Great Britain. He has added this to his note to be presented in London tomorrow.

He has also added to the note the explanation that the military material forming part of the German order and already delivered in Brazil did not exceed in value the sum of £335,000 [~~£732,000~~].

Aranha gave further assurance that the payment for the *Siqueira Campos* shipment has already been made and states that the receipts are held by his Government.

BURDETT

832.24/263 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 26, 1940—5 p. m.

[Received 5:05 p. m.]

607. The British Ambassador told me today that he has for some weeks consistently recommended that means be found to permit the *Siqueira Campos* to pass the blockade. He has done all he could and can now merely furnish information. He thought that since a cabinet decision had been reached it will be difficult to let the ship go.

He further said the Brazilians did not put their cards on the table until the ship was seized and that they have only now disclosed the secret provisions of the 1938 arms contract between Brazil and Germany.<sup>64a</sup>

<sup>64a</sup> Presumably the contract between the Brazilian Government and the firm Friedrich Krupp A. G., signed by Krupp on March 26, 1938, and by the Brazilian Government on March 28, 1938. (*Documents on German Foreign Policy, 1918-1945*, series D, vol. x, p. 177, footnote 6.)

The Secretary for Foreign Affairs said today that the figure of 335,000 pounds (sterling) added to his note of today to the British Government is a mistake and should read 732,000 pounds. Please see the penultimate paragraph of my telegram No. 606, November 25, midnight.

Aranha will today furnish the Embassy for the Under Secretary a long statement including the provisions of the arms contract. It will be telegraphed tonight.

BURDETT

832.24/264 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 26, 1940—7 p. m.

[Received 9:13 p. m.]

609. For the Under Secretary. Reference my telegram No. 607, November 26, 5 p. m. The following communication was handed the Embassy this afternoon by Dr. Aranha :

“To the Honorable Sumner Welles, Under Secretary of State, Washington.

1. I thank you for your message because it is one of an understanding and helpful friendship. Please believe that we are all deeply grateful for the solicitude, decision and efficiency with which you, Caffery and General Marshall, faithful to the tradition of the United States, have sought to aid Brazil in this incident.

2. The British memorandum displays the British authorities' ignorance of the facts, and reveals an animosity which contrasts not only with the notes delivered to us, but also with the affirmations and explanations made and given to us by the Marquis of Willingdon and by Ambassador Knox.

3. Brazil has never been more united and determined in respect to the continental policy and its “leader”. I believe I can assure you that the Brazilians are unanimous in this attitude as everything indicates that the descendants of the Germans will follow a conduct similar to that of the last war.

England should beware of German elements following its moves and inspiring many of its decisions. We have indications of this even in the present case. For example, Germany denied permission for the export of the remainder of the anti-aircraft cannon. It declined to accede to our insistence here and in Berlin. At the very hour that the *Siqueira Campos* entered Gibraltar, the German Ambassador here with an ironic air communicated to me that through an order and special concession by Goering,<sup>65</sup> the cannon could be shipped.

A further indication is the statement that we are Germany's debtors. Nothing could be more absurd, nor more German.

<sup>65</sup> Reich Marshal Hermann Goering, Chairman of the German War Cabinet.

4. It is true that the steamer which left Genoa carried material in addition to that listed. It was not from Krupp, however. It was machinery purchased in Germany and Switzerland for our factories. We presented excuses and suggested the disembarkation of this material. Our Consul and the others responsible for this precipitate shipment without the necessary permit were punished. If this should have occurred with the *Siqueira Campos* we insist on the disembarkation of this material. We want only what we consider we have the right to have.

5. We did not authorize the Counselor of our Embassy to make the declaration referred to and it does not appear in the notes exchanged, our requests for facilities are all within the British regulations and are for material of our ownership paid for prior to November 25, 1939 and complementing material which we have already received.

6. The statement that we are increasing German exchange availabilities was answered directly to the British Government.

7. The British Economic Mission was showered with attentions from this Government, the public and the press. I deliberately made in the name of the Government a significant speech which had wide repercussion and was applauded by all Brazil. When France capitulated the British Ambassador expressed to me his fear that Brazilian public opinion would abandon the Allied cause. Weeks later he told me that Brazilian public opinion had shown that it was not pro-Ally on account of France but on account of its sentiments and ideals. He added that England has never before been able to count on so much sympathy in Brazil.

8. The Krupp contract because of its nature is [apparent omission]. The truth is that it envisages, as you know, our own defense and co-operation for continental defense, we only bought in Germany because it was impossible at that time to buy under better terms anywhere else.

9. The contract was signed on March 25, 1938 and comprises 1080 cannon of various calibre in addition to vehicles, munitions, accessories, and apparatus for the total price of 8,281,383 pounds which amounts to an average price of 7,667 pounds for each cannon complete with accessories.

10. Terms of payment are 25 percent in pounds or dollars and the remainder in marks in 25 installments, the first to be paid on March 25, 1939 and the last on October 3, 1944. The delivery of the material is regulated in such a manner that only at the 15th installment, there begins to exist a balance between the material delivered and the installments paid. This is customary in contracts of this nature.

11. Krupp makes deliveries in Essen to our military commission but the German Government allows only the shipment of cannon in parts. This is to prevent seizure of the complete cannon. Thus the *Siqueira Campos* carries new material to complement that previously shipped. There is still material authorized by the British Government which failed to come such as the 150 millimeter batteries and the remaining anti-aircraft cannon.

12. Brazil has received together with vehicles, munitions, accessories, and apparatus twenty-eight anti-aircraft cannon and sixteen 75 m.m. field guns. The *Siqueira Campos* brings complementary material for these cannon and forty-eight additional field cannon (75's) and their accessories.

13. The total amount of cannon received, and to be received by the *Siqueira Campos* is therefore 92 which at the average price means that the German deliveries amount to less than 750,000 pounds.

14. Prior to November 1939, i. e., before the declaration of total blockade, Brazil paid five installments amounting to the total of 1,275,000 pounds thus leaving between the amount paid and the deliveries up to that time a balance in favor of Brazil in Germany of more than 500,000 pounds. This is now increased by installments numbers six, seven and eight paid in 1940 amounting to a total of 637,500 pounds. Brazil's balance today is over 1,000,000 pounds.

15. It was established by an exchange of notes with the German Government that from now on the payments in marks should be converted into Brazilian currency and deposited in the Bank of Brazil to be used exclusively for the purchase of Brazilian products selected by the Government of Brazil. The products would remain stored in Brazil until the termination of the war, when they would be exported to Germany.

16. The contract obligates us to continue payment of the installments under penalty of heavy damages. Because of this we decided to ship to Lisbon and store there the material now being delivered to us. As we stated to Lord Halifax we merely ask to transport to Brazil the material covered by the amounts paid up to November 1939. This is a right enjoyed even by private interests. However, I tell you personally and confidentially that we do not intend even to attempt to transport this portion of the material pending a real change in the situation.

17. This is the truth. I give it to you on my honor and you may use it with entire assurance.

Rio de Janeiro, November 26, 1940."

BURDETT

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832.24/266: Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 27, 1940—10 a. m.

[Received 12:12 p. m.]

611. For the Under Secretary. My 605, November 25, 8 p. m. The following is a translation of the note referred to in the first paragraph of my telegram. Separate translations from Portuguese to English made here and in London will account for possible difference of wording.

"1. The Brazilian steamer *Siqueira Campos* taken to Gibraltar by the British naval authorities was transporting along the usual route to Brazil passengers and commercial cargo the latter having a navicert. This steamer was also transporting in accordance with advice given to the British Government non-commercial material belonging to the Government of Brazil.

[2?] This material came originally from Germany and had been

after its receipt in Essen by the Brazilian Military Commission transported to Lisbon and there shipped on the steamer *Siqueira Campos*.

3. This same material detailed lists of which were communicated in advance to the British Government is a small portion of an order placed by the Brazilian Government in accordance with a contract signed on March 25, 1938 after two tenders for bids on which English firms and those of other countries were invited to bid.

4. By virtue of this contract and in accordance with receipts in our possession prior to November 25, 1939 the Brazilian Government had already paid the following installments: On April 13, 1938 installment No. 1, 425,000 pounds; on January 4, 1939 installment No. 2, 212,500 pounds; on April 10, 1939 installment No. 3, 212,500 pounds; on July 4, 1939 installment No. 4, 212,500 pounds; on October 5, 1939 installment No. 5, 212,500 pounds; total 1,275,000 pounds; and subsequent to this date it paid the following installments: on February 7, 1940 installment No. 6, 318,750 pounds; on October 9, 1940 installments numbers 7 and 8, 637,500 pounds; total 956,250 pounds.

5. The material delivered to the Brazilian Military Commission and transported on the steamship *Raul Soares*, *Almirante Alexandrine* and now on the *Siqueira Campos* appears on the detailed lists furnished to the British Foreign Office on the night of the sailings of the three steamers but part of the material mentioned on our lists failed to arrive such as for example four 150 MM batteries and sixteen 88 MM cannon. The total shipped does not exceed the sum of 732,000 pounds (sterling).

6. This is the situation of fact which in no way justifies the violence committed against the *Siqueira Campos* since its commercial cargo has a "navicert" and no enemies of Britain are travelling thereon, but neutrals and Brazilians who now have their lives exposed to the risks and bombings of the naval base to which they have been taken.

7. The private cargo and the passengers are being carried strictly in accordance with British regulations. The other cargo is not private but official property which cannot be the subject of these regulations because it has to do with the neutrality, the defense and the sovereignty of Brazil.

8. Admitting merely for the sake of elucidation that this cargo was subject to British regulations as is the case with commercial cargo, even in such a case it does not justify the conduct of the British authorities since (a) it was ordered before the declaration of war; (b) it was already paid for as is customary in orders of this kind and payment was made prior to November 25, 1939; (c) it merely complements the material already received by Brazil with the full knowledge of the British Government. Excepting the hypothesis of ill will on the part of the British Government which nothing leads us to believe exists it is not possible to admit that the official cargo of Brazil, of material which is indispensable to the defense of its territory and to the maintenance of its neutrality, should be subject to greater exigencies than those made on commerce in general.

9. This act if upheld would harm Brazil alone since Krupp has received payment for the material already delivered to the Brazilian authorities. It may be alleged that by this act the British Government seeks to avoid new payments being made to Krupp and consequently German exchange availabilities abroad. This argument appears so



unreasonable to us that it would be hard to see it officially invoked. The truth however is that it has been referred to in conversations held with the British representatives. In case of war and in the impossibility of transporting the material the contractual obligation of Brazil provides for its storage in Germany. The Government of Brazil was having the material taken to Lisbon and had arranged through notes exchanged with the German Government that present and future installments should be in marks and should remain deposited in the Bank of Brazil and applied only against the purchase of Brazilian merchandise as indicated by Brazil and transported only after the termination of the war. Therefore the situation which the British Government is creating is to oblige us to make payments without any reservation by virtue of the contract; the material remaining in Germany perhaps to be used against Britain and its allies.

10. The British attitude will only harm Brazil and probably Britain and its allies and will only and exclusively favor Germany and its allies who, thanks to this British decision, will keep both the money and the material belonging to Brazil.

11. The blockade policy would not appear to us to be affected by the facilities which the British Government might offer by allowing the free transit of the *Siqueira Campos* inasmuch as the material being transported is the property of the Brazilian Government and was ordered before the war and paid for before November 25, 1939. It is composed of parts, apparatus and arms complementary to others that were previously shipped with the full knowledge of the British Government. As a matter of fact the Brazilian Government did not and does not propose without prior understanding with Great Britain to transport material beyond that covered by the amounts paid up to November 1939 in this manner giving further proof of its spirit of cooperation in the present situation.

12. These facts and considerations without entering into a juridical and political examination of the question and its precedents would seem to the Brazilian Government of a nature to convince His Majesty's Government of the reasons which justify Brazil's attitude in this lamentable incident and which make it hope for the facilities which it has requested for the free transit of the *Siqueira Campos*."

BURDETT

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832.24/265 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 27, 1940—11 a. m.

[Received 11 : 22 a. m.]

612. For the Under Secretary. Reference my telegram No. 607, November 26, 5 p. m. The Lloyd Brasileira local company operating the ship has just received a telegram from the master saying that the ship is being taken to England.

BURDETT

832.24/267 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 27, 1940—8 p. m.

[Received 9:45 p. m.]

617. For the Under Secretary. My 612, November 27, 11 a. m. A member of the Embassy staff saw General Goes Monteiro<sup>66</sup> this afternoon. The General was extremely agitated about the *Siqueira Campos*. He spoke of reprisals against British commercial interests here. He said that he was purposely withholding the information on this case from the Brazilian people because he felt that they would be so incensed they would "retaliate on British commercial establishments as they did on the Germans after diplomatic relations with Germany were broken off in the last war." He said the Germans are fully aware of the present incident. He also spoke with vehemence of the detention of the Brazilian steamship *Buarque* off the West Indies by the British.

He said, "Please convey my heartfelt gratitude to the Under Secretary, General Marshall and Ambassador Caffery for the splendid help they are giving us".

BURDETT

832.24/268 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 27, 1940—9 p. m.

[Received November 28—12:37 a. m.]

618. For the Under Secretary. Reference to my telegram No. 617, November 27, 8 p. m. I saw Aranha today. He had just had Dutra<sup>67</sup> and Goes in conference and said both generals were full of praise for the help being rendered by you, Ambassador Caffery and General Marshall. Aranha quoted Dutra as saying the army is neither pro-American nor pro-German but pro-armament. However, that if the United States goes to war Brazil will be compelled to follow it. Also that Dutra said that in Washington they are not behaving like friends but like brothers.

Aranha said the President and Dutra are giving him an entirely free hand in this controversy. . . .

Aranha, Dutra and Goes are excited and most indignant. . . . They regard the ship seizure as a colossal blunder and they feel

<sup>66</sup> Chief of Staff of the Brazilian Army.

<sup>67</sup> Gen. Eurico Gaspar Dutra, Brazilian Minister of War.

that the help being given them by our Government is their only hope. If the arms are released the highest officials of Brazil will fully realize that it was due to our help. I believe the gratitude will be lasting. If the British do not release the arms it will be incredibly disappointing and cost them dearly in Brazil now and in future years.

Aranha emphasized the fact that the arms contract was made with Germany in 1938 as it was imperative that the army have this equipment and Germany was the only country that could furnish it. It now is clear that Germany signed the contract fully counting on a war during the term of the contract while Brazil ignored possibilities of war. There are four copies of the contract, two in Germany, one with the Minister of War and one with the Minister of the Treasury here. Aranha said that he would show the contract to us but would not show it to the British or any one else.

The Rio newspapers today first published news of the seizure of the ship but made no reference to armament on board or to Brazil's displeasure. Aranha said he would let the news out little by little in order better to control the reaction of public opinion.

He denied that Germany, with the balances held here, is buying war material for shipment by air and states that the payments on the armament contract in blocked milreis are not available for propaganda use. He does believe that the Germans are shipping out diamonds by air and will take measures to prevent it.

Aranha again referred to the fine treatment accorded the Willingdon Mission here. (It is still in São Paulo). He repeated how he had gone to the extreme of making an anti-German speech at the Foreign Office banquet to Willingdon and that he invited Dutra to hear the speech; also to the fine press publicity he had given the British Economic Mission.

President Vargas is returning to Rio tomorrow.

The note transmitted in my telegram 611, November 27, 10 a. m., was not delivered to the British Foreign Office until today.

BURDETT

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832.24/269 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 29, 1940—12 a. m.

[Received 1:50 p. m.]

619. For the Under Secretary. Reference my telegram No. 618, November 27, 10 [9] p. m. The following article appeared in this morning's Brazilian newspapers.

"The National Department of Press and Propaganda furnishes us the following:

The steamer *Siqueira Campos* of the Lloyd Brasileiro Line, which sailed from Lisbon for Rio de Janeiro at the beginning of last week, was detoured from its voyage by the British control patrolling the Atlantic and taken to Gibraltar.

The *Siqueira Campos* carries for Brazil, in addition to general cargo furnished with navicert, military material belonging to the Brazilian Government which was ordered in 1938 in Germany and paid for prior to November 28, 1939. The Brazilian Government hopes that this delay is only for the examination of the general cargo as is usual under present conditions and believes that the British Government will give due facilities for the free passage of the *Siqueira Campos*.

All the passengers and crew are well, according to information received by the Foreign Office here."

BURDETT

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832.24/270 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 30, 1940—noon.

[Received November 30—11 : 08 a. m.]

621. For the Under Secretary. Reference my telegram No. 619, November 29, noon. The Foreign Office has inspired an editorial in the Rio de Janeiro *Correio da Manhã* today. While moderate in tone the editorial warns of the gravity of the situation. The following is an extract:

"We emphasize, in order that England may understand it before making a decision, that Brazil is a neutral country with a right to be considered a friendly country. Any decision which does not consider this situation will be purely arbitrary and offensive to general sentiment in Brazil".

BURDETT

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832.24/272 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 3, 1940—noon.

[Received 12 : 35 p. m.]

626. For the Under Secretary. Reference Embassy's telegram No. 625, December 2, 6 p. m.<sup>68</sup> The Minister for Foreign Affairs states that he has heard nothing more about the *Siqueira Campos* and in view of this and the other two incidents concerning Brazilian ships<sup>69</sup> he

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<sup>68</sup> Not printed.

<sup>69</sup> The seizing by British naval vessels of two Brazilian merchant ships, the *Buarque* and the *Itapé*.

asked me today to telegraph you that he is trying to control public opinion and preserve good relations with Great Britain. In spite of his best efforts he fears the natural reaction here and cannot guarantee what will happen. He states that reprisals against British interests here may even occur. He wants you to know that he is trying his best in the face of a very delicate situation.

The news is today released here that the *Buarque* of the Lloyd Brasileiro now at La Guaira was seized on November 26 by the British and taken to Trinidad where 70 packages destined for La Guaira were confiscated as contraband.

BURDETT

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832.24/306

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

[WASHINGTON,] December 3, 1940.

The British Ambassador called to see me this morning at my request. I reminded Lord Lothian that immediately after his return from England I had spoken with him regarding the incident created by the action of the British authorities in halting the Brazilian steamer *Siqueira Campos*, which was carrying armaments manufactured in Germany for the Brazilian Army from Lisbon to Rio de Janeiro, and taking the vessel to a British port. I had then told the Ambassador that before his return I had taken this question up repeatedly with the British Chargé d'Affaires, urging that the British Government give the most sympathetic consideration to the Brazilian request that the shipment be allowed to go through. I had further told the Ambassador that General Marshall had informed Sir Walter Layton that the action of the British authorities created an embarrassing situation for the United States Government since at the very time it was making every effort to permit the British Government to obtain all possible armaments in this country, the British Government was making it impossible for the Government of Brazil, in whose capacity for self defense we were vitally interested, to obtain armaments which it needed for its coastal defense. Finally, I had stated that both the British Ambassador in Rio de Janeiro as well as Lord Willingdon, now on special mission in Brazil, had most earnestly urged upon the British Government the action suggested by the Government of the United States. At that time I had warned the Ambassador that the action of the British authorities would undoubtedly create a very violent reaction on the part of the Brazilian Government, and particularly on the part of the Brazilian Army. From the standpoint of continental solidarity, and from the standpoint of American interests in Brazil, let alone British interests, it seemed to me, I said,

that this action of the British authorities was destined to give tremendous support to German propaganda in Brazil and to incline Brazilian public opinion strongly against the British at the very moment when the British needed as much moral and material support as possible.

I said that today the Department had received a telegram from its Embassy in Rio de Janeiro <sup>70</sup> relating that a British cruiser had yesterday, only 18 miles from the Brazilian coast, halted a Brazilian steamer engaged in coastwise trade proceeding from one Brazilian port to another and had taken off 22 alleged German passengers from the steamer. I said that not only was this action taken in complete disregard of the provisions of the Declaration of Panama <sup>71</sup> and was consequently an action calculated to create unfavorable reaction throughout the Western Hemisphere, but coming on top of the other incident above referred to, would unquestionably create a still greater reaction against Great Britain in Brazil.

I then read to the Ambassador a portion of a memorandum attached to despatch no. 3927, sent by the American Chargé d'Affaires in Rio de Janeiro under date of November 27 last <sup>72</sup> relating a conversation with General Goes Monteiro, the Brazilian Chief of Staff, in which the General inveighed in the most violent terms against Great Britain because of the action taken in the armament matter.

Lord Lothian said that immediately after his first conversation with me on this subject he had cabled his Government transmitting the views of this Government in that regard but that he had received no reply to his message. He said he would immediately cable again. He said that what he supposed had happened was that the Ministry of Economic Warfare had taken the law into its own hands and had disregarded both the wishes of the British Foreign Office as well as the wishes of the British Admiralty both of which he knew opposed the action taken. The Ambassador said he fully realized the importance and gravity of the situation which I had indicated to him and that he would do everything possible to try and get his Government to counteract the effect already created. I said that for our part we would do what might be possible to allay irritation in Brazil, but I reminded the Ambassador that for two weeks before the *Siqueira Campos* had been stopped by the British off Lisbon, I had urged through the British Embassy that this step be not taken, and no reply had ever been received from the British Government to these suggestions until after the vessel had been seized.

S[UMNER] W[ELLES]

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<sup>70</sup> Telegram No. 625, December 2, 6 p. m., not printed.

<sup>71</sup> *Foreign Relations*, 1939, vol. v, p. 36.

<sup>72</sup> Not printed.

832.24/273 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 3, 1940—6 p. m.

[Received December 3—5:35 p. m.]

627. For Under Secretary. Reference Embassy's telegram No. 626, December 3, noon. A Secretary of the British Embassy called to discuss an order issued last night by the National Department of Press and Propaganda forbidding publication of press articles favoring the British and said that this organization is considering suspending Reuter's News Agency in Brazil.

The British Embassy views the situation with much uneasiness and said the Government here is considering prohibiting British ships from obtaining supplies in Brazilian ports.

Aranha continues much disturbed. I am sure he would greatly appreciate anything that you can telegraph me to transmit to him.

BURDETT

832.24/273 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, December 4, 1940—9 p. m.

421. From the Under Secretary. Your 627, December 3, 6 p. m. Aranha called me on the telephone this morning to explain to me the situation which had arisen and said that he was sending me by air mail the full details of the *Siqueira Campos* case. I expressed to him my great appreciation of the way in which he was attempting to prevent any unnecessary flare-up on the part of popular opinion against the British as a result of this incident and I told him that I had had a long conference with the British Ambassador yesterday again urging that the British authorities release the vessel. The American Chargé d'Affaires in London has been instructed to make a similar communication to Lord Halifax. This Government is, of course, particularly anxious that relations between Great Britain and Brazil should not deteriorate and that a friendly and equitable settlement may promptly be found.

Aranha indicated to me that he felt that the Brazilian immigration authorities were at fault in the *Itapé* case and I gathered from his statements in this regard that no formal protest will be made by the Brazilian Government to the British Government on account of the halting of that vessel. [Welles.]

HULL

832.24/275 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 5, 1940—2 p. m.

[Received December 5—1 : 55 p. m.]

632. For the Under Secretary. Reference Department's 421, December 4, 9 p. m. Aranha requests that the following statement be telegraphed to you :

"Dr. Aranha wishes to express his sincere appreciation for your efforts towards finding a favorable solution for the incident with Great Britain. President Getulio Vargas was much pleased when informed by Minister Aranha of the Department of State's steps in favor of Brazil. It is another proof of the policy of intimate friendship and solidarity which binds our two countries. The Brazilian Ambassador in London<sup>73</sup> communicated yesterday afternoon that 'at the impossibility of obtaining a solution from the Blockade Ministry, Lord Halifax, wishing to give a proof of his good will to Brazil, will submit the matter to a council of ministers to be called shortly in an endeavor to find a formula which will solve the case without creating a precedent'. The public opinion in Brazil as reflected in the press is that of a country whose feelings of friendship toward Great Britain have been hurt by an unwarranted violation of its rights."

BURDETT

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832.24/276 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*

LONDON, December 5, 1940—9 p. m.

[Received December 5—4 : 47 p. m.]

3964. Personal for the Under Secretary. Department's 3684, December 4, 6 p. m.<sup>74</sup> Lord Halifax received me this afternoon and I put before him the considerations in your telegram on the case of the Brazilian steamer *Siqueira Campos*. He seemed fully advised of the background and facts of the matter and said that it had already given him a good deal of trouble. He obviously fully understood our point of view and said that he sympathized with it, but said that without going into detail he could assure me the Brazilians did not have a good technical case; that to grant the release of the ship would make a breach in the principles of the blockade which was of real importance. If, therefore, the ship is to be released for considerations so important as to override the objections in principle of the Ministry of Economic Warfare, he feels that the British Government must request of the

<sup>73</sup> José Joaquim de Lima e Silva Moniz de Aragão.

<sup>74</sup> Not printed.



Brazilians a balancing concession on their part in certain matters connected with the enforcement of the blockade on which Brazil is said to have caused much dissatisfaction to the British authorities.

Lord Halifax has already discussed the matter with Mr. Dalton, Minister of Economic Warfare, and he promised me that he would do what he could to support our point of view in this particular case. In return, he said that he hoped you would give your support at Rio de Janeiro to the British request for a balancing concession on the part of Brazil, if you and the Secretary should find that request to be reasonable. I understood from him that a decision on the case in point may be expected shortly and will be communicated to you together with a statement of the concession desired from Brazil. He did not say exactly what this concession is but described it as technical.

JOHNSON

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832.24/277 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*<sup>75</sup>

LONDON, December 6, 1940—2 p. m.  
[Received December 6—10:35 a. m.]

3968. Personal for the Under Secretary. My 3964, December 5, 9 p. m. The Foreign Office informs me that a telegram was sent early this morning to Lord Lothian instructing him to advise the Department that the British Government would release the *Siqueira Campos* subject to certain conditions which have been set out in an instruction to the British Ambassador at Rio de Janeiro. Lord Lothian was asked to say to the Department *inter alia* that this action was really taken at the request of the United States Government. He was also instructed to say that His Majesty's Government hopes that the United States Government will not regard this case as a precedent for supporting any similar requests in the future which may be advanced by South American Governments.

Following is text of note which has been telegraphed to the British Ambassador at Rio de Janeiro for presentation to the Brazilian Government:

"His Majesty's Ambassador at Rio de Janeiro has been requested to inform the Brazilian Government that His Majesty's Government cannot to their regret find anything in the Brazilian Ambassador's note of November 7th to show that the arms on board the *Siqueira Campos* were paid for before the entry into force of the

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<sup>75</sup>The text of this telegram was transmitted by the Department to the Chargé in Brazil as telegram No. 426, December 6, 3 p. m., for his information.

reprisals Order in Council. His Majesty's Government are convinced that any concession in regard to enemy exports, besides encouraging our enemies, will have a most damaging effect on the blockade and will thus help to prolong the war. Nevertheless, since the Brazilian Government attach so much importance to this shipment, His Majesty's Government, in the interests of the friendly relations so happily existing between them and the Brazilian Government, are prepared as an absolutely final concession to release the *Siqueira Campos* if the Brazilian Government will agree 'in writing'.

(1) Not to ask again for exemption for enemy exports of any kind, nor attempt to obtain any further goods from Germany, and in particular not to allow the SS *Bage* now at Lisbon to sail with any German exports on board;

(2) To instruct the Lloyd Brasileiro to bring their entire fleet into the ship warrant scheme and to accept certain specified terms and conditions of entry into this scheme which have been explained to Sir G. Knox;

(3) To immobilize the enemy ships now in their ports by the removal of essential pieces of machinery (as has been done by the Venezuelan Government).

His Majesty's Ambassador has also been instructed to ask that the Lloyd Brasileiro shall charter to the Ministry of Shipping not less than 25 per cent of their total tonnage of ships of 3,000 G. R. T. and over (it is quite normal for warrant holders to make agreements of this kind on entry into the scheme). In addition His Majesty's Government greatly hope that the Brazilian Government may feel able to take steps to hamper or stop the operation of the Italian air service to Brazil. Finally His Majesty's Government assume in view of the concession regarding the *Siqueira Campos* the Brazilian Government will not feel it necessary to pursue further the question of the *Itapé*.

His Majesty's Government have felt they are justified in asking that the Brazilian Government on their side will agree to the measures indicated, which will to some extent compensate for the weakening of the blockade which is involved by the release of the *Siqueira Campos*.

Sir G. Knox has been instructed to add that His Majesty's Government are anxious that the passengers of the *Siqueira Campos* should be spared further inconveniences owing to the detention of the ship and will therefore welcome a very early reply from the Brazilian Government."

The Foreign Office official who was kind enough to make this document available reiterated what Lord Halifax said to me yesterday afternoon. The British feeling is that if they are prepared to make this important breach in their enemy export policy they are fully justified in asking the Brazilians to do something to make up for the damage done to the British blockade policy by the grant of the concession. The official further said that Lord Halifax had instructed him to say that he hoped I would inform my Government that the

British earnestly trust that the United States Government will see its way to using its influence with the Brazilian Government in the direction of agreeing to the British terms.

JOHNSON

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832.24/278 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 6, 1940—3 p. m.  
[Received 5 : 37 p. m.]

636. For the Under Secretary. Reference Embassy's telegram No. 632, December 5, 2 p. m. Aranha received today a telegram from his Ambassador at London saying that the Foreign Office informed him that as the British Government desires to maintain good relations and cooperation with Brazil and, having in mind at all times the solidarity existing between Brazil and the United States, it will search for a formula for a satisfactory settlement of the *Siqueira Campos* case.

A definite decision will be made by the Council of Ministers. The formula being sought is one which will permit a settlement without creating any precedents. The Ambassador thinks that a settlement will be reached within 2 or 3 days.

BURDETT

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832.24/279 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 6, 1940—7 p. m.  
[Received December 6—6 : 50 p. m.]

639. Reference Embassy's telegram No. 636, December 6, 3 p. m. The Rio press today published interviews with the Argentine and Chilean Ambassadors and the Dominican Minister here each warmly supporting the Brazilian case in the recent maritime incidents.

BURDETT

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832.24/281 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 7, 1940—2 p. m.  
[Received 6 : 10 p. m.]

642. For the Under Secretary. Reference Embassy's telegram No. 636, December 6, 3 p. m. Aranha had late yesterday a telegram from his Ambassador in London saying that Lord Halifax told him he was transmitting a note through Knox and that if the Brazilian Govern-

ment accepted the formula the *Siqueira Campos* would be freed at once.

Aranha informed me last night that the British formula had been received. Knox yesterday handed him the note, as quoted in your telegram December 6, 3 p. m.<sup>76</sup> The note was not telegraphed to the Department as your telegram was received here early this morning.

Aranha said today that England is trying to throw Brazil into the arms of Germany. He and President Vargas would like to request the counsel and advice of the American Government. He considers the formula unreasonable but feels that the British have tempered their demands because of the Department's support.

Aranha first thought the terms were an affront and impertinent in tone but says that upon careful study they are more reasonable than they seemed at first. He will deliver a formal reply to Knox in a day or two. He emphasizes that he does not wish to take any steps without fully discussing the matter with the United States. He states that he will assure the British that he will discuss the formula with all good will.

With relation to the several points in the British proposal, Aranha orally told Knox this morning in a preliminary way that he would show him the records now at the Bank of Brazil of the payments to Germany on the arms account. (Aranha told me at noon that the Commercial Counselor of the British Embassy had immediately called at the Bank of Brazil and inspected these accounts and found them as made, according to the Brazilian assertions.)

Aranha further told Knox that he would agree to paragraph 1 of the proposal as quoted in your telegram No. 426 of December 6, 3 p. m. That paragraph 2 and the paragraph regarding charters could be considered if the British would consent to the Brazilians buying some 15 Danish, Norwegian and Dutch ships now in Brazilian ports. In return Brazil would authorize charter by the British Ministry of Shipping of an equal amount of tonnage of Brazilian ships.

Aranha told Knox regarding immobilizing enemy ships in Brazilian ports, and Italian transocean service, that these questions must be discussed by Brazil with the other American Republics in accord with the principles of continental neutrality.

In addition he told Knox that he cannot reply to all these points without first conferring with the other American Republics and especially with the United States. He requested that the ship be freed immediately and he promised to confer with the other countries of the Americas in an endeavor to satisfy the British demands.

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<sup>76</sup> See footnote 75, p. 645.

He requested me to advise the Department that Ambassador Martins<sup>77</sup> is sailing for New York December 11.

BURDETT

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832.24/308

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

[WASHINGTON,] December 9, 1940.

The British Counselor called to see me this morning in the place of Lord Lothian who was ill.

I told Mr. Butler that I desired to see Lord Lothian in order to read to him the last reports that the Department had received from the American Embassy in Rio de Janeiro concerning the *Siqueira Campos* controversy and I stated that from the last reports received, I had obtained the hope that the whole matter might now be settled promptly in a friendly manner.

S[UMNER] W[ELLES]

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832.24/283 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 9, 1940—4 p. m.

[Received 4:15 p. m.]

648. For the Under Secretary. Reference Embassy's telegram No. 642, December 7, 2 p. m. The Foreign Office sent a note to the British Ambassador here on December 7 and has furnished this Embassy with the following communication regarding the note:

"The British note of December 6 said that His Majesty's Government was willing to authorize the immediate sailing of *Siqueira Campos* if the Brazilian Government would comply with certain conditions. Referring to the statement made in the British note that the British Government did not find in the Brazilian note the proof that the material in question had been paid prior to the note of November 28, 1939, the Minister of Foreign Affairs of Brazil said:

"The Brazilian Government does not see any reason why it should give any account of its transactions to a third power. However, as Your Excellency was kind enough to inform your Government that the payment of the material in question had been made prior to November of last year, the Brazilian Government is willing to authorize the Banco do Brasil to supply to Your Excellency the proof to that effect.

As to the conditions set forth in the British note, the Brazilian Government has already shown its desire to abide by the first one.

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<sup>77</sup> Carlos Martins, Brazilian Ambassador to the United States.

As far as the warrant scheme is concerned, the Lloyd Brasileiro being a property of the Brazilian Government, it cannot assume obligations which might jeopardize Brazil's neutrality, but the Brazilian Government will recommend to that enterprise the adoption of the measures proposed by His Majesty's Government with the view to facilitating shipping.

As to the other conditions, His Majesty's Government will understand that the neutral position of Brazil imposes to [on?] its Government the observance of certain duties not only in relation to the belligerents but also in relation to the other American Republics, with which Brazil assumed obligations which it cannot cancel unilaterally.

Finally, as to the last paragraph of the British note, the Brazilian Government wishes to add that it is in fact desirable that the passengers on board the *Siqueira Campos* should not continue to suffer the inconvenience resulting from the detention of the ship. The Brazilian Government is conscious of having done everything in its power to obtain that desideratum.' "

BURDETT

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832.24/284 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 10, 1940—11 a. m.

[Received 12: 45 p. m.]

650. For the Under Secretary. Referring to the Embassy's telegram No. 648, December 9, 4 p. m. The British Ambassador here informed me in confidence that he regards the British note which he presented on December 6 as entirely unreasonable. He said it appeared to have been drafted by the Ministry of Economic Warfare and ignored the realities of the situation in Brazil. He reiterated that he had consistently recommended against the seizure of the *Siqueira Campos*. He feels that the talk of reprisals against British properties here is put out by the Brazilian Government. The situation is giving him much embarrassment.

The British Ambassador confirmed that his investigation at the Bank of Brazil [apparent omission] the arms on board the *Siqueira Campos* were paid for before the entry into force of the reprisals Order in Council.

BURDETT

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832.24/285 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 10, 1940—noon.

[Received 12: 55 p. m.]

651. For the Under Secretary. Reference Embassy's telegram 650, December 10, 11 a. m. Aranha is very anxious about the *Siqueira*

*Campos* but deems it wise to show a conciliatory attitude toward the British demands. On the other hand the Army is indignant and the Generals go about denouncing the British. The Embassy's contacts in the Army report a decided shift against England in the sympathy of the officers. There is some doubt as to whether public opinion is behind the Army, but there is much comment among all classes, all of it critical of the British. The Germans, of course, are making the most of the opportunity afforded by this unfortunate situation.

General Goes Monteiro has several times said that Brazil should break off relations with Great Britain.

In a weekend speech President Vargas, while not directly naming Great Britain, obviously referred to its policy toward Brazil and said "violation of our rights will provoke retaliation".

The anti-British press campaign perfectly controlled by the anti-British director of the D. I. P.,<sup>78</sup> has been calmer during the past few days. Violently worded circulars obviously German inspired are being circulated in Rio de Janeiro.

BURDETT

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832.24/287: Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 11, 1940—6 p. m.

[Received 6:45 p. m.]

658. General Goes Monteiro made the following remarks to me last night concerning the *Siqueira Campos* case:

"The British do not realize the irreparable harm they are doing their cause and interests in Brazil by their stubborn and unreasonable attitude. Whereas 90 percent of the Brazilian population was formerly pro-British, that situation has changed. They have played right into the hands of the Germans. There is no need for the Nazis to make propaganda here. The British are doing it for them.

Even with a satisfactory solution of this case, and even if they allow the *Bage* to sail from Lisbon with additional armament, the harm has been done. The British forget their huge interests in this country such as the São Paulo Railway, Western Telegraph, London Bank, packing houses, etc., which we may take over if the *Siqueira Campos* is not released. The light and power company is Canadian and we will not interfere with it. The British forget the facilities received from our naval and port authorities in provisioning and repairing their vessels. They have over 100 intelligence operatives in this country all of whom are known to us. They have been allowed to work unmolested, but we intend to stop this situation.

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<sup>78</sup> Departamento Nacional de Imprensa e Propaganda (National Department of Press and Propaganda).

We are not particularly interested in an immediate solution of the *Buarque* and *Itapé* cases which can be settled in due course by joint action of all the signatories to the Panama and Habana Conventions.”

BURDETT

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832.24/281 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, December 11, 1940—9 p. m.

436. From the Under Secretary. Embassy's 642, December 7, 2 p. m. You are requested to call on Aranha and express my appreciation of his helpful and friendly attitude in the *Siqueira Campos* controversy and for keeping the Department abreast of the developments in Brazil. I note that the Brazilian Government is disposed under certain conditions to give favorable consideration to points 1 and 2 set forth in the British note.

With regard to Aranha's desire to discuss with the other American republics the question of immobilizing German and Italian ships in Brazilian ports, I feel that such action by Brazil would be entirely within her rights and within the framework of the resolutions adopted at the Panama<sup>79</sup> and Habana<sup>80</sup> meetings, as well as of the recommendations of the Inter-American Neutrality Committee.<sup>81</sup> This country exercises a control over belligerent merchant vessels by means of a ship control office under the United States Coast Guard.

I note that the discontinuance of the Lati Service to Brazil is expressed as a hope and not as a condition in the British note.

I was unable to see the British Ambassador yesterday, as he was indisposed, but I shall seek the first opportunity to talk with him again. [Welles.]

HULL

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832.24/292 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 13, 1940—3 p. m.

[Received 5:21 p. m.]

661. For the Under Secretary. Reference Embassy's No. 658, December 11, 6 p. m. The Minister for Foreign Affairs today showed me a telegram from his Ambassador in London which said with regard to the *Siqueira Campos* case that the Foreign Office requests

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<sup>79</sup> See *Foreign Relations*, 1939, vol. v, pp. 15 ff.

<sup>80</sup> See *ante*, pp. 180 ff.

<sup>81</sup> See *ante*, pp. 257 ff.



that no action be taken in Brazil at this time and promises that the case will be settled within a few days.

However, the D. I. P. today issued an order forbidding newsreels shown in Rio from running any reference to Great Britain.

BURDETT

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832.24/293 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 14, 1940—3 p. m.

[Received 3:24 p. m.]

665. For the Under Secretary. Reference Embassy's telegram no. 661, December 13, 3 p. m. The Minister for Foreign Affairs received the following telegram this morning from his Ambassador in London.

"The British Government duly appreciates the ample desistance referred to in your telegram but the final decision depends on the formal reply regarding 'ship's warrant' and immobilization of ships, which Your Excellency is believed to have promised to the British Ambassador after you have reached an understanding with the United States.

As the explanations in reference are judged indispensable for the conclusion of an agreement satisfactory to both parties and in order to avoid creating precedents which might be invoked by other countries, I believe that as soon as they are forthcoming to the British Ambassador the subject will be immediately settled."

BURDETT

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832.24/294 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 14, 1940—3 p. m.

[Received 8:13 p. m.]

666. For the Under Secretary. Reference Embassy's telegram No. 665, December 14, 3 p. m. Aranha received the British Ambassador immediately after showing me his telegram from the Brazilian Ambassador in London.<sup>82</sup> Knox told Aranha that the Brazilian Ambassador in London had apparently derived an erroneous interpretation of his conversation at the British Foreign Office. Aranha today [cabled] his Ambassador in London requesting a further report.

Aranha told Knox this morning that he is unable to stop the increasing anti-British agitation in Brazil and that he may not be able

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<sup>82</sup> See *supra*.

to prevent reprisals. He even mentioned the heavy pressure being put on him to break off relations with Great Britain.

Aranha informed me concerning the ships warrant scheme that his position is that quoted in my telegram No. 648 of December 9, 4 p. m. i. e. the Lloyd Brasileiro as property of the Brazilian Government cannot assume obligations which might endanger Brazil's neutrality but will take into consideration the measures proposed by the British Government.

Regarding immobilization of German and Italian ships in Brazilian ports, Aranha said that this matter would be considered in relation to continental neutrality and after consultation with the other American Republics. He said that adoption of this plan throughout the Americas was too serious a problem for a hurried decision made under foreign pressure.

It should be realized that while Brazilian public opinion is so inflamed against the British a concession by Aranha such as immobilization of German and Italian ships in Brazilian ports would be most difficult and would certainly seriously weaken his position.

BURDETT

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832.24/295 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 14, 1940—4 p. m.

[Received 7:55 p. m.]

667. For the Under Secretary. Reference Embassy's telegram No. 666, December 14, 3 p. m., and despatch No. 3971, December 11, 1940.<sup>83</sup>

A Cabinet meeting will be held this afternoon to discuss retaliatory measures against Great Britain. Executives of British corporations in Brazil are greatly worried over the possibility of expropriation (with compensation) of British owned properties here. The São Paulo Railway is especially mentioned in this connection and it is understood that decrees authorizing the expropriation of this company and possibly also of the Great Western and Leopoldina Railways have been tentatively drafted in the Ministry of Transportation.

Aranha today minimized this eventuality but said that the heavy pressure being brought by the army and navy might possibly force him to take other drastic action. In this connection he is not excluding the possibility of breaking off diplomatic relations.

Aranha requests me to inform you that he will do his best to restrain the surge of anti-British feeling but that this is most difficult in view

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<sup>83</sup> Latter not printed.

of the German inspired agitations toward vigorous retaliatory action against the British.

With the delay in the release of the *Siqueira Campos*, resentment against the British is becoming increasingly evident. Clandestine circulars have appeared in Rio de Janeiro attacking Aranha and urging the appointment of Goes Monteiro as Minister for Foreign Affairs. These circulars are understood to emanate from German sources and while not taken seriously, are an indication of the situation.

I hope that the Department can impress upon the British Government that it is imperative to release this vessel before the situation in Brazil becomes worse. The British conditions can be considered later in an atmosphere more propitious for a favorable solution.

BURDETT

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832.24/295 : Telegram

*The Secretary of State to the Chargé in the United Kingdom  
(Johnson)*

WASHINGTON, December 15, 1940—5 p. m.

3817. From the Under Secretary. I am transmitting to you herewith textually three telegrams received by the Department this morning from the American Embassy in Rio de Janeiro.

[Here follow texts of telegrams No. 665, December 14, 3 p. m., No. 666, December 14, 3 p. m., and No. 667, December 14, 4 p. m., from the Chargé in Brazil, printed on pages 653-654.]

The Secretary and I both feel that it is urgently necessary for you to convey personally to Lord Halifax the contents of these three messages and to indicate to him the concern with which this Government views the continuation of this controversy between Great Britain and Brazil. This Government has greatly appreciated the friendly spirit in which Lord Halifax has considered the views expressed by the United States in connection with the *Siqueira Campos* incident as a result of which the British Government agreed to release the vessel upon certain conditions. The manner in which these conditions were presented to the Brazilian Government, however, have created resentment on the part of the Brazilian authorities. In addition thereto, because of the circumstances set forth in the telegrams sent by the American Chargé d'Affaires above quoted, it would be very difficult for the Brazilian Government to take independently the action suggested in connection with German and Italian ships now in Brazilian ports unless and until hemispheric action in that sense could be taken. This, obviously, could not be achieved within any brief period.

For all of these reasons, this Government earnestly trusts that the British Government will make every effort to reach a prompt agree-

ment with the Brazilian Government which will make possible the speedy release of the *Siqueira Campos*. If the present situation is permitted to continue, it is feared that relations between Brazil and Great Britain may become seriously embittered and this would clearly be highly detrimental to the cause of inter-American solidarity and, as this Government sees it, to the best interests of Great Britain herself. [Welles.]

HULL

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832.24/296 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 16, 1940—9 a. m.

[Received December 16—7:45 a. m.]

669. For the Under Secretary. Reference Embassy's telegram 667, December 14, 4 p. m. The Minister for Foreign Affairs was informed by the British Ambassador last night that the *Siqueira Campos* has been released.

BURDETT

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832.24/298 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 17, 1940—9 a. m.

[Received 9:33 a. m.]

671. My 669, December 16, 9 a. m. General satisfaction expressed by Rio press concerning release of *Siqueira Campos*. Pro-Nazi papers carry no comment.

BURDETT

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832.24/300 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*

LONDON, December 17, 1940—8 p. m.

[Received December 17—4:05 p. m.]

4106. For the Under Secretary. Department's 3817, December 15, 5 p. m. The three messages from Rio de Janeiro have been brought to the personal attention of Lord Halifax. The Foreign Office informed me today that the original instructions to the British Ambassador at Rio de Janeiro had been modified by cablegram on Sunday and that the Brazilian Ambassador in London had called at the Foreign

Office yesterday to express the gratification and pleasure of his Government at the modified position of the British Government. They presume from this visit of the Brazilian Ambassador that Sir Geoffrey Knox had acted immediately on the instructions sent him day before yesterday by the Foreign Office but they have not yet received a report from him and have asked for one urgently. Full details of the new instructions to Sir Geoffrey Knox were telegraphed to the British Chargé d'Affaires at Washington for communication to the Department which may, by this time also have later advices from Rio de Janeiro than have yet reached London. I was assured that Lord Halifax earnestly desires the release of the vessel as speedily as possible.

I will inquire again tomorrow and advise you by telegraph of all developments.

JOHNSON

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832.24/299 : Telegram

*The Chargé in the United Kingdom (Johnson) to the Secretary of State*

LONDON, December 18, 1940—noon.

[Received December 18—7:15 a. m.]

4110. For the Under Secretary. My 4106, Dec. 17, 8 p. m. Foreign Office informs me that orders were issued this morning for the release of the *Siqueira Campos*.

JOHNSON

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832.24/304

*The Chargé in Brazil (Burdett) to the Secretary of State*

[Extract]

No. 4013

RIO DE JANEIRO, December 21, 1940.

[Received December 27.]

SIR: I have the honor to refer to my telegram No. 671 of December 17, 9 a. m., and previous correspondence, concerning the detention of the *Siqueira Campos*. The Ministry of Foreign Affairs informs me that the vessel is taking on coal at Gibraltar and is expected to sail at once for Brazil.

With the release of the ship the most serious results have narrowly been averted. It is of course understood by the Foreign Office and by the chief Government officials in Brazil that the ship would not have been released but for vigorous action by the United States. Dr. Aranha expresses his indebtedness and gratitude to the Department,

but the Brazilian press has not mentioned any help or support from the United States Government.

Respectfully yours,

WILLIAM C. BURDETT

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**COOPERATION OF THE UNITED STATES IN THE ELIMINATION OF  
GERMAN INFLUENCE FROM BRAZILIAN AIRLINES**

832.796/211

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

No. 801

WASHINGTON, July 30, 1940.

SIR: In recent months the Department has been giving close attention to the commercial aviation situation in the other American republics, having in mind, first, the necessity of protecting in every possible way the maintenance and development of United States international services; second, the probability that the majority of the other American republics will desire ultimately to have their respective domestic and feeder line services undertaken by genuine national companies; and third, the possibility of cooperating with such governments in the establishment of national companies through credit arrangements for the purchase of aircraft and equipment and perhaps also for initial operations. In the last connection consideration has also been given to the possible participation, as minority stockholders in such domestic companies, of United States carriers—either the operators of present international services or other United States aviation interests. The program under discussion obviously has military, political and economic factors of great importance both to the United States and to the other American republics.

Consideration has already been given to urgent situations involving national defense aspects both in Colombia and in Ecuador. There is enclosed for your confidential information a memorandum<sup>84</sup> outlining the steps taken in Colombia preliminary to the establishment of Avianca (Aerovias Nacionales de Colombia), as a new Colombian national company to replace both Scadta (Sociedad Colombo-Alemana de Transportes Aéreos), and Saco (Servicio Aéreo Colombiano),<sup>85</sup> and on the development of the negotiations which are now in progress with the Government of Ecuador with a view to the elimination of Sedta (Sociedad Ecuatoriana de Transportes Aéreos).<sup>86</sup>

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<sup>84</sup> Not printed.

<sup>85</sup> See pp. 723 ff.

<sup>86</sup> See pp. 831 ff.

In the light of what has been accomplished in Colombia and of progress already made in Ecuador, the Department believes that the Brazilian aviation situation, which is obviously the most important on the continent of South America, should now be explored. The Lufthansa ownership of Condor and the large turnover of German pilots on Brazilian domestic airlines, the apparent delay in the enforcement of the native pilots provisions of Brazilian legislation, the interests of Brazil in hemisphere defense, and so on, make it desirable that consideration be given the problem as soon as possible. At this end the Department is already beginning discussion with Pan American Airways of the discharge of Germans from its Brazilian operations, which we regard as urgently desirable in any case and as a condition precedent to undertaking the general program.

Your views are therefore sought on the following points:

1. The propriety of the Embassy's approaching the Brazilian authorities on the matter at this time.
2. The probable reaction of the Brazilian Government toward a proposal from the United States or Pan American Airways, or a combination of both, aiming to facilitate solution of
  - a.* the financial problems involved in eliminating European (German in particular) influence (ownership, management, personnel, et cetera) in internal Brazilian air services,
  - b.* the technical administrative problems which would arise from discharge of European pilots and technicians, and the conversion to American equipment, and
  - c.* the problem of training Brazilian personnel to take over the technical positions.
3. The most feasible working plan for an air network offering service and facilities as good as, if not better than, what the German-controlled lines now make available.

In studying these suggestions and in any informal confidential conversations you may have thereon with Brazilian Foreign Office or other officials, you may properly give due weight to the obviously great advantage to Brazil accruing from national ownership and ultimate complete national management of the country's airways now owned by Europeans, as well as the outstanding leadership and prestige which Brazil will thereby gain in the field of aviation.

Under specific directives of the White House, the Federal Loan Agency would be authorized to make to an American carrier the credits needed for the formation of Brazilian or Brazilian-American companies (with or without the participation of the Brazilian Government, at its option) to take over the German companies. The credits would be available for the initial cost of the acquisition and transfer, and would be reimbursable from Post Office Department

funds paid to the American carrier receiving the technical administrative operating responsibility for the de-Germanized services from the Brazilian Government or from the newly formed company or companies. By the same decision of the President, the Civil Aeronautics Board and the Post Office Department are instructed to revise upwards mail subsidies payable to the American carrier in accordance with the new circumstances, sufficiently to cover, if necessary, operating losses on routes obviously not commercially promising for the years in the immediate future. (For your strictly confidential information: There is also under study the possibility of using in some cases nonreimbursable funds toward the attainment of some of the objectives envisioned in the aviation program.)

It is suggested that your preliminary telegraphic report on the specific points mentioned be followed by a more detailed airmail report.

Very truly yours,

SUMNER WELLES

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832.796/213 : Telegram

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

RIO DE JANEIRO, August 15, 1940—noon.

[Received 1:29 p. m.]

406. Department's instruction No. 801, July 30. At this juncture the Brazilian Government has paramount interest in financial aid from us for three purposes: Acquiring armament in the United States; building the steel mill;<sup>87</sup> and preventing the collapse of their exchange situation (the exchange situation is daily becoming weaker) and it would be excessively difficult to capture their attention now for projects of the sort described in the Department's instruction No. 801.

CAFFERY

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832.796/222½

*Memorandum of Conversation, by Mr. Ellis O. Briggs of the Division of the American Republics*

[WASHINGTON,] August 21, 1940.

Mr. Trippe<sup>88</sup> told me during a conversation on other matters that, in his opinion, the situation in Brazil with respect to German competition was so much more important than that in any other area that it would be desirable to endeavor to reach a solution favorable to our interests at the earliest possible date. In that connection he

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<sup>87</sup> See pp. 600 ff.

<sup>88</sup> Juan Trippe, President of Pan American Airways.



mentioned reports to the effect that the Germans may shortly endeavor to fly planes, to be placed at the disposal of the Lufthansa, from Africa to Brazil and should an appreciable number of additional machines be made available to the Germans, their elimination would become that much more difficult. He is aware from recent conversations in the Department that we are considering at this time possible approaches to the problem.

Mr. Trippe went on to say that he felt the time was coming when Brazilian capital, either Government or private, or both, should be encouraged to invest in Panair do Brasil, that its equipment should be improved through turning over to that company machines from the International Service and that, in his opinion, it might be possible to execute a new contract giving to Panair do Brasil exclusive cabotage rights. In any case, he thought that early study should be given to the situation and to the possibility of developing Panair do Brasil, all the stock of which is now owned by Pan American Airways, into a genuine national feeder line service.

ELLIS O. BRIGGS

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832.7961/59 : Telegram

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

RIO DE JANEIRO, October 6, 1940—2 p. m.

[Received 3:11 p. m.]

512. President Vargas has ruled that effective today all pilots for aircraft of Brazilian registry, with one exception, must be native born Brazilians. This eliminates the German pilots who are naturalized Brazilians flying for the Sindicato Condor and the Vasp Rio de Janeiro-São Paulo Line. The exception is the Varig Line in Rio Grande do Sul which is given to February 1, 1941 to comply.

CAFFERY

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832.796/232 : Telegram

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

RIO DE JANEIRO, October 14, 1940—4 p. m.

[Received 5:12 p. m.]

527. For Duggan.<sup>89</sup> Referring to your note of October 1,<sup>90</sup> Aranha<sup>91</sup> told me today that he personally would favor ousting the German aviation element and would be glad to have a look at your formula. . . .

CAFFERY

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<sup>89</sup> Laurence Duggan, Chief of the Division of the American Republics.

<sup>90</sup> Not found in Department files.

<sup>91</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

832.796/211 Suppl. : Telegram

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

WASHINGTON, October 19, 1940—1 p. m.

352. Your telegram no. 529 of October 15 and 536 of October 17, 6 p. m.<sup>92</sup>

The following telegram dated October 17 has been received from the American Ambassador in Lima :

“The Foreign Minister informed me last night that he had telegraphed his Embassy at Rio de Janeiro regarding reports that a German airline had arranged service from Brazil to Iquitos. He added that no request had been made for permission for any airline to land in Peruvian Amazonian territory.”

With reference to the Department's airmail instruction no. 801 of July 30, 1940 your estimate is desired of the possible effect of the Snapp-Condor purported agreement on the ultimate program for aviation in Brazil which the Department envisages. The Department desires to be fully informed on all developments in order that this program may be thoroughly explored with the Ambassador upon his arrival in the United States.

HULL

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832.796/237 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, October 21, 1940—4 p. m.

[Received 6:05 p. m.]

542: Department's 352, October 19. The Snapp-Condor Agreement was fully discussed today with General Mendonca Lima, the Minister of Communications. In order to become effective the agreement must be approved by that Ministry. The Minister said that he received the text only this morning and was surprised and annoyed that the Snapp had taken this action without first consulting Rio. He stated categorically that approval would not be given and that he was sending today a telegram in this sense to the director of the Snapp at Pará.

The Minister further said that there is no truth in the report that a German air line has arranged a service from Brazil to Iquitos. He added that the Snapp-Condor Agreement may have given rise to this report.

The Minister reiterated the fixed policy of the Brazilian Government previously reported to the Department to grant no extension

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<sup>92</sup> Neither printed.

of any of the Sindicato Condor's existing lines. (Embassy's 529, Oct. 15, 4 p. m.)<sup>93</sup> The Sindicato Condor, he stated, has made numerous requests for extensions, including a line to Tabatinga on the Amazon at the Peruvian border, all of which have been turned down.

BURDETT

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832.796/242

*The Chargé in Brazil (Burdett) to the Secretary of State*

No. 3795

RIO DE JANEIRO, October 22, 1940.

[Received October 28.]

SIR: With reference to my telegram No. 542 of October 21, 4 p. m., I have the honor to enclose the text and translation of the joint traffic agreement<sup>93</sup> signed in Pará on October 14, 1940, by the Sindicato Condor, Brazilian subsidiary of Lufthansa, and Snapp (Serviços de Navegação da Amazonia e de Administração do Porto do Pará).

Snapp is under the Ministry of Transportation and, as reported in my telegram under reference, the Minister of Transportation was greatly surprised that the Director of Snapp, Commander Bulcão Vianna, had signed this agreement without consulting Rio. On October 21 the Minister telegraphed the director at Pará that the contract, in order to be operative, would have to be approved by the Ministry of Transportation, and that this approval would not be forthcoming. The Director of Snapp replied declaring that he had signed the agreement with the previous consent of President Vargas who, as the Department is aware, recently visited Pará. Upon receipt of this telegram the Minister of Transportation immediately called upon President Vargas who emphatically denied that he had given his consent to the agreement. The President stated it was true that, while he was in Pará, the Director of Snapp told him that it would be a good idea to control the movements of Sindicato Condor in the Amazon region and that this could best be accomplished by means of an agency agreement. The President informed the Minister that he had simply told the Director to study the matter and submit it to Rio. The Minister informed the Embassy that President Vargas was very much annoyed with the Director of Snapp and that he had instructed him to send a further telegram to Pará to have the whole matter submitted to Rio for review and final decision. The Minister reiterated that the agreement would not be approved.

Respectfully yours,

WILLIAM C. BURDETT

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<sup>93</sup> Not printed.

832.796/251

*Memorandum of Telephone Conversation, by Mr. Walter N. Walmsley, Jr., of the Division of the American Republics*

[WASHINGTON,] October 30, 1940.

Participants: Mr. William C. Burdett, American Chargé d'Affaires ad interim, Rio de Janeiro  
Mr. Walmsley.

In view of Mr. Trippe's statements at a meeting in the Department this morning concerning an alleged report from Frank Powers, PAA representative in Brazil, that the Brazilian Government had queried Panair do Brazil concerning taking over at once of Condor's weekly through service between Rio de Janeiro and Buenos Aires via Porto Alegre and taking over all of Condor's international services in Brazil and Argentina in three or four months, I telephoned Mr. Burdett the following message at 2 p. m.

"Trippe says that Powers reports that the Brazilian Government desires Panair do Brasil to take over almost immediately one of Condor's weekly through services, Rio-Porto Alegre-Buenos Aires, and to take over all such services of Condor in the near future—perhaps in three or four months. PAA or Panair has to reply by November 1, in view of the native pilots' provisions scheduled enforcement on November 1. This does not seem to correspond with Rio de Janeiro's telegram, no. 512 of October 6, which said that such enforcement would begin on the date of the telegram. I asked Mr. Burdett whether the Embassy knew anything of this purported approach by the Brazilian Government to Powers, of the reason for the date deadline of November 1, and of the relevance of the native pilots' provision in the matter of the international Rio-Buenos Aires run.

Mr. Burdett stated: 1) that the Embassy knew nothing of any approach along the above lines by the Brazilian Government to Panair. (He had recently seen Powers on numerous occasions including last night and had been given no intimation of the existence of such a proposition). He knew also of no reason for the date deadline, and he also could see no connection between the native pilots' provision of Brazilian legislation and the international service of either Condor or Pan American Airways between Brazil and Argentina.

Mr. Burdett said he would make discreet inquiries at once and would endeavor to report in a day or two. He mentioned that a slight delay might be incurred in view of the absence of numerous officials from Rio."

(Although I heard Mr. Burdett fairly clearly throughout, the connection and circuit had to be checked two or three times before Mr. Burdett was able to hear my message).

832.796/245 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, October 31, 1940—noon.  
[Received 2:10 p. m.]

557. Reference telephone conversation with Department yesterday afternoon and Embassy's telegram number 512 of October 6. The background relating to the possible allocation, after November 1, by the Brazilian Government, of Sindicato Condor air line schedules to Panair do Brasil as given to the Embassy by the Director of Civil Aeronautics is as follows:

On October 6 the Department of Civil Aeronautics ruled that foreign born pilots were excluded from flying airplanes of Brazilian registry. At that time Condor requested an extension of several weeks in which to comply. This was granted. Recently Condor requested a further extension on the grounds that it did not have sufficient trained native-born Brazilian pilots to carry on its schedules. Condor's present complement of pilots is 10 Brazilian born and 5 German born.

Brazilian air lines are doing capacity business with bookings sold out long in advance and there are already difficulties due to lack of equipment in maintaining present schedules. The director feared that Condor might threaten to suspend some of its schedules if he refused this extension (which he felt would be resented by the public unless provision had been made for their replacement). He therefore communicated with Commander Cortez, assistant operations manager of Panair, and requested him to ascertain from the management whether it would be in a position to take over one of Condor's Rio de Janeiro-Buenos Aires schedules or for that matter any schedule which Condor might threaten to discontinue if the native born pilots rule were enforced. The director stated that Cortez subsequently assured him that Panair would be in a position to take over any of Condor's schedules which might be suspended.

As matters now stand the director plans to give Condor his official decision over the weekend. He has promised to keep the Embassy informed concerning developments.

BURDETT

832.796/247 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 5, 1940—2 p. m.  
[Received 2:35 p. m.]

566. Embassy's 557, October 31, noon. The Director of Civil Aeronautics informed the Embassy today that Condor's request for an

extension on the ruling excluding foreign born pilots was definitively turned down on November 1. The Condor representative called on him Saturday and stated that Condor would have to suspend various schedules. The Director was firm and told the representative to inform the Department of Civil Aeronautics officially in writing to this effect. Up to the present Condor has not taken this action and has been continuing its usual schedules exclusively with native born Brazilian pilots. The Director states that his Department is closely checking Condor on this point and that he is also ascertaining whether these pilots are being worked excessively.

BURDETT

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832.796/248 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, November 9, 1940—9 p. m.

387. The Chairman of the Civil Aeronautics Board desires to take advantage of Gates' <sup>95</sup> presence in Rio de Janeiro to have him make, with your assistance and advice, a discreet and prompt investigation of the purported invitation of the Brazilian Director of Civil Aeronautics to the Pan American Airways to take over Condor's Rio-Buenos Aires international service and Panair's Rio-Porto Alegre domestic service. The CAB is anxious to obtain without delay Gates' opinion on the desirability of accepting the alleged proposal by PAA.

As the Department attaches the utmost importance to this matter, especially as it affects developments toward increases in cabotage privileges to international carriers (which, in the light of this Government's policy vis-à-vis the de-Europeanization of internal air services in the other American republics, would be regarded with misgivings—see the Department's instruction no. 801 of July 30), you are requested to designate a member of your staff to follow the investigation in person.

HULL

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832.796/248 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 11, 1940—8 p. m.

[Received 11 : 16 p. m.]

582. Your 387 of November 9, 9 p. m. In order to obtain the requested information, Gates and Hardin <sup>96</sup> accompanied by a member of

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<sup>95</sup> Samuel E. Gates, Civil Aeronautics Board.

<sup>96</sup> Thomas O. Hardin, Chairman, Air Safety Board, Civil Aeronautics Authority.

the Embassy staff called informally today on the Brazilian Director of Civil Aeronautics. He said that Condor was maintaining its international Rio-Buenos Aires service and that, therefore for the present at least, its schedule is not available for cession to PAA. He said, however, that his department was willing for PAA to operate additional [air schedules?].

The director then said that as Condor had suspended a weekly schedule from Rio de Janeiro to Fortaleza he would like Panair do Brasil to take it over immediately. In this case Condor's transferred to Panair do Brasil. It should be explained that Condor still retains its weekly schedule Rio-Fortaleza-Teresina-Pará.

The director further said that his department wished Panair do Brasil urgently to extend its Rio-Porta Alegre service as far as Montevideo and increase flights from tri-weekly to daily period, also that he wished Panair do Brasil to consider a service Rio-São Paulo-Corumba-Porto Velho. Condor now operates this service from Rio de Janeiro to Corumba but has suspended its line from Corumba to Porto Velho. He thought Condor might suspend its line from Rio to Corumba and in that case the entire service Rio-Porto Velho would be given exclusively to Panair do Brasil.

The Director mentioned that his department some time ago signed an agreement with Panair do Brasil authorizing it to extend its Amazon line from Manaus to Tabatinga at the Peruvian frontier. He added that the Pará-Manaus service should be increased from one to three round trip flights weekly. Also that study might well be given to the establishment of feeder lines in several other regions of Brazil.

Gates and Hardin made no commitments and expressed no opinions. It should be noted that none of the routes or schedules last mentioned by the director involve any new privileges to American international carriers.

Greater weight should be given to the director's statements and any opportunities which are steps leading to a gradual elimination of Condor services should be thoroughly explored.

Gates and Hardin telephoned the Chairman of the CAB this afternoon and will telegraph him tomorrow. They highly recommend following up the director's proposals.

BURDETT

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832.796/253 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, November 18, 1940—11 a. m.

[Received November 18—9 : 58 a. m.]

594. As a result of crash last week the President of the Vasp Airline has requested the Embassy's assistance in facilitating the purchase

and delivery of three Douglas DC-3 airplanes; two for delivery within 45 days. Gates and Hardin were present at the interview. The Embassy gave Vasp no assurances except the promise that the Department would be informed by telegraph. The Vasp is in touch with the local agent of Douglas.

BURDETT

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832.796/253 : Telegram

*The Secretary of State to the Chargé in Brazil (Burdett)*

WASHINGTON, November 30, 1940—5 p. m.

418. Your 594, November 18, 11 a. m. The Department is investigating availability of equipment for Vasp, but this Government cannot assist in its acquisition and probably would not permit its exportation unless German influence and management in Vasp is eliminated.

In the light of Department's instruction no. 801 of July 30, 1940, please report whether in your opinion Aranha would be agreeable to a plan whereby in return for elimination of German influence and management in Vasp, this Government would undertake to make equipment available either to Vasp or to a qualified American carrier which would obtain a management contract. If an American air carrier is permitted to replace the German management and influence in Vasp, this Government would be prepared also to arrange with the carrier for (1) the extension of services (2) the training of Brazilian personnel for eventual complete management of the operations.

HULL

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832.796/263 : Telegram

*The Chargé in Brazil (Burdett) to the Secretary of State*

RIO DE JANEIRO, December 5, 1940—5 p. m.

[Received 6:05 p. m.]

634. Reference your 418, November 30, 5 p.m. Vasp has shown the Embassy list of its stockholders as proof that less than 10% is German owned; state and city of São Paulo being majority stockholders. Brazilian pilots are used, but Ismael Guilherme, German trained chief of operations, and German mechanics are employed. Public opinion regards the Vasp as under German influence.

The President of Vasp called at the Embassy and suggested removing all German influences except Ismael Guilherme and replacing the discharged personnel by Americans in consideration for early delivery of three Douglas DC-3s from the United States.



While trying to obtain this American equipment the company is also endeavoring to obtain (1) an Italian Savoia-Marchetti now in Rio; (2) two Condor two motor Focke Wulff planes now laid up in Rio because of lack of Brazilian-born pilots in the Condor organization; (3) a Douglas owned by Air France now at Buenos Aires; (4) planes flown from Italy; or (5) planes flown from Germany. It cannot be foreseen which if any of these planes can be obtained, but it seems likely that from some of these sources enough flying equipment can be obtained to keep Vasp in operation for at least 1 year more.

The company is endeavoring to obtain Douglas DC-3 equipment through La Saigne, the Rio agent who is in telegraphic correspondence with the Douglas Company.

It is impossible to determine whether the offer to eliminate German influence in return for receiving American equipment is genuine or whether it is advisable for us to furnish such equipment when it appears likely that at the termination of the war Vasp under its present management will return to German equipment and German influence. The present Vasp company has no intention of surrendering management control.

There are recurring opportunities to replace German-controlled domestic schedules by Brazilian ones under American influence, but they are generally subject to prompt acceptance and immediate availability of American flying equipment. It is recommended that a competent air traffic expert from the Civil Aeronautics Board such as W. T. Hardin be designated to proceed to Brazil for an extended stay; and that this person be in position to have aircraft delivered here within a short time when opportunities offer for desirable acquisition of or participation in new or old lines.

BURDETT

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**AGREEMENT BETWEEN THE UNITED STATES AND BRAZIL PROVIDING FOR RECIPROCAL CUSTOMS PRIVILEGES FOR FOREIGN SERVICE PERSONNEL, EFFECTED BY AN EXCHANGE OF NOTES SIGNED OCTOBER 11, 1940**

[For the text of the agreement, effected by an exchange of notes at Rio de Janeiro, see Department of State Executive Agreement Series No. 185, or 54 Stat. (pt. 2) 2419.]

CHILE

NEGOTIATIONS RESPECTING A TRADE AGREEMENT BETWEEN THE  
UNITED STATES AND CHILE<sup>1</sup>

611.2531/615a : Telegram

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

WASHINGTON, January 4, 1940—5 p. m.

4. The following improved Schedule II<sup>2</sup> offers, represented by changes in or additions to the list of December 9, were communicated to the Chilean Embassy today in reply to notes of December 15 and 18<sup>3</sup> requesting improvements:

52, spermaceti wax, 2½ cents pound; 742, grapes, excluding hothouse grapes, 20 cents cubic foot March 1 to June 30, inclusive; 767, lentils, ⅓ cent pound; 769, chickpeas, .875 cent pound on sizes previously mentioned; 770, garlic, 1 cent pound February 1 to May 31, inclusive; and free binding on: 1611, argols, et cetera; 1611, calcium tartrate, crude; 1681, sheep and lamb furs and fur skins, undressed, excluding caracul and Persian lamb; 1765, raw sheep and lamb skins, with the wool on, dry or green salted.

The accompanying note to the Embassy<sup>4</sup> mentions our desire to meet the Chilean position, our hope that the additional concessions will permit early conclusion of the negotiations and the fact that we do not believe any further concessions are possible.

In accordance with the previous arrangement, please convey the foregoing to the appropriate officials, mentioning at the same time our desire to learn as soon as possible their definitive position on the general provisions and our Schedule I<sup>5</sup> requests.

The additional offers presented today meet substantially all Chilean requests except on onions and beans.

HULL

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<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 404-439.

<sup>2</sup> Schedule of articles of Chilean origin upon which the United States was to grant tariff concessions.

<sup>3</sup> See *Foreign Relations*, 1939, vol. v, pp. 433 and 435, respectively.

<sup>4</sup> Not printed.

<sup>5</sup> Schedule of articles of American origin upon which Chile was to grant tariff concessions.

611.2531/622a : Telegram

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

WASHINGTON, January 9, 1940—6 p. m.

11. William A. Fowler, Assistant Chief of the Division of Trade Agreements, and Henry E. Allen, also of that Division, who have been in Buenos Aires assisting in trade-agreement negotiations, are returning to Washington via Chile, sailing from Valparaiso on January 19. They have been instructed to proceed to Santiago as soon as their work has been completed in Buenos Aires, and should arrive within the next few days.

During their stay in Santiago, they will render assistance to the Embassy in connection with trade-agreement conversations with the Chilean officials. Please notify appropriate authorities and request customs courtesies.

HULL

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611.2531/623 : Telegram

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

SANTIAGO, January 10, 1940—noon.

[Received 1:32 p. m.]

10. Department's telegram No. 4, January 4, 5 p. m. While Undersecretary of Commerce <sup>5a</sup> cannot commit the Treaty Commission he personally believes that the improved Schedule II will be satisfactory. As to Schedule I he states that the Commission has estimated that it involves Chilean revenue sacrifice of \$268,000 while American revenue sacrifice under Schedule II is only \$66,000. He believes that certainly soft wood lumber and almost certainly lubricating oil must be omitted as Chile cannot lose the 75 and \$100,000 revenue they represent. The Commission will decide at its next session probably January 15. While there have been protests on certain other items by the Chilean Manufacturers Association he feels they can be maintained.

Regarding general provisions full instructions were air mailed to Gazitúa <sup>5b</sup> January 6 and I am sending Spanish text of revised clauses as proposed by the Commission by mail tomorrow. There are many verbal changes most of which are not regarded by Vigar as indispensable; and it will be advisable for Fowler to confer quite extensively with Vigar. On article XVI Chile will make a determined stand to secure exemption of countries contiguous to her. Some two years ago

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<sup>5a</sup> Cayetano Vigar.

<sup>5b</sup> Guillermo Gazitúa, Counselor of the Chilean Embassy in the United States.

the Commission went formally on record that no future Chilean agreement should omit recognition of special treatment for contiguous countries, a principle which Chile advocated as early as 1823.

When the suggestion was made to Vigar that insistence on this point might be fatal he declared that nothing will be allowed to be fatal as Chile has decided that the agreement should be concluded. He mentioned that Argentina has sought to institute mutual consultations with Chile on the trade agreement negotiations and stated that Chile has steadfastly declined.

BOWERS

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611.2531/654

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Trade Agreements*

[WASHINGTON,] January 12, 1940.

Señor Gazitúa called to leave at the Department a communication which had been received from Santiago setting forth the position of his Government with respect to the general provisions of the proposed trade agreement. I went over with Señor Gazitúa the various articles in which his Government desired to make changes in the draft provisions proposed previously by the United States. It was apparent that considerable study would be necessary on the Chilean counterproposals, as in several cases proposed articles had been eliminated or major changes had been made which probably would not be acceptable to this Government. It was therefore agreed that we would make a detailed study, as soon as possible, of the counterproposals of the Chilean Government.

It was explained to Señor Gazitúa that Messrs. Fowler and Allen, who had been in Buenos Aires assisting in the negotiations there, were returning to the United States by way of Chile and would spend several days in Santiago. It was suggested that it would be desirable to take advantage of their stay in Santiago to discuss the general provisions with the Chilean officials and Señor Gazitúa agreed to this procedure.

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611.2531/623 : Telegram

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

WASHINGTON, January 13, 1940—2 p. m.

15. Your 10, January 10, noon. Gazitúa presented yesterday the Spanish text of the general provisions as revised by the Treaty Commission. A rapid examination of the text reveals a number of changes or deletions from our proposals which are not acceptable. These in-

clude particularly elimination of national treatment in Article II, the changes in Articles III and IV, the elimination of Articles V, XI and XII, and the exceptions in Article XVI for bordering countries.<sup>6</sup> Our position on some of these points is set forth in the memorandum of conversation<sup>7</sup> enclosed with instruction 76 of December 29.<sup>8</sup>

In view of the considerable divergence between our general provision proposals and those of the Chilean Government, it would be desirable for Fowler to discuss with the appropriate officials the technical questions involved particularly in the Articles mentioned above, explaining in detail the reasons for our position.

With particular reference to the exchange article, we are not yet prepared to present a new draft, but definitely cannot accept the Chilean proposal.

We hope to send you more detailed comment early next week by telegram.

HULL

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611.2531/633 : Telegram

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

SANTIAGO, January 19, 1940—11 a. m.  
[Received 2: 15 p. m.]

18. Department's 15, January 13, 2 p. m. In conferences during the past 4 days Fowler, Allen and Frost<sup>9</sup> have gone over the general provisions completely with Vigar, with special emphasis on those articles mentioned in the Department's telegram under reference.

In connection with article II Vigar points out that it is impossible to grant national treatment because of legislation, especially laws 5786 and 5991. However, he agreed that national treatment with respect to all future legislation could be granted. A reservation covering exceptions under existing laws should make our draft acceptable.

With respect to article III Vigar stated that although Chile would try to give us the best possible treatment with respect to the allocation of quotas, the Treaty Commission was unwilling to recommend acceptance of a definite commitment to give us shares based upon a previous representative period because of pressure from other countries with which Chile has agreements. It is hoped that this matter

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<sup>6</sup> Article II concerned internal taxes; article III, quantitative restrictions; article IV, exchange controls; article V, monopolies and Government purchases; article XI, scheduled products subject to ad valorem rates; article XII, restrictions on importation of scheduled products; and article XVI, reservations regarding customs union, frontier traffic, advantages to dependencies, etc.

<sup>7</sup> Memorandum of December 19, 1939, *Foreign Relations*, 1939, vol. v, p. 436.

<sup>8</sup> Not printed.

<sup>9</sup> Wesley Frost, Counselor of Embassy in Chile.

will be reconsidered in the light of the extended discussion of the essential elements of our proposal. When it was pointed out incidentally that under the proposal a global quota could be established without the necessity of allocation, Vigar stated that Chile had to allocate in most cases.

The Chilean objection to article IV is that if they included it in the form proposed by us they would have to establish a single rate for dollars and that they would be subjected to pressure from third countries. They cannot see the advantage of including the article with a protocol, when they will undertake in their draft to do the best they can under existing circumstances. The discussion was centered on the point that negotiations were undertaken on the definite understanding that Chile would accept our exchange article,<sup>10</sup> with a protocol if necessary. An effort was made to convince Vigar that such a protocol would not be a reflection upon the Chilean Government but merely recognition of temporary factors beyond its control.

Article V was apparently omitted in the belief that it was too rigid to be applied. It will doubtless be reconsidered in the light of the discussions.

Article XI was omitted partly because of failure to understand its scope and meaning and also because Chile has not yet definitely decided on what methods will be used in determining dutiable value in applying article XXXVIII of law 6334.

The omission of article XI was explained partly on the ground that the Treaty Commission considered the subject covered by article III. It seems that there was the notion also that the article referred to schedules of some sort other than Schedules I and II. When the purpose of the article was pointed out to Vigar he evinced interest and said that our point of view would be presented to the Treaty Commission.

With respect to article XVI it was pointed out by Vigar that the United States insisted upon including an exception for preferences now or hereafter granted to Cuba and that we could not therefore reasonably expect Chile to abolish her preferential arrangements with Argentina, Peru and Bolivia. Vigar . . . admitted . . . that . . . in the case of Argentina there were vital political as well as economic considerations. Vigar did say that he thought Chile would agree to name these three countries instead of covering them with the general term "contiguous countries". From the discussions which brought out entirely clear the arguments and points of view on both sides it is thought that Chile will steadfastly and not without reasons refuse to give up at least its present preferences to Argentina and Peru

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<sup>10</sup> See telegram No. 125, September 23, 1939, 6 p. m., to the Ambassador in Chile, *Foreign Relations*, 1939, vol. v, p. 412.

and those contained in the treaty with Bolivia which has not yet been approved by the Chilean Congress.

Vigar promised to present our suggestions and points of view to the Treaty Commission and asked for a memorandum which Fowler completed before he left this morning. This will be handed to Vigar today and a copy will be forwarded to the Department by mail tomorrow.<sup>11</sup>

BOWERS

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611.2531/663

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Trade Agreements*

[WASHINGTON,] February 20, 1940.

Participants: Señor Guillermo Gazitúa, Counselor, Chilean Embassy  
Mr. Fowler, TA<sup>12</sup>  
Mr. Smith, TA

Señor Gazitúa called at the Department to resume discussion of the general provisions of the proposed trade agreement. Reference was made to the conversations which had taken place in Santiago during the third week in January with the Chilean officials, in which Mr. Frost, Mr. Fowler and Mr. Allen participated. It was explained to Señor Gazitúa that the pressure of work in the TA Division in connection with the hearings on the renewal of the Trade Agreements Act<sup>13</sup> had been so great that it had been possible only within the last few days to give detailed consideration to the general provision counterproposals advanced by the Chilean Government in mid-January or to determining if any further comment would be necessary on those counterproposals in addition to that which had been supplied in Santiago by Mr. Fowler and Mr. Allen. The conversations reported below were based upon the Chilean counterproposals on the general provisions in relation to the text originally suggested by the United States and in the light of the comments contained in the memorandum left with the Chilean Undersecretary of Commerce by Mr. Fowler and Mr. Allen.

With respect to Article I, there was a discussion regarding the exact wording of the League of Nations' formula<sup>14</sup> and it was indicated to Señor Gazitúa that while the United States would probably be will-

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<sup>11</sup> Not printed.

<sup>12</sup> Division of Trade Agreements.

<sup>13</sup> Approved June 12, 1934; 48 Stat. 943. Extended by Joint Resolution of March 1, 1937; 50 Stat. 24.

<sup>14</sup> League of Nations, *Official Journal*, Special Supplement No. 138 (Geneva, 1935), p. 128.

ing to accept the League's formula in substance, there were certain points in which the Chilean text did not conform to the language desired by the United States, such as the use of the term "natural and manufactured products" and goods "originating in and coming from" and the absence of the phrase in the Chilean draft relating to the sale and use of imported goods within the country. On each of these points Señor Gazitúa was requested once more to bring the views of the United States to the attention of his Government. With regard to the question of restricting most-favored-nation treatment to goods not only originating in but coming (directly) from the other country, it was pointed out to Señor Gazitúa that it might be considerably to Chile's disadvantage if the most-favored-nation clause were thus limited; if, for example, at some time in the future the United States should decide to restrict most-favored-nation treatment to direct shipments. It was mentioned to Señor Gazitúa that our desire was to restrict the scope of the most-favored-nation clause as little as possible.

There was some discussion of Article II in so far as it related to national treatment on internal taxes, along the lines of that reported by Mr. Fowler at the time of the conversations in Santiago. It was agreed that there would be taken up with the Trade Agreement Committee the possibility of making certain exceptions from the guarantee of national treatment in the case of existing legislation in Chile, such as Law 5786 and its amendments, providing for certain taxes on both imported and domestic products. Señor Gazitúa agreed to consult with his Government on the general question of modifying existing laws so as to permit national treatment in the application of internal taxes to products imported from the United States.

With respect to Article III, on quotas, it was indicated to Señor Gazitúa that the first paragraph of the Chilean draft would probably be acceptable to the United States, except for the use of the phrase "natural and fabricated", which the United States would prefer to have read "growth, produce or manufacture". Señor Gazitúa was informed that the second paragraph as proposed by the Chilean Government was definitely not acceptable. The flexibility in the original proposal of the United States was mentioned to Señor Gazitúa who was requested once more to inquire whether his Government could not accept the United States draft.

With regard to Article IV, on exchange control, Señor Gazitúa was requested to discuss this matter further with his Government, in view of the fact that despite the arrangement made prior to the announcement of negotiations, the Chilean Treaty Commission had proposed an entirely new formula which was not acceptable to the United States and which ignored those arrangements. If the Treaty Commission did



not know of these arrangements, it was requested that they be informed and asked to consider our original proposal and suggest a formula for the delayed-action protocol. In substance, the question was what would the Chilean Government be prepared to offer in the way of a definite commitment on the exchange treatment for American products during the life of the trade agreement. It was pointed out to Señor Gazitúa that the Chilean proposal was based on no definite principles which would serve to guide either Government in the interpretation of the Article and it was not even a guarantee to give the United States the best treatment possible, but merely a statement in effect that the Chilean Government would endeavor to grant the United States treatment compatible with the exchange situation between the two countries.

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611.2531/664

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Trade Agreements*

[WASHINGTON,] February 21, 1940.

Señor Gazitúa called to continue the discussions of the previous day on the general provisions. Mr. Fowler was unable to be present.

Regarding Article V, on monopolies and government purchases, which the Chilean Government had suggested eliminating from the text of the agreement, it was pointed out to Señor Gazitúa that compliance with the provisions of the Article would involve no changes of any kind in the existing situation in either country; the inclusion of the Article seemed appropriate in the agreement and served to formalize existing practices. It was, therefore, hoped that the Chilean Government would change its position and agree to the inclusion of the Article.

On Article VI, relating to customs procedure, the differences between the Chilean and the United States drafts were pointed out to Señor Gazitúa along the lines of the comment included in Mr. Fowler's memorandum to the Chilean Undersecretary of Commerce, Señor Vigar.<sup>15</sup> The hope was expressed that upon further study the Chilean Government would find it possible to accept the United States draft in its original form. Señor Gazitúa raised the question as to our position if his Government did not care to accept our proposals on Articles V and VI. He was informed that although the inclusion of Article V and Chilean acceptance of the United States text of Article VI were not absolutely essential to the conclusion of the

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<sup>15</sup> Not printed.

agreement, we would very much prefer to have the Articles included in the manner which had been indicated.

With respect to Articles VII and VIII, the technical faults which Mr. Fowler had pointed out in his memorandum were once more mentioned to Señor Gazitúa.

Article IX, upon the elimination of which there seemed to be agreement in view of the inclusion of its provisions in Articles VII and VIII, required no comment.

With regard to Article X, it was noted that there was apparently no differences of substance in the views of the two Governments, but it was believed that the Spanish text of the Chilean draft might have to be slightly modified to bring out its meaning more clearly. Señor Gazitúa requested that the English text be also considered carefully, particularly the latter part, with a view to establishing its meaning with complete clarity.

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611.2531/665

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Trade Agreements*

[WASHINGTON,] February 23, 1940.

Señor Gazitúa called again at the Department to continue the discussion of the general provisions of the proposed trade agreement.

Resuming consideration at Article XI, it was agreed for the present to pass over the differences between the Chilean and United States proposals, in as much as it might not be necessary to include the Article in the agreement. All the products on which the United States had requested concessions of Chile are dutiable on a specific basis and only one Chilean product included in the United States offers is dutiable upon an ad valorem basis. If the Chilean Government did not particularly desire the inclusion of the Article, the possibility existed of eliminating it from the provisions.

With regard to Article XII on quotas on products included in the two schedules, no comment in addition to that made by Mr. Fowler appeared necessary, in as much as there had been an erroneous idea in the minds of the Chilean Treaty Commission regarding the schedules referred to in the Article.

Article XIII required no comment.

Regarding Article XIV, it was indicated to Señor Gazitúa that this Government would probably agree to the inclusion of an escape clause, as requested by the Chilean Government, although this was one of the points which would have to be taken up with the Trade Agreements Committee.

On Article XV no particular comment was necessary, except that the same question arose here as in certain other Articles, with respect to the use in the Chilean draft of the words "natural or fabricated products, originating in and coming from" as compared with the language in the United States draft "articles the growth, produce or manufacture . . .<sup>16</sup> imported from or exported to".

With respect to Article XVI, on exceptions to most-favored-nation treatment, the comments made in Mr. Fowler's memorandum were pointed out to Señor Gazitúa who was requested to indicate the reasons for the position taken by the Chilean Government in requesting that trade with contiguous countries be excepted from the provisions for most-favored-nation treatment. He indicated that there were three principal points: (1) the question of geographic proximity; (2) as an offset for the Cuban exception on the part of the United States; (3) the fact that in the Finnish and Swedish trade agreements,<sup>17</sup> the United States had permitted exceptions in the case of trade between those countries and neighboring nations.

Mr. Gazitúa also pointed out as a practical matter that the exceptions for Argentina, Bolivia and Peru which were desired by Chile would have no actual significance in view of the fact that Chile had a number of trade agreements or treaties at the present time with various countries which did not provide for those exceptions. Señor Gazitúa agreed to present our point of view once more to his Government and at the same time he was informed that the proposal of the Chilean Government would be brought to the attention of the Trade Agreements Committee.

Regarding Article XVII, it was mentioned to Señor Gazitúa that it was believed that Mr. Fowler's memorandum contained all the comments that were necessary on the Chilean draft. Señor Gazitúa expressed a desire to have a brief memorandum on the scope of the "constitutional limitations on the authority of the Federal Government" in the case of the United States and it was agreed that he would be provided with such a memorandum.

On Article XVIII it was pointed out that although the second paragraph of the United States draft did not appear to be absolutely necessary, this Government believed that its inclusion would be desirable.

There was no discussion of Articles XIX or XX in view of the fact that these Articles might be considered more or less "open" until such time as a definite agreement had been reached on other and more important Articles of the agreement.

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<sup>16</sup> Omission indicated in the original memorandum.

<sup>17</sup> 50 Stat. (pt. 2) 1436, and 49 Stat. (pt. 2) 3755, respectively.

Señor Gazitúa stated that he would prepare a report for submission to his Government on the basis of the present conversations and it was agreed that we would have another meeting within a few days.

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611.2531/672

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Trade Agreements*

[WASHINGTON,] April 22, 1940.

Señor Gazitúa called at the Department at my request in order to conclude discussion of a few points outstanding from the series of conversations held on February 20, 21 and 23, 1940 regarding the general provisions of the proposed trade agreement.

Señor Gazitúa stated that he had delayed both in submitting a report to his Government on those conversations and in coming in to discuss the few points which had not been covered, as he desired to await the decision in Congress regarding the renewal of the Trade Agreements Act. I told Señor Gazitúa that a report had been prepared for the Trade Agreements Committee based upon the conversations in Santiago in January and in the Department in February, but the committee had not yet considered it.

In accordance with a previous promise, I supplied Señor Gazitúa with a brief memorandum explanatory in so far as the United States was concerned, of the phrase appearing in Article XVII of the draft general provisions regarding the "constitutional limitations on the authority of the Federal Government".

With regard to Article X on compensating taxes, I reviewed again with Señor Gazitúa the Spanish translation which he had prepared together with a revision which had been made by the authorities in Santiago. It was pointed out to Señor Gazitúa that although the authorities in Santiago had evidently understood the meaning of the final phrase, it was believed that his translation was more clear than that supplied by his Government, and it was, therefore, suggested that his phrasing be utilized.

I discussed the provisions of Article II on internal taxes at some length with Señor Gazitúa, and said that although, as briefly mentioned to him, the possibility would be submitted to the Trade Agreements Committee of excepting from national treatment in Chile for American products the tax imposed by Law 5786 as amended by Law 5991, we were concerned by the presence in the Cuban-Chilean Treaty<sup>18</sup> of a clause which guaranteed all Cuban products national

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<sup>18</sup> Treaty of Commerce and Navigation, signed at Habana, March 13, 1937, League of Nations Treaty Series, vol. cxcv, p. 389.

treatment on internal taxes without any exceptions. I mentioned to Señor Gazitúa that inquiry had been made of our Embassy at Santiago whether in practice products imported from Cuba which were subject to that tax received substantially the same treatment as similar domestic articles. It was mentioned that a reply had not yet been received from the Embassy and Señor Gazitúa said that he did not know whether Cuban products in practice received such treatment. I informed Señor Gazitúa that if the information we were awaiting from Santiago showed that Cuban products were in practice receiving the equivalent of national treatment under Laws 5786 and 5991, there would probably be considerable resistance to our agreeing to an exception from national treatment in the case of that particular tax. I told Señor Gazitúa that a further inquiry would be made of the Embassy today in order to expedite a reply, following which an effort would be made to have the Trade Agreements Committee consider the Chilean general provisions at an early date. Señor Gazitúa was informed that the decision of the Trade Agreements Committee on the various points outstanding would be communicated to him as soon as possible and he stated that he would delay submitting any report until he had learned and could communicate to his Government the decision of the Trade Agreements Committee.

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[The Department's files reveal no further negotiations for a trade agreement with Chile during the remainder of the year.]

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**FINANCIAL ASSISTANCE BY THE UNITED STATES TO THE  
GOVERNMENT OF CHILE<sup>19</sup>**

825.51/1177 : Telegram

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

WASHINGTON, January 8, 1940—3 p. m.

8. From the Under Secretary. Pedregal<sup>20</sup> left for Santiago by airplane January 6. He came to see me before leaving and expressed the hope that he might be able to return to Washington within 3 weeks. His trip to Santiago is due to the resignation of Wachholtz<sup>21</sup> and for the purpose of assuring himself that the new Minister of Finance will continue to support him in his mission to this country. Pedregal has made an admirable impression here, and the projects which he has outlined to me seem to me constructive and practical.

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<sup>19</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 439-461.

<sup>20</sup> Guillermo del Pedregál, Executive Vice President, Corporación de Fomento de la Producción.

<sup>21</sup> Roberto Wachholtz, former Minister of Finance.

The negotiations undertaken by Ambassador Bianchi<sup>22</sup> are continuing, and I think he is fully aware of the fact that this Government is going out of its way to try and find the opportunity for cooperation. I believe that a definite decision with regard to this latter question may be expected in the near future. [Welles.]

HULL

825.51/1182 : Telegram

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

SANTIAGO, January 22, 1940—6 p. m.

[Received 7:12 p. m.]

21. Department's telegram No. 8, January 8, 3 p. m. Pedregal informs Embassy confidentially that after three conversations with President Aguirre he is encouraged to feel that Fomento plans may proceed perhaps on an installment basis until political situation here becomes better settled. He tentatively plans to leave by plane about February 1 for Washington.

BOWERS

825.51/1206

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

[WASHINGTON,] March 27, 1940.

On March 27 Señor Pedregál and Señor Gazitúa<sup>23</sup> called on Mr. Duggan<sup>24</sup> at the latter's office. Señor Pedregál stated that he had received a cablegram from Chile to the effect that certain proposed deals of the Fomento Corporation were being held in abeyance pending a decision regarding the proposed Export-Import Bank credit. He expressed the urgent need of his organization to be informed regarding the outcome of his request for a credit from the Export-Import Bank. He said he did not wish to appear to be pressing for a favorable decision, but said that it was essential that a decision one way or another be reached in the near future in order that activities of the Fomento Corporation might not be suspended indefinitely. Señor Gazitúa said that they had attempted to call on Mr. Jones<sup>25</sup> of the Federal Loan Agency, but had been unable to see him and gathered the im-

<sup>22</sup> Manuel Bianchi, Chilean Ambassador to Spain on special mission in the United States to purchase military supplies.

<sup>23</sup> Guillermo Gazitúa, Counselor of the Chilean Embassy.

<sup>24</sup> Laurence Duggan, Chief of the Division of the American Republics.

<sup>25</sup> Jesse Jones, Federal Loan Administrator.

pression that the latter had not as yet considered Señor Pedregál's memorandum of March 19.<sup>26</sup>

Mr. Duggan said that he well understood the desire of Señor Pedregál for early action to be taken in the matter one way or another, in order that he might be free to make further plans, and expressed regret that as yet no definite conclusion had been reached. He said that further efforts would be made by the Department to get a decision on the matter from the Export-Import Bank as soon as possible.

While Señor Pedregál and Señor Gazitúa brought this matter up in a courteous and friendly manner, it was apparent that they were somewhat disgruntled with the way matters were progressing. They seemed somewhat confused with regard to the respective responsibilities of Mr. Jones, Mr. Pierson,<sup>27</sup> and the Department.

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825.51/1213a : Telegram

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

WASHINGTON, April 30, 1940—3 p. m.

72. Export-Import Bank questions legal authority of Fomento Corporation to borrow money in its own name. Pedregal asserts that the Corporation has such authority under its general powers as a corporate entity and under the Chilean Civil Code, if not directly under the specific provisions of Law 6334. Please telegraph urgently your views in this respect, without consulting with Chilean Government or Fomento Corporation officials.

WELLES

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825.51/1214 : Telegram

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

SANTIAGO, April 30, 1940—6 p. m.

[Received 6:55 p. m.]

85. Department's 72, April 30, 3 p. m. My view is that the corporation has authority to borrow money in its own name under its general powers as a corporate entity and also under paragraph 1 article XXII of Law 6334. However, as indicated in my despatch No. 424, April 5,<sup>28</sup> there is grave doubt whether it has such control over the revenues provided by Law 6334 as will ensure without question its ability to repay the funds it may borrow; until decrees such as No. 781 are reissued in terms to give it more autonomy as regards dollar reve-

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<sup>26</sup> Not found in Department files.

<sup>27</sup> Warren Lee Pierson, President of the Export-Import Bank.

<sup>28</sup> Not printed.

nues. Revision of the law eventually is desirable but the legislative branch is now controlled by party enemies of the regime who in view of coming elections would not contribute to economic betterment, thus it does not seem practical now.

BOWERS

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825.51/1221 : Telegram

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

SANTIAGO, May 18, 1940—11 a. m.

[Received 12:48 p. m.]

98. Reference to my telegram No. 85, April 30, 6 p. m. Decree 1353 of April 24, 1940 published in *Diario Oficial* May 17 in its preamble confirms (first) that development corporation is empowered to contract directly loans, advances, or credits and to engage in commercial operations; (second) what corporation will directly service its obligations. Principal provision of decree itself amplifies Decree 781 in sense that Treasury General will pay to amortization institute for delivery to development corporation the funds in foreign currency derived from new copper taxes to the extent necessary to service commercial credits incurred by corporation. This decree goes to clarify uncertainties raised by Decree 781 as indicated in my despatch No. 424 of April 5.<sup>29</sup> Text of Decree 1353 will be forwarded by airmail.

BOWERS

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[On June 13, 1940, the Board of Directors of the Export-Import Bank of Washington announced the authorization of a credit of \$12,000,000 to the Corporación de Fomento de la Producción. The financing was to assist in the acquisition and transportation to Chile of United States industrial machinery, equipment and supplies.]

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825.51/1232

*The Chilean Ambassador (Cabero) to the Secretary of State*

WASHINGTON, June 14, 1940.

EXCELLENCY: I have the honor to inform Your Excellency that my Government has instructed me to state that:

1.—The Government of the Republic of Chile, recognizing that the Corporación de Fomento de la Producción (Chilean Development Corporation), hereinafter called the "Corporation", as a corporate entity under Chilean Law is legally authorized to contract loans in domestic or foreign currencies, and recognizing the desirability of

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<sup>29</sup> Not printed.



assisting the Corporation in carrying out the provisions of Law 6334, hereby approves the terms of the agreement entered into as of June 13, 1940 by and between the Corporation and the Export-Import Bank of Washington.—

2.—The Government of the Republic of Chile will, accordingly, extend to the Corporation all its cooperation and assistance so that the Corporation may comply strictly with the said agreement and, in particular, that it may attend in appropriate form to the service in dollars United States currency of interest and amortization of the loan which it has contracted. Principal and interest on such loan shall be serviced in dollars United States currency prior to the servicing of any other obligations of the Corporation heretofore or hereafter incurred. The dollar revenues resulting from the extraordinary taxes levied pursuant to Chilean Law 6334 or other law now in effect or hereafter enacted will be set aside and utilized to the extent necessary to cover the payment of principal and interest of the obligations issued under said agreement.—

3.—In the event the President of the Republic of Chile contracts a loan or loans pursuant to the provisions of Article 28 of Law 6334, 50% of the proceeds thereof will be remitted to the Corporation in foreign currency. All of such proceeds received by the Corporation will be applied entirely to the repayment of any amounts owing by the Corporation to the Export-Import Bank of Washington.—

Accept [etc.]

A. CABERO

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825.51/1253 : Telegram

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

SANTIAGO, September 16, 1940—4 p. m.

[Received 5 : 30 p. m.]

220. Officials of Fomento Corporation are seriously concerned over their inability to arrive at an understanding with the Export-Import Bank concerning documentary procedure acceptable to bank in connection with the utilization of credit. These misunderstandings and delays which have persisted for weeks are seriously embarrassing the Corporation which has expended for certain major approved projects the greater part of its own dollar cash balance in anticipation of securing reimbursement of expenditures through utilization of credit. Progress of Corporation is now at a standstill pending clarification of existing misunderstanding and resultant confusion in this matter is engendering dismay and undesirable irritation. It is respectfully suggested that an immediate solution of these relatively minor questions now impending use of credit would be highly desirable. It is all the more embarrassing in view of other matters pending that an opposition paper explains the delay on the ground that our Government has no confidence in this Popular Front Government.

BOWERS

825.51/1253 : Telegram

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

WASHINGTON, September 19, 1940—4 p. m.

162. Your 220, September 16, 4 p. m. The Department has taken this question up with the Export-Import Bank whose officials state that they are at a loss to understand the reports you have received. They have received no complaint from the Fomento Corporation, the Chilean Embassy or the Minister of Fomento. Schnake<sup>30</sup> and the other Chilean officials in Washington have appeared, on the contrary, to be satisfied with the cooperation of the Bank.

The Export-Import Bank received on September 13 the first application it has received so far for specific purchases under the credit. This application was submitted by the nitrates sales corporation office in New York on September 12, the same date on which it notified the Bank that its own corporate requirements had been fulfilled to permit it to act as the purchasing agent for the Fomento Corporation. The application was for purchase of approximately 656,000 dollars in agricultural machinery, and was formally approved by the Export-Import Bank on September 17, with the exception of only 6489 dollars worth of equipment of Canadian manufacture. The only present deterrent to the use of the credits for this purchase is the fact that the Fomento Corporation has not yet designated specific commercial banks in this country to act as agents in carrying out the routine banking procedure. To assist the Corporation in making a selection of such banks, the Export-Import Bank gave Schnake on August 23 a list of two or three times the necessary number of agent banks, and it is understood that Schnake sent this list immediately to Chile. The Export-Import Bank says that it will be able to complete its own arrangements with the banks that may be designated within two or three days after they are designated.

Perhaps the difficulties encountered by the Chilean officials arise out of their request for the establishment of an open acceptance credit of \$3,000,000 with New York banks. Such a credit was not provided for nor contemplated in the agreement between the Fomento Corporation and the Export-Import Bank and it is the opinion of the Bank that since the agreement with the Corporation is based throughout on advances against specific purchases, any consideration of an open acceptance credit of this nature would require entirely new discussions with a view to revision of the agreement.

It is true that the Export-Import Bank has extended a credit of \$500,000 to the Banco de la República del Paraguay which is not, how-

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<sup>30</sup> Oscar Schnake, Chilean Minister of Public Development (*Fomento*), on special mission in the United States.

ever, an open acceptance credit, but a revolving fund against which the Paraguayan bank may draw upon approval of the Export-Import Bank, an entirely different type of arrangement that was provided for specifically in the terms of the Export-Import Bank agreement with the Paraguayan Bank.

HULL

825.51/1255 : Telegram

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

SANTIAGO, September 23, 1940—6 p. m.

[Received 6 : 25 p. m.]

225. My telegram No. 220, September 16, 4 p. m. and Department's telegram No. 162, September 19, 4 p. m. Pessimistic observations of some Chilean officials to Commercial Attaché<sup>31</sup> apparently due to the failure of Chilean representatives in Washington to keep them properly informed. They are gratified at bank's prompt action.

BOWERS

825.51/1275a : Telegram

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

WASHINGTON, October 31, 1940—6 p. m.

182. The Export-Import Bank has requested of Schnake an estimate of the amount of exchange arrears, including goods held up in the customs house, with information as to what American exporters are owed the money and for what types of products. It is requested that you supply the Department with similar information, transmitting a full report by airmail and a summary by telegraph.

HULL

825.51/1275a : Telegram

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

WASHINGTON, November 4, 1940—8 p. m.

186. Department's no. 182, October 31, 6 p. m. Decision with respect to credits and other economic cooperation with Chile is being held up pending information on the amount of exchange arrears owed to Americans. Please expedite reply.

HULL

<sup>31</sup> Clarence C. Brooks.

825.51/1278 : Telegram

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

SANTIAGO, November 12, 1940—6 p. m.

[Received November 13—1 : 20 p. m.]

269. Reference your No. 182, October 31, 1 [6] p. m., and 186, November 4, 8 p. m., and my telegram No. 263, November 6, 6 p. m.<sup>32</sup>

Exchange Control Commission now has furnished itemized list of exchange totaling United States dollars 6,086,178 it claims owed to 71 American concerns for goods sold to firms in Chile and reports total amount exchange owed all American concerns for goods is \$8,500,000 the difference between these two sums representing very many small accounts owed some 500 American exporters. Itemized list was compiled from statements some 30 important commercial houses here were requested to submit by Control Commission reporting amounts of exchange they have applied for but had not yet been granted and names of United States exporters to whom monies were owed. \$2,413,822 declared owing [apparent omission] was arrived at by Exchange Commission subtracting amounts of itemized list from \$8,500,000 which figure apparently is approximately total all dollar exchange applied up to the present for, but not yet granted for, payment United States goods. In view of manner in which information was compiled by Exchange Control and presumably because its records do not permit preparation of data showing actual arrears the \$8,500,000 reported owed should be considered an all inclusive figure and if assistance in that amount is made available it is believed that Exchange Control could provide cover for all applications pending at this time for payment American merchandise.

There always is in this market a float of unmatured and currently maturing bills for imports and for which exchange has been requested. This float has been included by Exchange Control in United States dollars 8,500,000. If this float, unofficially but reliably estimated at United States dollars 1,500,000 to United States dollars 2,000,000, is deducted it would appear that amount of exchange actually in arrears probably is between United States dollars 6,500,000 and United States dollars 7,000,000. On basis of latter figures Department and Export and Import Bank may wish to consider granting exchange assistance. Control Commission declares unable to break down United States dollars 8,500,000 according to goods in the country for which exchange has been applied but has not been granted, goods held up in customs for which exchange has been applied, goods in transit and/or on order for which exchange has been applied. Commercial Attaché after discussions exchange with leading importers believes United States

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<sup>32</sup> Telegram No. 263 not printed; it gave preliminary report.

dollars 8,500,000 may be broken down more or less as follows: Goods already in the country United States dollars 5,000,000, held up in customs \$2,500,000, in transit and/or on order \$1,000,000. Major part of \$5,000,000 for goods already in country but not yet paid for can be accounted for substantially as follows: (All figures United States currency) Standard Oil Company of New Jersey 620,000; General Motors 250,000; Anglo-Mexican Petroleum, New York, 400,000; Balfour Guthrie, New York, for general merchandise 150,500; International Standard Electric Company 110,000; International Harvester Corporation 163,400; Ford Motor Company 383,600; Eastman Kodak Company 108,000; Grace and Company for general merchandise 700,000; Wessel Duval for general products 800,000; Singer Sewing Machine Company 348,000; Goodyear 56,800; United States Rubber 35,600; Goodrich 30,100; Kelly Springfield 37,200; United States Steel Corporation and Bethlehem 222,400 and 128,000 respectively.

Last two amounts owed in names of these concerns to local banks for dollar commercial credits opened New York. Past observations of manner in which exchange control has functioned indicate need of including in any arrangement for exchange relief provision preventing accumulation new arrears by limiting issuing import license for goods whose aggregate value in any 3 months or other period would not exceed conservatively estimated exchange receipts for same period. Full report being transmitted air mail.

BOWERS

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825.51/1284a : Telegram

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

WASHINGTON, December 4, 1940—1 p. m.

216. With reference to press reports that the Chilean Government has officially suspended amortization of the foreign debt to divert funds to the Exchange Control Commission, please expedite full report.

HULL

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825.51/1284a

*The Under Secretary of State (Welles) to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, December 4, 1940.

MY DEAR MR. SECRETARY: I refer to conversations which took place some time ago between you and officers of the Treasury Department and the representatives of the Government of Chile regarding the exchange outlook of Chile. At that time, as I recall, you deferred further consideration of the Chilean situation pending action by the Export-

Import Bank and determination of the policy of this Government with respect to the purchase of Chilean nitrates and copper.

The Export-Import Bank has now agreed to extend a credit of \$5,000,000 to the Central Bank of Chile, while the Defense Supplies Corporation is prepared to purchase for stockpile 300,000 tons of nitrates. This purchase will eventually return to Chile about \$3,500,000, of which perhaps a little over \$2,000,000 will be available to Chile within three to five months. In addition, arrangements are being worked out for the purchase in South America of monthly quotas of copper for use in the filling of defense requirements.<sup>33</sup> It is not certain at this juncture just what exchange will accrue to Chile each month as a result of these purchases. At any rate, the proceeds of the Export-Import Bank credit and of the nitrate transaction will be utilized to liquidate the present exchange arrears due to United States exporters, leaving only the copper sales to contribute to a net improvement in the future situation.

Useful as all of these operations will be, they fall short of relieving the exchange deficits independently predicted for 1941 by the Chilean representatives, by officers of this Department, and, I believe, by experts of the Treasury. In view of this situation and of the importance to our broad hemisphere defense policy of maintaining the level of economic activity in the other American republics, I wish to suggest the desirability of your resuming consideration of the possibility of broader cooperation with Chile in the matter of monetary and exchange relationships.

Sincerely yours,

SUMNER WELLES

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825.51/1284 : Telegram

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

SANTIAGO, [December 4, 1940—5 p. m.]

[Received 9:03 p. m.]

294. Referring to the Embassy's despatch No. 660, April 29, 1939,<sup>34</sup> in exercise of the authorization contained in article XXIX, paragraph 3 of Law 6334 of 1939 the Government yesterday decreed :

(1) That the foreign debt amortization funds may transitorily be utilized for the purposes stipulated in Law 6334.

(2) That the Amortization Institute is authorized to deposit with the Treasury of the Republic the peso equivalent of such funds up to \$6,000,000.

(3) That as soon as the foreign loan which the Government may contract in exercise of the authorization contained in article XXVIII,

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<sup>33</sup> See vol. II, pp. 300 ff.

<sup>34</sup> Not printed.

Law 6334, shall no longer require the transitory application of the decree the President of the Republic will determine when the amortization funds shall be returned to the Amortization Institute for foreign debt amortization purposes.

Yesterday's decree in effect indefinitely suspends amortization of external debt but in no way affects interest payments which it is stated will be continued on foreign bonds. The Government declares it was moved to take this action because it still has been unable to negotiate the foreign loans authorized by Law 6334 and because of the war's effect on the country's export trade, its normal economic development and difficulties which have been experienced in providing sufficient foreign exchange for machinery, raw materials and other [apparent omission].

The Manager of Amortization Institute informs me in strict confidence that this Government has already utilized to support the foreign exchange market the unused balance of \$3,500,000 of 1939 foreign debt amortization funds and approximately \$1,500,000 of unaccepted interest deposits which have reverted to increase these funds. The \$5,000,000 were sold in the exchange market at 25 pesos to the dollar and the resultant 125,000,000 pesos were deposited in a special account of the Amortization Institute. These pesos in accordance with yesterday's decree now will be turned over to the Treasury for the purpose prescribed by Law 6334.

BOWERS

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825.51/1285 : Telegram

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

SANTIAGO, December 5, 1940—5 p. m.

[Received 6 : 06 p. m.]

296. Referring to the Embassy's telegram No. 294, December 4, 5 p. m., the Foreign Minister <sup>35</sup> this morning handed me a note on suspension of amortization insisting that action embarrassing but forced by circumstances and in no remote sense more than temporary suspension. Note going forward by pouch today.

BOWERS

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825.51/1287

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

No. 1021

SANTIAGO, December 5, 1940.

[Received December 10.]

SIR: I have the honor to refer to my telegram No. 294, 5 p. m. of December 4, 1940, and to transmit a copy of the *note verbale*, and a

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<sup>35</sup> Abraham Ortega.

translation thereof, which the Foreign Minister handed me this morning on the suspension of the retirement of the foreign debt. There also is transmitted a copy, and a translation, of Decree No. 3753<sup>36</sup> providing for the suspension of the retirement of the foreign debt.

As indicated in my telegram No. 296, 5 p. m. of today's date, the Foreign Minister stated that the Government's action was "embarrassing", but he insisted it was forced by circumstances. He also was emphatic in declaring that the suspension only was temporary, that the resumption of the retirement of the foreign debt would be undertaken just as soon as conditions permit, and that interest payments on the external bonds shall continue to be made in the manner followed until the present.

Respectfully yours,

CLAUDE G. BOWERS

[Enclosure—Translation]

*The Chilean Ministry for Foreign Affairs to the American Embassy*

NOTE VERBALE

The Ministry for Foreign Affairs presents its compliments to the Embassy of the United States of America and has the honor to inform it of the following:

The grave circumstances which arose in our country due to the catastrophe of January 24, 1939,<sup>37</sup> which destroyed numerous cities and affected the agricultural and industrial production of a vast and rich region of the national territory, made necessary the issuance of a law for the reconstruction of the devastated zone, to repair the damage and to strengthen the economic structure of the nation. One of the measures taken by the National Congress to this end was the authorization conferred on the President of the Republic to make use of the resources referred to in Article 1 of Law No. 5580 of January 31, 1935; namely, to suspend the redemption of foreign debt bonds, so that these funds may be applied to the requirements of Reconstruction and Development Law No. 6334, until such time as these funds might be replaced through the contraction of loans, or through funds made available by the strengthening of national economy.

Up to the present, Chile has faithfully met the obligations of its foreign debt and had made an effort, likewise, not to use the authorization which permitted the use of funds destined to the redemption of that debt for reconstruction and assistance to the devastated zone and for the development of its economy. But the fact that it has not ob-

<sup>36</sup> Not attached to file copy of despatch.

<sup>37</sup> An earthquake.



tained the necessary amount through loans required to maintain its economy,—which was affected by the catastrophe mentioned above—, together with the general conditions arising from the present European conflict, have obligated its Government to decide to suspend temporarily the redemption of foreign debt bonds, though the provisions of Law No. 5580—which refer to the funds allotted for interest service on said bonds, a service which shall be continued in the uniform manner followed until the present,—shall subsist in their entirety.

So that the Embassy may be duly informed, the Ministry for Foreign Affairs has the honor to enclose a copy of Finance Decree No. 3753, which embodies the above.

The Ministry for Foreign Affairs trusts that the Government of the United States of America will understand and appreciate the just motives, arising from the domestic and international economic circumstances indicated, which have led the Government of Chile to make the decision herein stated. Furthermore, it reiterates that this decision shall endure only as long as circumstances warrant it, and shall be applied only until the efforts of the Government to contract abroad one or more loans, and the sustained endeavor of the Nation to better its economic progress, permit a return to the complete operation of Law No. 5580.

The Ministry for Foreign Affairs avails itself [etc.]

SANTIAGO, December [5], 1940.

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825.51/1294½

*Memorandum of Conversation, by the Acting Chief of the Division of the American Republics (Bonsal).*

[WASHINGTON,] December 9, 1940.

Señor Gazitúa pointed out that when Señor Schnake arrived in the United States about four months ago one of the first things which he did was to explore with Secretary Morgenthau the possibility of using our stabilization fund to assist Chilean exchange. The decision at the time was negative. However, recently the stabilization fund has entered into an agreement in connection with Argentine exchange.<sup>38</sup> Señor Gazitúa would like to have the question reopened as far as Chile is concerned.

Señor Gazitúa said that Señor Schnake was studying the proposed \$5,000,000 operation between the Export-Import Bank and the Banco Central. Señor Gazitúa's own impression is that the amount is insuf-

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<sup>38</sup> See section entitled "Negotiations respecting financial assistance by the United States to Argentina," pp. 460 ff.

ficient and that some sort of a stabilization fund arrangement would be much more desirable from Chile's point of view.

I told Señor Gazitúa that I would initiate suitable inquiries and let him know of anything which might be of interest.

P[HILIP] W. B[ONSAL]

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**RATIFICATION BY CHILE OF THE PROVISIONAL COMMERCIAL AGREEMENT OF 1938 BETWEEN THE UNITED STATES AND CHILE, BRINGING IT INTO FORCE JANUARY 5, 1940<sup>39</sup>**

[The following statement is reprinted from the Department of State *Bulletin*, February 17, 1940, page 191:

**“Provisional Commercial Agreement with Chile  
(Executive Agreement Series No. 119)**

“The Department of State has been informed by the American Embassy at Santiago that the Chilean Government has taken the necessary steps to bring into definitive force as of January 5, 1940, the provisional commercial agreement between the United States and Chile effected by notes exchanged in Santiago on January 6 and February 1, 1938.

“This agreement continues in effect the provisions which have regulated commercial relations between the United States and Chile in recent years on an unconditional most-favored-nation basis, pending the conclusion of a more comprehensive agreement or treaty.

“The provisional agreement, which does not include tariff concessions on individual commodities, was published by the Department as Executive Agreement Series No. 119.”]

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**AGREEMENT BETWEEN THE UNITED STATES AND CHILE FOR A  
MILITARY AVIATION MISSION, SIGNED APRIL 23, 1940**

[For the text of the agreement signed at Washington, see Department of State Executive Agreement Series No. 169, or 54 Stat. (pt. 2) 2282.]

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<sup>39</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 403 ff.

COLOMBIA

GOOD OFFICES OF THE DEPARTMENT OF STATE IN NEGOTIATIONS  
REGARDING THE RESUMPTION OF PAYMENTS ON THE COLOMBIAN  
FOREIGN DEBT;<sup>1</sup> EXTENSION OF CREDIT BY EXPORT-IMPORT BANK

821.51/2442

*The Secretary of the Treasury (Morgenthau) to the Under Secretary  
of State (Welles)*

WASHINGTON, February 7, 1940.

DEAR MR. WELLES: I have pleasure in enclosing a copy of a letter which I have today received from the Colombian Ambassador indicating the decision of his Government to accept the terms of the arrangement reached with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Incorporated, through conferences held under the auspices of our governmental committee. A communication in a similar sense is expected from Mr. Traphagen in the immediate future.

Permit me to express to you my best thanks for the cooperation which you so generously gave toward achieving this settlement.

Sincerely yours,

H. MORGENTHAU JR.

[Enclosure]

*The Colombian Ambassador (Turbay) to the Secretary of the  
Treasury (Morgenthau)*

WASHINGTON, February 6, 1940.

DEAR MR. SECRETARY: My Government has authorized me to accept on its behalf the proposal which you suggested at the conference held under your auspices, with Mr. Traphagen as representative of the Foreign Bondholders Protective Council, Inc., on Thursday, February 1st, and which I undertook to recommend to my Government. The terms of this proposal are the following:

(1) Every effort will be made between now and the 15th of this month to arrive at a permanent settlement of the direct dollar debt of the Republic of Colombia.

(2) If, by the 15th of February, such a permanent settlement shall not have been reached, my Government will apply \$1,750,000 for the service during the calendar year 1940, of the outstanding amount of

<sup>1</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 469-519.

\$45,000,000 of the Colombian Government dollar issues of 1927 and 1928, as follows:

To pay the 1940 coupons of the two above issues at the rate of 3% a year . . . . .	\$1,350,000
To apply to the purchase in open market for amortiza- tion of bonds of said issues . . . . .	400,000

(3) Approval by my Government of this temporary arrangement assumes approval thereof by the Foreign Bondholders Protective Council, Inc. and recommendation to the holders of the Bonds by the Council, without any reservations.

I should add that my Government's decision to accept this temporary solution is made in appreciation of the helpful mediation which you and other high officials of the Government of the United States have offered, and in the hope that by these means the permanent settlement of the debt will be brought sooner to realization.

My Government awaits the reply of the Council in order to work out the details to give effect to this temporary settlement, in case that proves to be necessary. It will be appreciated, therefore, if you can send me as soon as it is convenient, the Council's statement on its decision.

Permit me [etc.]

GABRIEL TURBAY

821.51/2442

*The Under Secretary of State (Welles) to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, February 7, 1940.

MY DEAR MR. SECRETARY: I am glad to acknowledge your letter of February 7, with which you were good enough to enclose a copy of a letter which you had received under date of February 6 from the Ambassador of Colombia.

Let me say again how pleased I am with the result obtained by the Governmental committee and how helpful I believe the conferences held in your office have in fact been. I am most indebted to you for your unflinching cooperation in this and in all other questions.

Believe me [etc.]

SUMNER WELLES

821.51/2455: Telegram

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

BOGOTÁ, February 23, 1940—10 p. m.

[Received February 24—2 a. m.]

49. When the President of the Republic<sup>2</sup> summoned me yesterday afternoon, he initiated the conversation on Colombian affairs by re-

<sup>2</sup> Eduardo Santos.

questing my assistance in connection with loans to be obtained from the Export-Import Bank. He said, while he could gain great personal and political prestige from public works, purchases of rolling stock for the railways, dredges, etc., they would not benefit the country so widely or permanently as loans looking to the general economic betterment, particularly of agriculture, including coffee, and such a reenforcement of the general economy would, in fact, result in purchases from the United States equal to if not greater than the aforementioned.

I replied I was entirely ignorant concerning what had transpired on this matter in Washington, although I had suggested to Dr. Jaramillo,<sup>3</sup> before his departure for the United States, that, for financing of the kind mentioned by the President, he explore the possibilities of loans to the Bank of the Republic, which could in turn reloan the funds in Colombia. I also indicated to the President that perhaps assistance of the kind he desires might be obtained from private banking sources upon an early settlement of the bankers group loan. Likewise gold stabilization cooperation might be considered in this connection. I added that as always I was anxious to assist the Colombian Government.

The President, in view of my unfamiliarity with the situation, requested me to discuss it with Jaramillo, who called on me today. I only repeated what I told Santos. Jaramillo promised, as soon as it is prepared, to give me full information which is to be sent the Colombian Ambassador in Washington.

Although the agricultural credit organizations in this country are, I believe, to say the least, in a weak condition, I am disposed to agree with the President's fundamental thesis but, if his suggestions are to be followed, sound methods and measures must be found.

In view of the foregoing, I would appreciate receiving any information, suggestions or instructions which the Department may care to give me for my guidance in conversations with the President and Jaramillo.

The President expressed his gratification with the accomplishment of the debt settlement and its reception generally both in the United States and here but he felt the Foreign Bondholders Protective Council had been unfair by adding to their statement approving the settlement a paragraph lamenting the non-adjustment of the guaranteed, departmental and municipal debts.

BRADEN

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<sup>3</sup> Esteban Jaramillo, Representative of Colombia on the Inter-American Financial and Economic Advisory Committee.

821.51/2455 : Telegram

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

WASHINGTON, March 5, 1940—5 p. m.

46. Your 49, February 23, 10 p. m. The Colombian Ambassador here informed us that he is awaiting the detailed information regarding specific projects essential to the proper presentation of Colombia's request for credits from the Export-Import Bank. It is believed that the various agencies here concerned with the extension of credits would prefer to have an exact idea of what Colombia desires to achieve before offering comment as to the best ways of attaining these objectives.

HULL

821.51/2466 : Telegram

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

BOGOTÁ, March 13, 1940—7 p. m.

[Received 9 : 50 p. m.]

61. Department's telegram No. 46, March 5, 5 p. m. Jaramillo today gave me copy of memorandum being sent to Colombian Embassy, Washington, which will be forwarded first air mail to the Department.

He states a \$10,000,000 long-term loan is desired from Export-Import Bank to Colombian Government which would be apportioned \$5,000,000 to Bank of the Republic, thus reenforcing reserves and easing exchange control restrictions to the benefit of American exporters both in prompt payment and increased exports to this country. A portion of this would be used under strict supervision for agriculture development; \$1,385,000 for railroad construction; \$1,715,000 railway equipment; \$1,006,000 highway construction and \$300,000 equipment therefor. Government hopes later, as outstanding indebtedness to Export-Import Bank is repaid by other countries, Colombia may obtain additional assistance.

BRADEN

821.51/2493

*Memorandum by the Ambassador in Colombia (Braden)<sup>4</sup> to the Under Secretary of State (Welles)*

[WASHINGTON,] April 19, 1940.

MR. WELLES: After considerable discussion with Mr. Warren Pierson<sup>5</sup> and Ambassador Turbay, the following plan for executing the

<sup>4</sup> Temporarily at the Department for consultation.

<sup>5</sup> President of the Export-Import Bank.

credit to Colombia in my judgment is the most desirable from both the United States and the Colombian point of view :

1) The Export-Import Bank open a line of credit in the amount of \$10,000,000 through New York banks in favor of the Banco de la República de Colombia. The Banco de la República would be enabled to draw against this credit as needed during the next few months in order to obtain funds with which to pay for imports from the United States. (Note: These imports so far as possible, and it should be possible to arrange it up to practically the full \$10,000,000, would be the heavier equipment which Colombia is now importing in addition to such American equipment as will be needed immediately in order to progress with the development program outlined below. The complete centralization of exchange operations in the Banco de la República would make this possible.)

The terms to the Banco de la República would be repayment over eight years and interest at 4%, the schedule of amortization payments being so arranged as to make total service payments in approximately equal amounts each year of the eight years. (Note: The form of this credit would thus be essentially similar to that which was extended to the Banco de la República O. del Uruguay<sup>6</sup> except that the term is eight years instead of five.)

The loan would be guaranteed by the Colombian Government.

2) At the same time, the Colombian Government and the Banco de la República would enter into an understanding with this Government and the Export-Import Bank that the entire proceeds of the loan would be destined ultimately to development projects. (Note: A portion of the total would be put directly and immediately into the purchase of American equipment needed for highway, railway and agricultural development works. In addition, the availability of the total credit to the Banco de la República would permit, indirectly at least, the liquidation of the existing exchange arrears in the amount of some \$8,000,000. The payment of such arrears would release to the Banco de la República the equivalent in pesos which would enable it to finance, through loans to the Government and to the Agricultural Bank and so forth, the local expenditures in connection with the above-mentioned developmental projects.)

3) The Colombian Ambassador has also suggested that his Government would be willing to pledge and even to submit vouchers demonstrating that over the first five years of the program it would directly purchase for development a total of at least \$10,000,000 of American heavy equipment.

The above program would appear to satisfy as far as possible the various positions. The Colombian bank would obtain the funds it requires, which the Colombians feel will restore confidence in the Colombian peso, and useful developmental works will be carried out. From the Export-Import Bank's point of view the initial use of the funds will be entirely linked to American exports, and the ultimate effect of the credit will be to enable Colombia to carry out a long

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<sup>6</sup> See pp. 1166 ff.

term developmental program, all of the funds eventually at least going into heavy equipment. From the point of view of the United States this credit will also permit the clearing up of the present exchange situation which will enable Colombia to move forward with its new exchange régime which it is hoped will avoid the accumulation of further exchange arrears.

SPRUILLE BRADEN

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821.51/2498a

*The Chief of the Division of the American Republics (Duggan) to  
Mr. John C. Traphagen of the Foreign Bondholders Protective  
Council*

WASHINGTON, May 3, 1940.

DEAR MR. TRAPHAGEN: There is enclosed herewith a copy of a memorandum entitled "Proposal for Settlement of Direct Funded Debt of Colombia." The bases suggested in the attached memorandum differ slightly from those discussed when you were here last Saturday. As I informed your Secretary over the telephone today, I would be glad to talk with you about this on the telephone at your convenience.

Sincerely yours,

[File copy not signed]

[Enclosure]

*Proposal for Settlement of Direct Funded Debt of Colombia*

The proposal relates to the approximately \$45,400,000 of outstanding direct funded debt of Colombia, it being understood that, if a settlement can be agreed to, the matter will not be made public pending an attempt to negotiate a settlement of the relatively insignificant outstanding amount of Government guaranteed Agricultural Mortgage Bank bonds.

The proposal is as follows: One-half of the 5-years' interest arrears would be funded, thus increasing the principal amount of the debt by approximately \$6,500,000. Taking into account cancellation of repatriated bonds and amortization under the temporary debt settlement, the principal amount of the debt after such funding would be about \$50,500,000. The settlement would call for 3½ percent interest, and any saving in interest as a result of amortization would be used to retire bonds, thus making a fixed annual charge of about \$1,767,500. In addition, there would be a sinking fund obligation to retire a minimum of \$600,000 face amount of bonds a year, which would require about \$200,000 a year on the basis of current market prices for the bonds.



The maturities would be appropriately extended, presumably in the neighborhood of 1970 or 1975.

Such an arrangement could be expected to retire the bonds by maturity and would not require for full service, except upon the near approach of maturity of the bonds or given an extraordinary recovery of Colombia's international credit standing, much in excess of \$2,000,000 a year unless the bonds should increase in price over current levels to an extent which is not to be anticipated.

In the event that a settlement along the above lines should appear practicable, the possibility of some modification in the sinking fund requirement, in the nature of an ultimate concession by the bondholders to bring about agreement, should be considered as open for future consideration. For instance, a waiver or reduction during the first few years of the settlement to guarantee that the total annual cost to the Colombian Government during these years would not be in excess of \$2,000,000, or, a flat reduction operative throughout the life of the settlement, in the sinking fund requirement that \$600,000 face amount of bonds be redeemed annually, might be possible without destroying the substance of the settlement. As a condition of any such ultimate concession in connection with the sinking fund, however, Colombia would guarantee minimum service in dollars of \$2,000,000 a year during the period in which the concession was operative.

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821.51/2509

*Memorandum of Conversation, by Mr. Livingston L. Satterthwaite  
of the Division of the American Republics*

[WASHINGTON,] May 8, 1940.

Mr. Cotton<sup>7</sup> called to say that Mr. Traphagen had informed him that he had been trying to get in touch with Mr. Duggan for the last two or three days, but had been unsuccessful. Traphagen said that he had put the plan for the debt settlement up to the Executive Council and that they had authorized him to go ahead on that basis. Traphagen then telephoned to Turbay and asked him whether he could go to New York to discuss the debt settlement. Turbay told Traphagen that he could not do so this week but probably would be able to in the near future. Traphagen felt that Turbay was not quite as enthusiastic as he had been formerly. Traphagen said he was leaving May 29 for two weeks and in view of the time urgency wanted the Department to find out from Turbay what his intentions are with regard to the debt settlement. Traphagen said that he could come to Washington this

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<sup>7</sup> Joseph P. Cotton, Jr., Special Assistant to the Secretary of the Treasury.

weekend but would prefer not to unless some useful purpose would be served, as he was very busy.

I told Mr. Cotton, and he agreed, that it might be a mistake for a representative of this Government to enter the negotiations between Traphagen and Turbay at this stage and that an approach to Turbay, unless handled in a very casual manner, would constitute our premature entry into the negotiations. I told Mr. Cotton that I would inform Mr. Duggan of this conversation and would let him know whether it was decided to speak to Turbay about the debt settlement.

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[On May 10, 1940, the Export-Import Bank announced that a credit in the sum of \$10,000,000 had been granted to the Government of Colombia.]

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821.51/2512

*Memorandum by Mr. Ellis O. Briggs of the Division of the American Republics*

[WASHINGTON,] May 29, 1940.

Mr. Cotton gave me the following information concerning Mr. Traphagen's meeting with Ambassador Turbay on May 28:

The Ambassador indicated that notwithstanding the unsatisfactory Colombian economic situation, he personally favored a permanent settlement at this time of the Federal debt. He offered 3% service and funding of 50% of the arrears.

Mr. Traphagen asked if the Ambassador would consider 3% and funding of all of the arrears.

Ambassador Turbay took this under advisement and it was left that he would get in touch with Mr. Traphagen shortly. Mr. Traphagen is reportedly "hopeful."

Mr. Joe Cotton said he expected to see Mr. Laylin<sup>8</sup> on May 31.

ELLIS O. BRIGGS

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821.51/2517 : Telegram

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

BOGOTÁ, June 18, 1940—9 p. m.

[Received 11:47 p. m.]

163. As the Minister of Finance<sup>8a</sup> advised me on June 14 the Council of Ministers in extraordinary session today approved measures

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<sup>8</sup> John Laylin, of Covington, Burling, Rublee, Acheson & Shorb, counsel for the Colombian Ambassador.

<sup>8a</sup> Carlos Lleras Restrepo.

proposed by the Ministry of Finance for reorganizing the national economy and decrees promulgated under authority of extraordinary powers act will be issued and effective as of tomorrow.

The measures involve modifications in existent banking legislation and comprehend the following subjects:

Refunding and consolidation of internal public debt which will be serviced by contract with the Bank of the Republic at reduced interest rates of 4 and 6%. The Bank of the Republic will make a loan to the nation of 20,000,000 pesos largely from proceeds derived from Export and Import Bank loan.

A new section will be created in the Agricultural Credit Bank with a capital of 5,000,000 pesos derived from the above funds for the purpose of making short and long term loans to agriculturalists and livestockmen. The nation will subscribe 2,000,000 additional capital to other sections of the Agricultural Bank and this bank will be able to make 20-year mortgage loans and 6-year agricultural or industrial security loans. It can accept as security for agricultural loans future crops from permanent plantations. Commercial banks will be permitted to buy unlimited amounts of the Agricultural Bank's bonds maturing in less than 18 months and permitted to buy amounts of the longer term bonds up to 40% of their capital and reserve the bonds to be rediscountable.

BRADEN

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821.51/2519 : Telegram

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

Bogotá, June 26, 1940—2 p. m.

[Received 3:03 p. m.]

172. Minister of Finance advises me he has instructed Colombian Ambassador at Washington to make counter-offer to Traphagen on sliding scale with customs revenues as measuring stick. Traphagen should be made to understand this proposal merits careful consideration and a summary rejection may prove disastrous.

I agree with Minister it is imperative to conclude a permanent settlement before President's special powers expire July 20. Details forwarded today direct air mail my despatch No. 834.<sup>9</sup>

BRADEN

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821.51/2533

*The Colombian Embassy to the Department of State*

[Memorandum—Translation]

The Government is facing very serious difficulties at this time with regard to a permanent settlement of its foreign debt. Aside from the

<sup>9</sup> Not printed.

fall in the price of coffee, which has reduced the value of its exports by 40 per cent, the decrease in public revenue, and particularly the customs revenue, has created a fiscal crisis which is causing the Government and public opinion deep anxiety. In recent months the curve of revenues has dropped startlingly and the Government has found itself obliged to restrict public expenditures even in essential sectors of the Administration. In these circumstances, the time may come when public opinion would consider the service of the debt to be an insupportable charge, because that service might coincide with new retrenchments in other sectors of the public services which neither the citizens nor the Government will be easily resigned to sacrificing.

Notwithstanding these difficulties, the Government is prepared to effect a definitive settlement of the debt, provided that it is possible to leave a door open to allow a temporary suspension of the service if economic and fiscal conditions should make it impossible to carry out such settlement. That suspension is not to mean a return, purely and simply, to a unilaterally decreed moratorium, but a respite which would follow from the very terms of the agreement concluded. In other words, the temporary suspension would be the result of the contractual provisions, accepted in advance by the bondholders. It would not be difficult to find a formula which would leave the conversion definitively realized, which would in the future permit a temporary suspension of the payment of one or more coupons when economic and fiscal conditions should make such payment impossible. This would have the advantage that, with conversion definitively effected and the problem accordingly settled, it nevertheless imposes conditions on the service of a new bond for the future. The development of world affairs shows us how the economic and fiscal panorama can change in a moment, and how it is but elementary prudence to leave the door open in order that the country's obligations may at any time be accommodated to sharp variations in its economy.

This is a relatively new criterion in the field of public credit, but it is beginning to be well understood in universal financial circles in a world as convulsed as that in which it has fallen to us to live. It is not possible to continue to be attached to ancient formulas or exposed to an indefinite suspension of contracts, when circumstances over which we have no control may make a temporary suspension necessary. In order to avoid it, procedures may be found which are adapted with greater facility than those hitherto followed to the periodic or occasional alterations in world economy or in the economics of each nation.

If the Protective Council should decide to accept these views, which are put into effect in the formula set forth below, it would have taken a most important step. The formula which, in the Government's

opinion, might be accepted in the present circumstances should fill the following conditions:

(1) Bonds now in circulation should be changed for new bonds at a fixed interest of 3 per cent.

(2) Coupons in arrears could be changed for long-term script, bearing no interest, amortization through purchases in the open market, the coupons being capitalized for this purpose at an equitable rate.

(3) Annual service should not exceed the amount of \$1,800,000, U. S. currency.

(4) It should only exceed this figure, without going beyond that of \$2,000,000, U. S. currency, in those years when the economic and fiscal situation improves. That degree of improvement could be indicated by the time when customs revenue amounts to \$40,000,000, Colombian currency.

(5) The Government should be given the power to suspend temporarily payment of any interest coupon and the amortization service, when economic and fiscal conditions descend to a specified level. It is suggested that such level might likewise be indicated by the customs revenue. It would be considered to have fallen below the limit of the country's capacities of payment when the customs revenue should not have produced, in the six months preceding the date of maturity of the coupon, the average of the proceeds of the present year of 1940. Such average can be estimated today at 32,000,000, as against \$40,000,000, the actual proceeds of the preceding year.

In these circumstances the Government would be prepared, notwithstanding the gravity of present conditions, immediately to issue an extraordinary decree to adjust the service of the American external debt and to have the problems settled for future years.

WASHINGTON, July 1, 1940.

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821.51/2525

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

No. 843

ΒΟΓΟΤΑ, July 5, 1940.

[Received July 12.]

SIR: I have the honor to inform the Department that by Decree 1036 of May 30, 1940, the Government of Colombia guarantees such obligations as the Bank of the Republic may contract from the Export-Import Bank under the maximum \$10,000,000 line of credit extended to that organization. The Ministry of Finance and Public Credit is authorized to sign on behalf of the Nation so as to make this guarantee of record. Copy of the original text, together with translation, of the aforementioned decree are enclosed herewith.<sup>10</sup>

Respectfully yours,

SPRUILLE BRADEN

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<sup>10</sup> Not printed.

821.51/2528½

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

[WASHINGTON,] July 6, 1940.

At a meeting in my office this morning attended by the Colombian Ambassador, Mr. Jesse Jones <sup>11</sup> and the Under Secretary of the Treasury, <sup>12</sup> together with Mr. Traphagen representing the Foreign Bondholders Protective Council, an effort was made by Mr. Jones, Mr. Bell and myself, acting as friendly intermediaries, to find a basis of agreement between the Ambassador and Mr. Traphagen for a permanent settlement of the Colombian foreign debt situation.

After very considerable discussion Mr. Jones finally submitted to both parties with the approval of Mr. Bell and myself the following plan for a permanent settlement.

1. New debt to consist of the existing principal, estimated at \$44,000,000, plus 50% of interest arrears estimated at \$12,200,000, or \$6,100,000, making a total of \$50,100,000.

2. Interest on the new debt to be fixed at 3%.

3. During the first five years from the signing of the proposed agreement, the Colombian Government would agree to a total service on the debt of \$1,800,000 each year, and upon the expiration of this five-year period the Colombian Government to service the debt in an amount of \$2,000,000.

4. The arrangement would specifically provide that in the amount yearly set aside for debt service the amount between the total interest charges at 3% and the total devoted to debt service would be utilized for amortization.

The Colombian Ambassador insisted for some time upon the sliding scale which his Government had proposed. Mr. Traphagen was equally vehement in opposing any sliding scale proposal and as vigorous in objecting to the suggestions formulated by Mr. Jones.

At the end of the meeting the Ambassador stated that he would at once communicate the proposal made to his Government and would strongly urge its immediate acceptance without modification. Mr. Traphagen said he would convoke the members of the Executive Committee of the Council tomorrow, Sunday, July 7, and request them either to accept the proposal or to reject it.

It was further understood that if an agreement was to be reached for a permanent settlement on the terms suggested, the agreement must be concluded before July 13 in order to give the Colombian Government sufficient time to issue the necessary decrees before the expiration of the President's special powers on July 20.

S[UMNER] W[ELLES]

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<sup>11</sup> Secretary of Commerce and Federal Loan Administrator.

<sup>12</sup> Daniel W. Bell.

821.51/2522½

*The Colombian Embassy to the Department of State*

[Translation]

In the decree in which the Government is to order the conversion of the debt and is to fix the conditions of the new bonds there will be included a provision by virtue of which the Government will be authorized to suspend and renew temporarily the service of the debt, in the event that it becomes absolutely necessary. It is understood that this provision is only a power conferred on the Government and one which does not impart a conditional character to the agreement with the Council.

WASHINGTON, July 10, 1940.

821.51/2528¾

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

[WASHINGTON,] July 12, 1940.

Mr. WELLES: I called Francis White<sup>13</sup> and informed him that I had been instructed to request the Council to be kind enough to advise the Department of its attitude with regard to the formula for settling the Colombian debt discussed in your office on Saturday, July 6th. I urged Mr. White to get in touch with the members of his Executive Committee as rapidly as possible, in view of the fact that the powers of the President of Colombia to settle the debt expire on July 20.

Mr. White stated that the matter was so important that he would require for presentation a written letter of what the offer comprised. Although I indicated that Mr. Traphagen knew as well as we did what the agreement arrived at was, I would see that he had a letter in his hands tomorrow morning.

I asked Mr. White how soon he felt that he would be able to convene his Committee. At first he said Tuesday, but later said he would endeavor to convene it on Monday,<sup>14</sup> if he could.

I am having a letter prepared for your signature.<sup>15</sup>

LAURENCE DUGGAN

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<sup>13</sup> President, Foreign Bondholders Protective Council.

<sup>14</sup> July 16.

<sup>15</sup> Not found in Department files.

821.51/2534

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

[WASHINGTON,] July 15, 1940.

Mr. White telephoned to report the action of the Executive Committee of the Council on the suggested terms of the Colombian permanent debt settlement evolved at the July 6 meeting of Dr. Turbay and Mr. Traphagen in the Under Secretary's office.

The views of the Council, Mr. White stated, on the terms of a permanent settlement of the Colombian debt are already known (3½%, et cetera). A modification is now suggested. The situation is complicated by Colombia's request for a scaled reduction plus Colombia's intention to insert a "reservation" clause. (The reference is to the point brought to the Department's attention by Ambassador Turbay that the debt decree would include a proviso authorizing the President, if circumstances required, temporarily to suspend foreign debt service.) It is the Executive Committee's view that this "reservation" would in effect be making the settlement a permanent one for the bondholders and a temporary one for the Colombian Government. The Council therefore would have to insist on abandonment of the "reservation" in any settlement.

In order to be as helpful as possible Mr. White stated that the Executive Committee, cognizant of the economic difficulties through which Colombia is passing, would prefer, if not welcome, continuation of the present temporary arrangement by which neither side would have to surrender anything permanently, such a temporary arrangement to provide interest payment at the rate of 3% on the \$44,000,000 principal and no amortization. He offered the suggestion that whereas the Department and the Colombians felt that time was of the essence in view of the expiration on July 20, 1940 of the extraordinary powers delegated to the President by Congress in Law No. 54 of December 15, 1939, he believed the President's powers could be extended just as well as the temporary suspension privilege clause could be included in the proposed decree.

Mr. Duggan asked Mr. White what the attitude of the Executive Committee would be if the Colombian Government made the offer. The Executive Committee, Mr. White said, could not entertain feelers or tentative offers, but would insist that the Colombian Government make first a definite offer, abandoning, of course, any "reservation" clause. Mr. White also asserted that the Committee would have to insist upon complete disclosure in case the Colombian Government went ahead on a unilateral basis.



Essentially the action of the Executive Committee was (1) to reject the suggested terms as a basis for a settlement, (2) to state that only a definite offer could be entertained, and (3) to express a preference for continuation of the present temporary arrangement or a modified version thereof.

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821.51/2526 : Telegram

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

Bogotá, July 15, 1940—7 p. m.

[Received 10:14 p. m.]

192. My telegram No. 172, June 26, 2 p. m. Interpretation now is special powers expire midnight July 19.

BRADEN

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821.51/2528%

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

[WASHINGTON,] July 17, 1940.

Mr. Laylin called Mr. Duggan to state that despite the attitude of the Foreign Bondholders Protective Council on the terms for the Colombian permanent debt settlement evolved at the July 6 meeting, the Colombian Government in the knowledge of this Government's opinion in the premises had decided to go ahead with an offer to be made direct to the bondholders. The executive branch of the Colombian Government was to meet at once with the special junta, whose approval is necessary before a decree providing for a new loan contract can be issued. Ambassador Turbay was reported to be awaiting a telephone call from Bogotá on this subject at any moment. It is understood to be the Ambassador's plan when he hears from Bogotá that the junta has approved the issue of the decree in question to write the Department informing it of the offer and to work out a public statement covering the offer.

In reply to Mr. Duggan's query regarding the retention in the hands of the President of the authority to suspend service temporarily, etc., Mr. Laylin stated that the initial "authorization" decree which will be issued will contain the "reservation". Later, however, an enabling decree containing the precise terms of the new loan contract will be issued without any reference to the "reservation".

The conversation terminated with a brief reference to the failure of the Executive Committee of the Foreign Bondholders Protective Council to consider specifically the formula reached at the meeting in

the Under Secretary's office, that is, to accept or reject it; and to the attitude toward the formula which Mr. Traphagen had taken at that meeting, including his agreement to convoke the Executive Committee for the following day to act on the formula.

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821.51/2528§

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

WASHINGTON, July 18, 1940.

DEAR MR. WELLES: Over a year ago, my Government directed its Ambassador at Washington to renew the offer presented in Bogotá in 1937 to Mr. Munro of the Foreign Bondholders Protective Council, Inc. for the settlement of the dollar debt of the Republic represented by its External Sinking Fund Gold Bonds of 1927 and 1928.<sup>16</sup> To this end the Minister of Finance prepared a detailed study of Colombia's financial condition which the Ambassador submitted to the Council.

In the Fall of 1939, on behalf of my Government I took up the negotiations with Mr. Traphagen, representative of the Council. Unfortunately, notwithstanding the cordiality of our meetings and the sympathetic understanding which Mr. Traphagen showed of the increasing difficulties which the war had introduced, we were unable to find common ground on which to reach an accord.

In the early part of 1940, you and Messrs. Morgenthau and Jones most helpfully mediated and proposed a temporary settlement which Mr. Traphagen and I agreed to recommend to our principals. My Government accepted this without reserve but on the understanding, which was confirmed to it, that the Council would recommend to the bondholders acceptance of the proposed temporary settlement. The settlement was announced to the bondholders and has been carried out by my Government. The Council's announcement confined itself to the comment that the settlement "is a step in the right direction and the bondholders may consider it to their interest to take the amount offered for this year." The Council refused to say even indirectly that it recommended acceptance of the settlement.

In spite of this disappointing experience, I reopened negotiations with the Council looking to a permanent settlement. Again, Mr. Traphagen proved to be a most helpful and sympathetic negotiator but again the Council failed, in my opinion, to understand the effort and sacrifice which the settlement under consideration represented

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<sup>16</sup> See Foreign Bondholders Protective Council, Inc., *Annual Report, 1937* (New York, 1938), pp. 228-230.

for my country. When on July 6 you and Messrs. Jones and Bell offered your good offices as mediators, Mr. Traphagen and I agreed with you and with each other to recommend to our principals the proposal which you suggested. This was on the following terms:

Current interest at 3% on new bonds to be issued in exchange for an equal principal amount of old 6% bonds;

Exchange of new 3% bonds of a principal amount equal to one-half of the face amount of the coupons in arrears; and

Total annual service fund for interest and amortization of the new bonds of \$1,800,000, to be increased to \$2,000,000 beginning with the sixth year.

It was understood, in view of the expiration on July 20 of this year of the authority delegated by the Congress of my country to agree to a settlement, that we should seek to secure acceptance of the proposal without delay. Not until July 15 did the Council reach its decision and this, as I am informed, was in no sense responsive to your proposal.

I am happy to confirm that my Government has authorized me to state, on the other hand, that it accepts the proposal and is prepared to offer to the bondholders a permanent settlement on the terms suggested by you, Mr. Jones and Mr. Bell. My Government has reached this decision, in spite of the continued unfavorable financial conditions, encouraged by the constructive spirit and understanding shown by you and Messrs. Jones and Bell, impelled by a desire to demonstrate its appreciation of this attitude, and convinced that the bondholders themselves will understand the difficulties we have had to surmount and will appreciate that the settlement is for them equitable and just.

The failure of the Council to respond to the proposal made by you and Messrs. Jones and Bell and the limits of time, have made it impossible to complete the agreement before July 20 as we all had hoped. Notwithstanding this, the Government, [having] decided to carry out its desire to put on a permanent basis the service of the dollar loans of 1927 and 1928 resumed with the temporary settlement of February of this year, has issued a decree authorizing the proper officers to offer to the bondholders a permanent settlement on terms not to exceed those accepted by the Colombian Government. The decree calls for approval of this offer by the Colombian Loan Commission and this will be submitted for such approval as soon as the necessary formal arrangements can be made.

Permit me, my dear Mr. Welles, to add to the expressions made on behalf of my Government my personal appreciation of the friendly attitude which you and Mr. Jones and Mr. Bell have shown.

Very sincerely yours,

GABRIEL TURBAY

821.51/2527

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

No. 877

BOGOTÁ, July 26, 1940.

[Received July 30.]

SIR: I have the honor to transmit herewith the original Spanish text and English translation, prepared by the Commercial Attaché to this Embassy of Decree No. 1388 of 1940 authorizing the settlement of the Colombian Government's dollar bonded indebtedness.<sup>17</sup>

It will be noted that the decree contemplates the issuance of new bonds for the present ones which were issued under the loans of 1927 and 1928. The new bonds may not carry a rate of interest in excess of three percent per annum. Back interest will be paid in new bonds only up to the extent of fifty percent of the outstanding due but unpaid coupons, based on normal value. During the first five years, counting from 1941, an amount not greater than \$1,800,000 may be allocated for interest and amortization of the new bonds. Beginning with the sixth year this amount may be increased but may not exceed \$2,000,000. Any action under this authorization requires the prior favorable concept of the National Loan Committee.

Article 2 of the decree carries a saving clause which enables the government to postpone payments on interest coupons or to suspend temporarily amortization of the issue, if at any time after the conversion of the old bonds into new ones, economic or fiscal conditions prevent the government from promptly and completely servicing the new issue, but this action shall be limited solely to such time as such possibilities might exist. The prior authorization of the National Loan Committee is likewise a requisite to the utilization of this last mentioned authorization.

Inasmuch as the special powers conferred upon President Santos by Law 54 of 1939 expired at midnight July 19, 1940, and the present decree was dated July 17, 1940, its issuance was doubtlessly prompted by a desire to keep the special powers open insofar as the Foreign Debt was concerned, within the limitations established by the decree.

Respectfully yours,

SPRUILLE BRADEN

821.51/2537

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

No. 939

BOGOTÁ, August 20, 1940.

[Received August 30.]

SIR: I have the honor to refer to my despatch No. 877 of July 26, 1940, transmitting the original Spanish text and English translation

<sup>17</sup> Translation not printed. For Spanish text, see Colombia, *Diario Oficial*, July 23, 1940, p. 262.

of Decree 1388 of 1940 authorizing the settlement of the Colombian Government's dollar bonded indebtedness.

On July 18, 1940, there was issued under the President's special powers as conferred by Law 54 of 1939, a supplementary decree, No. 1433 of 1940,<sup>18</sup> which provided that the former Decree 1388 did not necessarily contemplate the physical exchange of previously issued bonds for new ones, and that any settlement which might be made under either decree required the previous favorable concept of the national loan committee for its validity.

Respectfully yours,

SPRUILLE BRADEN

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821.51/2554%

*Memorandum by the Acting Chief of the Division of the American Republics (Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] November 28, 1940.

Mr. WELLES: Last Saturday the Colombian Ambassador called upon Mr. Duggan and informed him that the Colombian Government is now ready to go ahead with the foreign debt settlement along the lines agreed to last July.

It is Mr. Duggan's suggestion that you may wish to get in touch with Mr. Jesse Jones and with Secretary Morgenthau and arrange a meeting with Mr. Traphagen in order to secure a favorable, or at least a passive, attitude on the part of the Foreign Bondholders Protective Council.

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821.51/2554%

*Memorandum by the Adviser on Political Relations (Duggan) to the Under Secretary of State (Welles)*

[WASHINGTON,] December 13, 1940.

Mr. WELLES: Mr. Francis White told me yesterday that he thought there was adequate reason for the Department's not supporting the Colombian Government in presenting to the bondholders the terms of settlement embodied in Decree No. 1388 of July 17, 1940<sup>19</sup> because those terms departed from the arrangement presented to Mr. Traphagen and the Colombian Ambassador in the conference that took place in your office with Mr. Jesse Jones and Mr. Bell on July 6. When asked to be more specific, he stated that the inclusion in the Decree of a provision authorizing the Government to postpone interest or amortization payments if "economic or fiscal conditions prevent the country from promptly and completely servicing the new issue, strictly for

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<sup>18</sup> For text, see Colombia, *Diario Oficial*, July 25, 1940, p. 289.

<sup>19</sup> See despatch No. 877, July 26, from the Ambassador in Colombia, p. 712.

the time such an impossibility might exist" was a departure from the arrangement proposed, since it permitted the Government the advantage of suspending debt payments but gave the bondholders no corresponding advantage of increased debt payments in case Colombia's financial position improved.

I have studied all of the documents in this matter. The terms of the settlement embodied in Decree No. 1388 correspond exactly with the terms that were finally evolved in the conference of July 6 in your office. In addition, the Colombian Government in Decree No. 1388 included the article referred to by Mr. White. It is my considered view that this provision in no way makes less advantageous from the standpoint of the bondholders the other provisions of the Decree. It is simply a statement in writing of what is the sovereign prerogative of every government, namely, to preserve and maintain the essential functions of government even though that may require the suspension of debt service. This is a thoroughly accepted principle. It was on this principle that all governments acted in suspending debt payments during the world depression. The Colombian Government has merely gone a step further and perhaps has been a little more honest in giving notice that if its economic position will not permit it proposes as long as those conditions exist to suspend interest or amortization payments.

I think it is urgent that action be taken to clarify the Colombian debt situation. A coupon is due on January 1 for which no provision has been made. The Colombian Government is prepared to go ahead with the permanent settlement as discussed in your office on July 6 and as embodied in Decree No. 1388, with the addition mentioned above. The Government would naturally like to have this offer recommended by the Council but it is not prepared to enter into negotiations with the Council, taking the view that there is nothing further to negotiate. If the Council will not recommend the debt proposal, then the Government would like this Government to issue the supporting statement which, you will recall, it was indicated this Government would do in the event that the Council would not support the settlement.

Despite Francis White's decided opposition, I still think that it would be worth-while for yourself, Mr. Morgenthau, and Mr. Jones to spend an hour with Mr. Traphagen in an endeavor to secure his support of the formula.

I shall be glad to do whatever I can to be helpful, such as to prepare a memorandum on the situation for the use of Mr. Morgenthau and Mr. Jones, to go over the situation orally with them, and to set up a

meeting with Mr. Traphagen, presumably in Mr. Morgenthau's office.

I attach a copy of the letter of the Colombian Ambassador to you, dated July 18,<sup>20</sup> informing you of the acceptance by his Government of the terms proposed in the conference on July 6; also, a copy of Decree No. 1388.

LAURENCE DUGGAN

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821.51/2574

*Memorandum by the Adviser on Political Relations (Duggan) to the Under Secretary of State (Welles)*

[WASHINGTON,] December 17, 1940.

MR. WELLES: Mr. Traphagen will be unable to come to Washington tomorrow on the Colombian debt matter. He has scheduled two meetings for which persons are coming from out of town. The first really convenient day for him would be Saturday of this week. I have, therefore, notified Mr. Jones that the proposed meeting for tomorrow is off.

Mr. Traphagen gave no indication that he could be persuaded to use his influence with the Executive Committee of the Council to support the Colombian debt settlement as embodied in the Colombian decree. He not only showed some feeling that at the meeting in your office on July 6 the interest rate had been dropped to 3 percent from 3½ percent, which the Department had previously indicated it thought fair, but he also remonstrated that the settlement would not be worth much if it contained the clause providing for suspension in case of financial stringency. If the Colombian Government now thought such a clause necessary he then favored a temporary settlement.

Mr. Traphagen said that if it were urgent that a meeting be held, he would suggest that Mr. White attend in his stead. He, Mr. Traphagen, was not anxious again to become involved in the Colombian debt settlement and Mr. White, with whom he had recently discussed the matter, could present his views.

It was left that I would call Mr. Traphagen back if it was desired that he come to Washington later this week.

Mr. Traphagen's attitude was disappointing from the standpoint of holding out hope that he might serve as a vehicle to persuade the rest of the Executive Committee of the desirability of the Colombian settlement. I very much doubt whether a conference with him would be of any use.

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<sup>20</sup> *Ante*, p. 710.

With regard to Mr. Traphagen's suggestion of a further temporary settlement, the Colombian Ambassador maintains, and there would seem to be support for his contention, that the Government is no longer empowered to enter into a temporary settlement.

May I have your further instructions?

LAURENCE DUGGAN

821.51/2554a

*The Under Secretary of State (Welles) to the President of the Foreign Bondholders Protective Council (White)*

WASHINGTON, December 20, 1940.

MY DEAR MR. WHITE: During our conversation on December 12, 1940, I recall that you stated that the Foreign Bondholders Protective Council favored some sort of a temporary arrangement regarding the Colombian national debt and that you mentioned your belief that the Colombian Government under existing powers was authorized to make a further temporary settlement.

The Department has been informed by the Colombian Government through Ambassador Turbay that the Colombian decree of July 17, 1940 which is the controlling legislation, provides the basis for a permanent settlement only and does not empower the Colombian Government to make a further temporary settlement. You no doubt in your conversations with Ambassador Turbay have been similarly informed that the Colombian Government is no longer empowered to negotiate a temporary settlement.

The Department sees no reason to question the legal position of the Colombian Government under the aforementioned decree.

It is my thought in passing along this comment to you that it might influence favorably the attitude of the Council with regard to a settlement containing the terms set forth in the Decree of July 17, 1940.

Sincerely yours,

SUMNER WELLES

821.51/2564

*Memorandum of Conversation, by the Acting Chief of the Division of the American Republics (Bonsal)*

[WASHINGTON,] December 20, 1940.

I told Señor Vargas Nariño,<sup>21</sup> who called on me in substitution for Ambassador Turbay, who is indisposed, that the Department is continuing its discussion with the Foreign Bondholders Council regarding the Colombian offer of a permanent settlement. I stated that, although

<sup>21</sup> First Secretary of the Colombian Embassy.



we realized the time factor involved (the first coupon not covered by the current temporary settlement falls due on January 1, 1941), we thought it advisable to make every effort to secure either the approval or at least the neutrality of the Council in regard to the settlement. I said that the Ambassador would be advised immediately we had reached the decision that no further modification of the Council's attitude could be looked for.

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821.51/2577

*Memorandum by the Acting Chief of the Division of the American Republics (Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] December 22, 1940.

MR. WELLES: I telephoned Francis White last night regarding the Colombian situation. He had received a letter to the effect that the Colombian Government insists that a further temporary settlement is legally impossible. The letter also stated that the Department saw no reason to question this position.

I also told Mr. White that the Colombian Ambassador has been authorized by President Santos to send a letter to the Department stating that the clause in the decree of last July relative to the suspension of debt service in case of a decrease in revenues is not to be construed as a contractual condition to the disadvantage of the bondholders. In other words, a suspension of service would be a breach of contract.

Mr. White will be in Washington Monday morning to discuss this question with the Department. I said that I would endeavor to arrange for him to see you and would appreciate your informing me when you could do so. It would, of course, be highly undesirable for the Council to issue a statement opposing the permanent settlement now offered by the Colombian Government and in general approved by the Department.

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821.51/2579

*Memorandum by the Acting Chief of the Division of the American Republics (Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] December 27, 1940.

MR. WELLES: I had a lengthy telephone conversation last night with Mr. Francis White. I read Mr. White the attached draft of a letter<sup>22</sup> which the Colombian Ambassador is willing to send to the Department. I regret that Mr. White's attitude remains completely

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<sup>22</sup> Not found in Department files.

unsympathetic to the settlement. His point of view may be summarized as follows:

(1) He insists that the Department promise to support the Council in obtaining an interest rate of at least  $3\frac{1}{2}$  per cent; he referred to a letter dated May 3, 1940 from Mr. Duggan to this effect.

(2) Mr. White believes that the present permanent settlement should carry with it a provision to the effect that, in the event of a default, the holders of the bonds would be entitled to the rights provided in the original contracts (this was discussed with Mr. Laylin prior to my conversation with Mr. White. Mr. Laylin did not feel that any favorable action could be obtained at this time from the Colombian Government).

(3) Mr. White feels strongly that the bonds under the permanent settlement should bear a statement to the effect that in the event that other creditors of the Colombian Government receive better treatment than the American holders should then be given the same treatment. He referred particularly to the British bondholders (as far as I am concerned this is a new complication; I will discuss it with Mr. Laylin).

(4) Mr. White insists that the new bond contract should specify, as did the original contract, that bonds purchased for cancellation under the plan should be purchased exclusively through the Fiscal Agent. (I understand that the Colombian Government desires to handle some of these purchases through other agencies than the Fiscal Agent in the interest of saving fees; this can be discussed further with Mr. Laylin).

(5) Mr. White remains highly dubious about what he calls the "escape clause" in the decree of last July. He did not think that the statement in the draft letter referred to above was "adequate". In my opinion, his attitude on this point is stubbornly unrealistic.

(6) Finally, Mr. White states that the Council has before it no detailed offer on which it could base a statement. He says that when such an offer is received, it will be passed on to the bondholders, together with any comment which the Department makes, and with the Council's own views. He would like a copy of the draft letter which Ambassador Turbay is willing to send the Department; I perceive no objection.

#### RECOMMENDATION

In view of the fact that some announcement should be made prior to January 1 and of the further fact that Mr. White has brought up a number of points with regard to which we may wish to have further discussions with Mr. Laylin or with the Colombian Ambassador, my recommendation as to procedure is as follows:

(a) The Colombian Embassy should issue a brief statement to the effect that the Colombian Government is about to make a permanent offer of settlement to the bondholders along the general lines prescribed in the second paragraph of the attached draft letter. The statement would say that the detailed offer will be made known just as soon as the final details regarding certain technical points are cleared up. This will serve to assure the bondholders that they will continue

to receive the same treatment as under the temporary settlement, plus the 3 per cent interest on 50 per cent of the bank coupons.

(b) The Department will at the same time issue a statement to the effect that it has been gratified to learn of the intention of the Colombian [Government] to make a permanent settlement and that, under all the prevailing economic and other conditions, the Department believes that the offer represents a reasonable settlement in the light of all the circumstances and should receive most careful consideration from the bondholders and from organizations purporting to represent them.

In this way, I think that we can get the settlement off to a favorable start, avoid at this time any public discussion of the more or less technical detailed points raised by Mr. White, as well as provide time for further discussion with the Colombians of some of the points and possibly favorable action on their part in regard to them.

PHILIP W. BONSAI

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821.51/2587a : Telegram

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

WASHINGTON, December 30, 1940—8 p. m.

262. The Colombian Embassy and the Department are issuing press statements today for Tuesday morning release regarding the permanent debt offer to the holders of the Colombian national dollar bonds. The Council is withholding comment at the moment, but may subsequently criticize the offer although the Department hopes that this may still be avoided.

Please furnish the Foreign Office with a copy of the Department's press release, the text of which follows:

"The Government of the Republic of Colombia, after maintaining full debt service on its Six Per Cent Bonds, \$25,000,000 of which were issued through the usual private financial channels in 1927, and \$35,000,000 in 1928, finally in 1933 was forced to suspend payments. However, before suspending payments approximately \$3,800,000 of the first issue and \$5,000,000 of the second issue had been paid, reducing the amount of bonds then outstanding from \$60,000,000 to approximately \$51,200,000. In 1933 the Colombian Government made an additional payment in Non-Interest-Bearing Deferred Interest Certificates of \$1,799,534.00 which were redeemed at maturity in 1937, and in 1934 a further payment in 12-year Four Per Cent Funding Certificates of \$3,743,145.00 which it has regularly serviced.

Since that time the Colombian Government has carried on prolonged negotiations with representatives of the bondholders, in an effort to reach an agreement as to payment and an interest rate that the Colombian Government felt it would be able to meet. No permanent agreement has yet been reached.

About a year ago the Department of State, with the cooperation of the Treasury Department and the Federal Loan Administrator, act-

ing merely as friendly intermediaries, began meeting with representatives of the Colombian Government and the Foreign Bondholders Protective Council, Inc. of New York in the hope of finding some common ground of adjustment that would be acceptable to both parties.

Some progress was made and in the expectation of reaching a permanent agreement during 1940 the Colombian Government this year has paid 3 percent on both issues, amounting to approximately \$1,350,000, and has expended approximately \$400,000 in the purchase and retirement of bonds. These bonds and approximately \$6,000,000 face value of bonds theretofore purchased by the Colombian Government have been canceled so that the total outstanding amount at the present time on both issues is about \$44,000,000 with accrued interest at 6 percent of \$12,200,000.

The Colombian Government now offers to refund the principal of \$44,000,000 and accumulated interest at 3 percent amounting to \$6,100,000, a total of about \$50,100,000, with new Three Per Cent Bonds of a maturity of 25 to 30 years, the exact date to be indicated in the formal detailed offer to be issued shortly. To service the new bonds it offers to make available \$1,800,000 per year for 5 years and \$2,000,000 per year thereafter. The amounts not required for interest at 3 percent per annum are to be devoted entirely to the purchase in the market and cancelation of the new bonds.

While the Government of the United States has no direct interest in the matter, the Department of State, the Treasury Department and the Federal Loan Administrator have acted as friendly intermediaries to assist the parties in reaching an agreement, and they are of the opinion that in view of conditions that have prevailed since 1932, the offer of the Colombian Government constitutes a fair effort on its part to adjust its obligations. They recognize, of course, that the bondholders must make their own decision.<sup>57</sup>

HULL

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821.51/2567

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

No. 2325

WASHINGTON, December 30, 1940.

DEAR MR. WELLES: On July 18 of this year I had the honor to confirm on behalf of my Government a proposal for the permanent settlement of the External Sinking Fund Gold Bonds of 1927 and 1928 of the Republic of Colombia, discussed at a meeting which I had with you, the Under Secretary of the Treasury, Mr. Daniel W. Bell, and Mr. Jesse H. Jones, now Secretary of Commerce.

This proposal called for the issuance of new bonds or the stamping to accomplish the same purpose of certificates on the present bonds. The new principal would amount to the face value of the present bonds, estimated at about \$44,000,000, plus 50 percent of the face value of the outstanding interest coupons in arrears, a total of slightly over \$50,000,000. This new amount of bonds would draw interest at

3 percent. During the first 5 years of the arrangement, the Republic of Colombia would make \$1,800,000 available annually for debt services; thereafter \$2,000,000 annually. The balance of such debt service after setting aside the amounts required for interest payments would be devoted to the purchase of bonds in the market. Bonds purchased with such balance would be retired and canceled before the next succeeding interest payment date and the amounts so retired would be reported annually.

On July 17 and 18, 1940, decree laws were promulgated which provided for putting the settlement into effect. Copies of these decrees are enclosed. Under the terms of these decrees, the formal contract covering the settlement will have to be approved by the President of the Republic and the Junta Nacional de Empréstitos. When the contract has been so approved and the formal offer is made to the bondholders thereunder, it will constitute a binding obligation of the Republic of Colombia in favor of all of the holders of bonds who accept the offer.

My Government has authorized me to renew the assurance of its willingness to proceed immediately with the settlement. My Government has also authorized me to state with regard to Article 2 of the Decree Law of July 17, 1940, that the new decree which, in accordance with Colombian law, will approve the formal contract between my Government and the bondholders, will fix the responsibility of my Government according to the terms of that contract. It is not the position of my Government that it will have any contractual right to postpone payments, and such new decree will of course not contain any reservation with respect to such a right.

Furthermore, if events should oblige my Government to suspend payments, and negotiations should prove necessary before these payments were resumed, the bondholders would not be in any way disadvantaged in such negotiations by reason of their acceptance of the permanent settlement now proposed. The contract giving effect to this settlement will provide that there will not be offered to other holders of external bonds of the Republic of Colombia now outstanding any settlement on terms more favorable than those set out in such contract.

I remain [etc.]

GABRIEL TURBAY

821.51/2584

*Memorandum by the Acting Chief of the Division of the American Republics (Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] December 31, 1940.

MR. WELLES: The Colombian Ambassador is not pleased with the formula contained in the final paragraph of our press release on the

Colombian debt settlement to the effect that "the offer of the Colombian Government constitutes a fair effort on its part to adjust its obligations". The Colombian Ambassador is of the opinion that a statement should have been made to the effect that the offer constitutes "a fair settlement".

Some days ago, I told Mr. Laylin that we did not envisage discussions with the Colombian Embassy regarding the text of the statement which we were prepared to issue on this subject. I indicated to the Ambassador, however, that, although the wording of our statement was still under discussion, it would convey the view that the offer was a fair settlement.

While I feel that the formula which finally resulted from the haggling over phraseology, apparently characteristic of an interdepartmental statement of this nature, is not an entirely happy one, I am very strongly of the opinion that it represents a complete fulfilment of our commitment to the Colombian Ambassador.

Yesterday afternoon I agreed that I would furnish the Colombian Ambassador with a copy of our statement some thirty minutes before the statement was released to the press in order to enable the Ambassador to make any comment which he might desire in connection therewith to inquiring reporters. Consequently, at about seven o'clock, I gave Mr. Laylin several copies of the statement. Two or three minutes later, Mr. Laylin telephoned me and asked me to hold up the release to the press until he had had a chance to talk to the Ambassador. I made no commitment to this effect. I did, however, delay the release for a few minutes so that, if there were any factual corrections to be made, it could be attended to.

At about seven-thirty, Mr. Laylin telephoned me from the Embassy. He stated that the Colombian Ambassador was dissatisfied with the statement and felt that from the point of view of public opinion in Colombia, it would perhaps be preferable to make no statement at all rather than the one in question. I told Mr. Laylin that I did not agree with this point of view and I stressed the fact that the action of the United States Government in this matter was almost unprecedented. In view of the fact that Mr. Laylin stated that the Ambassador wished to discuss the matter with you prior to the issuance of the statement, I went through the motions of finding out from CI<sup>23</sup> that the statement had already been released and that it was too late to recall it. I so informed Mr. Laylin.

If it is desired to do anything further to please the Colombian Ambassador, we might arrange for the Secretary to be questioned on the settlement at his press conference. In his reply he might use

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<sup>23</sup> Division of Current Information.

the expression "a fair settlement" and the Colombian Ambassador could then telegraph this to his Government.

The headlines of the *New York Times'* story this morning on this matter should do much to remove the Ambassador's doubts. They read as follows: "Plan of Colombia on Debt Approved—United States State Department, Loan Agency and the Treasury Recommend Refunding".

P[HILIP] W. B[ONSAL]

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COOPERATION OF THE UNITED STATES IN THE ELIMINATION OF  
GERMAN INFLUENCE FROM COLOMBIAN AIRLINES<sup>24</sup>

821.796 Avianca/48 : Telegram

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

WASHINGTON, February 2, 1940—4 p. m.

20. Your 18, January 31, midnight.<sup>25</sup> A thorough discussion of the general policy of this Government with respect to relations with Colombia and the defense of the Canal was held yesterday in the Department with Messrs. Trippe<sup>26</sup> and Thomas Morgan (latter Chairman of the Executive Committee of Pan American Airways). General Strong, Assistant Chief of Staff,<sup>27</sup> was also present. Trippe and Morgan stated that Pan American Airways fully appreciated the importance of the general objectives of national policy involved and gave assurance that this policy would be the guiding consideration of the Company in its operations in Colombia, commercial considerations being secondary. We were also assured that until the present situation has been satisfactorily adjusted, the Company will keep in the closest touch with the Department, informing us in advance of the

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<sup>24</sup> 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. 241-242.

<sup>25</sup> Not printed. The telegram dealt firstly with a clarification by George L. Rihl, vice president of Pan American Airways, then in Colombia, of a company press release dated January 30, 1940, New York, to the effect that the company would assume technical administration of the Scadta system and would replace German personnel before reaching an agreement with the Colombian Government. Secondly, it reported President Santos' reaction to the January 30 release. Despite the clarification by Mr. Rihl, the President "demanded that Rihl forthwith categorically accept or reject Government acquiring 51 percent ownership in Avianca." Rihl was also reminded by Minister of War José Joaquín Castro that, "in case of rejection, the company's franchise expired in May 1942, in which event the Government would know what to do." For Rihl there was no alternative but "to accept this ultimatum" which he did "subject to the fulfillment of their agreement that the bylaws would be so drafted as to guarantee to the minority interests a strictly commercial operation and full protection against political intervention irrespective of any future change in government." (821.796 Avianca/48)

<sup>26</sup> Juan Trippe, president of Pan American Airways.

<sup>27</sup> In charge of the War Plans Division.

steps which it proposes to take. Rihl is already under instructions to be guided by your views concerning the local situation.

The situation described in your recent telegrams is very disquieting in that first of all the Company is apparently about to be asked to surrender its present controlling interest in Scadta,<sup>28</sup> to accept a minority position in Avianca,<sup>29</sup> and to furnish, without assurances as to their adequacy, technical personnel that might well be shouldered with mistakes of Avianca over the commission of which they had no control; and secondly, there would seem to be no assurance that the Colombianization process would be carried to a conclusion.

With regard to the Government's latest proposal, Trippe and Morgan have indicated that they would be willing to withhold the sale of their Scadta stock unless a prior arrangement satisfactory to this Government for the de-Germanization is agreed to by the Colombian Government. While appreciative of the cooperative attitude of Trippe and Morgan, this action might lead to far-reaching complications; on this, we would appreciate your advice.

. . . Despite your latest reports of the President's ideas, we still harbor a hope that given a set-up that would be politically feasible and ultimately command the support of Colombian public opinion, the President would go along on some sort of arrangement leaving Pan American in control of management during a transitional period. This would permit an orderly and safe turnover of management to Colombian personnel and would ensure completion of the de-Germanization. We feel that it would be desirable, therefore, for you to seek a further interview with the President (and such other high officials of the Colombian Government as you may desire to interview) before the Company takes the definite step of agreeing, at the meeting proposed for February 7, to the set-up as now proposed. We hope that you can talk this over informally with the President, as friend to friend, impressing upon him the real desire of both this Government and the Company to be of the utmost assistance.

The points to be brought out, as we see them, are:

(1) We understand and appreciate the natural desire of the Colombian Government to control the operations of its national aviation company. Hence, the objective of any comments and suggestions offered by this Government are and will be with a view to the attainment of this aim. Furthermore, this Government readily understands the desire of the Colombian Government to effect this at as early a date as practicable. This view is likewise subscribed to by Pan American Airways.

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<sup>28</sup> Sociedad Colombo-Alemana de Transportes Aéreos.

<sup>29</sup> Aerovías Nacionales de Colombia.



(2) There are, however, difficulties and even dangers in attempting to do this overnight. Starting from the premise that safety of operations is essential, it follows that the change to Colombian personnel must be gradual. We sincerely hope that the Colombian Government would prefer American to German technical assistance in training the Colombian personnel. Not only has German management over 20 years demonstrated a singular lack of interest in preparing Colombian personnel, but the importance to Germany of important participation in the enterprise must not be overlooked. It seems to us that a workable transitional arrangement can only succeed free from European influences.

(3) Pan American Airways is ready to cooperate on the basis of control by the Colombian Government (or the Government in collaboration with Colombian nationals . . .) of Avianca during this interim period, but feels it highly desirable that the realities of administration and operation and the obvious difficulties which would result from divided or ambiguous operations be taken into account. Whether the interim arrangement be based on a management contract or otherwise would appear subordinate to avoidance of divided operations authority.

(4) The duration of any interim arrangement would be for agreement between Pan American Airways and the Colombian Government having in mind the period necessary for adequate training of Colombian operating and flight personnel. The Company offers to cooperate wholeheartedly in the acceleration of this program with a view to turning over operations at as early a date as practicable. This Government if desired by the Colombian Government will also be glad to cooperate to the fullest extent feasible.

(5) During the transitional period the company will be prepared to replace personnel with Colombians as rapidly as competent individuals can be trained. It is suggested that this might follow a fixed schedule to be agreed upon in advance. We believe that the German management and senior flight personnel should be replaced at once, but the company is entirely willing to discuss individual cases with the Colombian Government in an entirely sympathetic manner taking into consideration previous services, length of stay in Colombia, et cetera.

(6) With respect to payment by the Colombian Government for the shares of Scadta now owned by Pan American Airways, which will be relinquished in order to make possible the legal establishment of Avianca, Pan American Airways is prepared to accept any equitable arrangement for their liquidation over a period of years which the Colombian Government desires to make. For your confidential information the company states that it would not insist on the liquidation of the entire amount prior to the end of the transitional period.

(7) The company is prepared to pare to the bone its costs should it be requested to take over the management of Avianca.

We hope that after his conversation with you, the President will at least agree to the postponement of the meeting now scheduled for February 7 in order to permit more time for consideration of this very difficult problem. We now feel that Trippe and Morgan are entirely

disposed to collaborate in the solution. If we can provide opportunity for further discussion we will at least have postponed consummation of an arrangement that is most unsatisfactory.

In conclusion, since our primary objective in this Colombian aviation matter is to insure the safety of the Panama Canal, we would with reluctance see an arrangement agreed upon that left uncertain the problem of the elimination of the German personnel in Scadta. In fact, as long as German personnel is in control of the management and operation of airplanes flying within a few hundred miles of the Panama Canal, the uninterrupted operation of the Canal, which is of interest not only to Colombia and the United States, but to all of the American republics, remains insecure. We are confident that the Colombian Government, which has evidenced so sincerely its realization of the necessities of continental defense, will be sympathetically disposed towards an early solution of the present problem.

The foregoing has been read and agreed to by Trippe and Morgan.

HULL

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821.796 Avianca/51 : Telegram

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

WASHINGTON, February 4, 1940—2 p. m.

22. Your 23, February 3, 2 p. m.<sup>30</sup> We share your opinion that a statement at this juncture by the Department or by the Embassy might serve merely to feed publicity in Colombia. Hence we are inclined to volunteer no comment. Should inquiry be made by correspondents here (which is not improbable since a number of Washington newspaper men are aware of the general problem and following it closely) we plan to limit ourselves to pointing out that this Government is not a party to negotiations and that discussions—which have been under way for some time in an entirely friendly atmosphere—are between the Colombian Government and Colombian nationals on one hand and Pan American Airways on the other.

HULL

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<sup>30</sup> Not printed. It concerned publicity in the Bogotá press given to an Associated Press story with Washington dateline of February 2, 1940 to the effect that the United States was intervening "to speed negotiations" between the Colombian Government and Pan American Airways. The Ambassador's reaction to the incident was that neither the State Department nor the Embassy should make an announcement "until we see more clearly direction matters take." While there existed "great confidence in President Roosevelt and his administration," Ambassador Braden observed that "there lingers deep-seated fear of return to big stick policy." (821.796 Avianca/51.)

821.796 Avianca/52 : Telegram

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

Bogotá, February 4, 1940—5 p. m.

[Received 9 : 28 p. m.]

24. For Duggan.<sup>31</sup> My telegram No. 21, February 2, 1 p. m.<sup>32</sup> No definitive action can be taken to change bylaws for probably another 15 days, hence February 7 stockholders meeting will only take such action as will enable Rihl to put through two steps mentioned in my telegram under reference.<sup>33</sup> Nevertheless, Rihl may have practically to commit himself to 51% plan tomorrow morning.

Negotiations on 51% plan have so far progressed sufficiently satisfactorily to warrant a hope that Von Bauer<sup>34</sup> or other naturalized Colombians and Germans will be excluded from all representation on Board of Directors, that Avianca will have a commercial management by Colombians, guided by personnel from Pan American Airways, excluding Germans from key positions and that administration will be as free from government intervention as possible under the circumstances. . . .

. . . provided the first three points of my telegram No. 3<sup>35</sup> can be put in effect, we will within present limitations be on the way towards Canal safety on a basis comparable to, though less satisfactory than, that contemplated in the seven point program of my telegram No. 106, October 25, 8 p. m.<sup>36</sup> But under best of circumstances we will have to rely on patriotism, intelligence and discretion of Panair's American personnel and on their being retained by Avianca after control passes to Colombian Government and individuals. In this connection it may conceivably become necessary for Panair to loan these men to Avianca free of charge.

BRADEN

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<sup>31</sup> Laurence Duggan, Chief of the Division of the American Republics.

<sup>32</sup> Not printed.

<sup>33</sup> The two steps were: (1) Dismissal of Herman Kuehl, general manager of Scadta, or his demotion to the harmless status of adviser; (2) transfer of Pan American Airways personnel at Barranquilla to positions from which they could supervise Germans not discharged immediately. (821.796 Avianca/49)

Kuehl resigned on February 7, 1940, and became an administrative adviser. (821.796 Avianca/59)

<sup>34</sup> Peter von Bauer, formerly president of Scadta.

<sup>35</sup> Not printed; the three points referred to dismissal of executive and operations personnel, and special communications precautions.

<sup>36</sup> Not printed; the seven-point program was solely concerned with the process of "de-Germanizing" the Scadta organization.

821.796 Avianca/53 : Telegram

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

WASHINGTON, February 5, 1940—4 p. m.

25. Our view of the situation described in your telegrams 24<sup>38</sup> and 25<sup>39</sup> is that matters are progressing as favorably as could be expected, considering all the circumstances, and we earnestly hope that the arrangement currently under discussion will provide the necessary measure of safety from the point of view of national defense. We are confident that you are doing everything possible and have appreciated the thoroughness and helpfulness of your reports.

With regard to the inquiry in the second paragraph of section 4 of your telegram 25, February 4, 9 p. m., we leave it to your good judgment in the light of local developments whether to press for an appointment or to await the anticipated interview.

Department's telegram 5, January 8, 6 p. m.<sup>40</sup> Considering the delicacy of the aviation situation, we doubt whether it would be desirable for you to leave Bogotá and accordingly suggest postponement of your scheduled trip to Washington until matters have reached a more definite development.

HULL

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821.796 Avianca/53 Suppl : Telegram

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

WASHINGTON, February 6, 1940—3 p. m.

26. Department's telegram no. 25, February 5, 4 p. m. In a further conversation with Trippe yesterday afternoon we summarized developments reported in your telegrams nos. 23,<sup>40</sup> 24 and 25<sup>40</sup> and emphasized

(1) that in your opinion it would not be desirable for the company to question in principle Rihl's commitment to the so-called 51% plan (your telegram no. 25, second paragraph section 3) and

(2) that while the anticipated arrangement may not be as attractive financially to the company as one which might have been concluded some months ago, we nevertheless expect the company to go along with it as indicated during the conversations in the Department on February 1 and 2<sup>41</sup> (see also your telegram no. 25, first paragraph section 2).

Trippe agreed with the foregoing and inquired whether we wished to suggest any additional instructions from him to Rihl, in which

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<sup>38</sup> *Supra.*

<sup>39</sup> Dated February 4, 9 p. m., not printed.

<sup>40</sup> Not printed.

<sup>41</sup> See telegram No. 20, February 2, 4 p. m., to the Ambassador in Colombia, p. 723.

connection he reported that no unanswered message from Rihl was then pending. Trippe was informed that Rihl appeared to be appropriately instructed at the moment (your telegram no. 25, first paragraph section 2) but that we felt it would be useful for Trippe to consult with us with respect to any further instructions which might be required. Please let us know if or when you think we should get in touch with Trippe again regarding any matter about which Rihl may telegraph his principals.

HULL

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821.796 Avianca/54 : Telegram

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

BOGOTÁ, February 6, 1940—[8 p. m.]  
[Received February 7—9: 43 a. m.]

28. Department's telegram No. 25, February 5, 4 p. m. Rihl this morning delivered to Ministers of War and Finance two letters summarizing principal features of 51% plan. Remaining points thereof, such as amount to be paid by Government for stock, cannot be settled at earliest before end of this week or early next week because Rihl left this morning for Barranquilla to take steps contemplated second paragraph of my telegram No. 21, February 2, 1 p. m.<sup>42</sup> and to relegate Schnurbusch<sup>43</sup> to purely advisory position. It is encouraging that the Ministers, when informed of these steps by Rihl last evening, though shocked by 130,000 peso salary and discharge allowance which will have to be paid to these two Germans, did not raise any objection.

Only alternative to 51% plan suggested by Colombian Government has been 100 per cent purchase which, as indicated in my telegram No. 16, January 29, 11 p. m.<sup>44</sup> involves far greater danger from defense aspect. . . . From viewpoint of defense, this plan compares as follows with the seven-point program described in my No. 106, October 25, 8 p. m.<sup>45</sup>

(1) and (5). Pan American Airways' personnel scheduled to begin taking over tomorrow. General Managership will be left for a Colombian but Rice, until recently Pan American Airways' general man-

<sup>42</sup> Not printed.

<sup>43</sup> Technical Director of Scadta.

<sup>44</sup> Not printed. Under the 100 percent purchase plan, the Ambassador felt that the Colombian Government would "turn to Germans for technical management." (821.796 Avianca/45.)

<sup>45</sup> Not printed. The program, concerned with the process of "de-Germanizing" the Scadta organization, provided for: Pan American Airways experts to take over key administrative posts; PAA to assume control of all radio operations; pilots to consist of 4 American and 3 Colombian chief pilots, and 10 Colombian co-pilots; Germans to be removed from mechanical and clerical posts. (821.796 SCA 2/476.)

ager in Rio de Janeiro and though without the title, will in effect be general manager while training Colombian successor.

(2) and (3). As soon as radio equipment mentioned in my telegram No. 3, January 5, 11 a. m.<sup>46</sup> arrives this part of program should become effective. Moreover, this week Naval Air Attaché to this Embassy will in detail examine this phase of defense program with Pan American Airways experts and, if he deems it necessary, Rihl agrees additional operators must be installed.

(4) One of four American pilots has left but if later DC-3's are purchased more can probably be employed.

(6) It does not appear possible now to get rid of German clerks as rapidly as at first contemplated.

In short, supervision by American personnel on foregoing basis appears adequate at least to render it difficult for any plane to deviate from scheduled route without knowledge of American ground personnel. Von Bauer is already eliminated, Kuehl and Schnurbusch will this week be shelved, Tietjan<sup>47</sup> will go shortly and Boy<sup>48</sup> may be less dangerous in innocuous position within organization than he would be outside disgruntled and a martyr. This may also apply to German chief pilot.

As indicated in my February 1 letter to Duggan<sup>49</sup> I consider it imperative to remain here until this problem is as completely and satisfactorily solved as possible when I will request the Department for travel instructions.

Department's No. 22, February 4, 2 p. m. I am gratified there has been no further newspaper comment on press stories excepting in last night's *El Espectador*. Minister of War denied any undue delay in negotiations.

BRADEN

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821.796 Avianca/67 : Telegram

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

Bogotá, February 14, 1940—8 p. m.  
[Received February 15—10: 11 a. m.]

39. My No. 28, February 6, 8 p. m. Rihl had conversation with the President of the Republic today (Minister of War present) which may be summarized as follows:

Commercial:

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<sup>46</sup> Not printed.

<sup>47</sup> Albert Tietjan, a founder of Scadta, vice president, and elected acting president on January 23, 1940. He resigned at a meeting of Scadta stockholders on February 23, 1940.

<sup>48</sup> Colonel Herbert Boy, operations manager of Scadta, who also resigned on February 23, 1940.

<sup>49</sup> Not found in Department files.

Government is adamant on 51% plan; it will have three directors, minority interests three and if five or six cannot agree on seventh, manager of the Bank of the Republic will automatically be appointed. Initial paid-in capital 3,650,000 pesos may be increased to authorized capital 5,000,000 pesos by simple majority board vote thereafter requiring stockholders' approval, i. e. Government. Price to be paid for Panair held not definitely determined but no difficulty anticipated. This appears to give Panair best commercial setup obtainable under the circumstances. Uncertain whether Corral will assume presidency.

Defense:

Rihl, pursuant to my request, made statement to the President as per section 3 my telegram under reference. Santos stated he would gladly assure me at our forthcoming meeting on the following:

(a) He would instruct Government directors to approve all measures required to insure canal safety such as installation of adcocks, personnel changes, employment of otherwise possibly unnecessary men even though such measures involved expenditures debatable for Avianca under normal commercial operation. Rihl stated if other commercially unnecessary steps were required Panair would come to some agreement thereon. This the President apparently accepted.

(b) Santos volunteered to leave military guards at airports if needed and offered full cooperation of Colombian military aviation.

(c) He had no objection to removal of German personnel who had been in Colombia 3 to 5 years but said those with roots and connections in Colombia by reason of longer tenure ought to be retained as of value to the company. He admitted there was much sentiment in this and emphasized he did not wish to have it appear that Americanization was being substituted for Germanization.

(d) He declared categorically that were the United States to go to war with Germany he would immediately instruct Avianca to discharge all German pilots but with the understanding Pan American Airways would forthwith substitute Americans to prevent any stoppage of service.

Rihl last week advised Ministers of War and Finance American personnel was about to be installed. No objection so far raised thereto.

While operating contract for Pan American Airways was not broached at this meeting conversation was premised on assumption Pan American Airways would have technical control.

Under foregoing conditions all protective measures contemplated in my telegram under reference can be accomplished.

When I see the President I wish to be able to receive his firm assurances on the aforementioned safety measures but also to request any other necessary. To this end I suggest the Department consult confidentially with War and Navy Departments and instruct me accordingly as soon as possible. In this connection I propose to request President for assurances that:

1. Colombian military and aviation forces will continue adequately to supervise Arco.<sup>50</sup>

2. If subsequently other precautionary measures seem desirable to us he will be receptive thereto and in any case permit Pan American Airways to take such steps without expense to Avianca.

BRADEN

821.796 Avianca/76 : Telegram

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

Bogotá, February 22, 1940—2 p. m.

[Received February 23—5 a. m.]

48. My telegram No. 47.<sup>51</sup> The following summarizes views expressed to me by President Santos this afternoon :

(1) He is adamant on 51% plan because the Government, for reasons of highest national policy, must control all Colombian aviation. Moreover, only through such an absolute control can his Government guarantee Panama Canal defenses since no corporation with a majority of private interests could give this guarantee to Colombia or the United States.

(2) The Government directors in the reorganized company will receive as their first and over-all instruction that Panama Canal defenses is a paramount consideration. Neither the United States nor Colombia could be certain that their respective nationals owning minority stock would not sell it to others who would sacrifice defense for profits or who might even be agents for Hitler.

(3) He (or for that matter any other President of Colombia) is as vitally concerned for Canal safety as commander in chief of Zone because

(a) Moral obligations of solidarity and friendship for the United States.

(b) It would be politically disastrous were anything to happen to Canal from Colombian source.

(c) Damage to Canal would economically ruin west coast of and southern Colombia.

(4) Government directors will approve equipment and personnel changes required for safety even though they not be commercial. He specifically approved installation of direction finders.

(5) He believed experienced Germans long in Colombia were non-Nazi and should be retained, but the others, including several new pilots, could be dismissed as rapidly as possible. If at any time dismissal of any of old Germans appears desirable, I have only to speak to him and he will adjust the matter.

<sup>50</sup> Sociedad Aerovias-Remales Colombianos.

<sup>51</sup> Dated February 21, 10 p. m., not printed.



(6) I told the President American personnel was already installed as chiefs of divisions and I hoped they would remain in key positions until the Colombians could be trained therefor. He raised no objections but, at another point in conversation, stated that Avianca must work with Pan American Airways.

(7) He will gladly continue military guards at airports.

(8) If ever there is anything further War or Navy Departments or this Embassy feel essential for canal defences, I should immediately request an interview with him and the matter will be accommodated.

(9) He is thoroughly familiar with Arco operations, knows it to be entirely financed by Colombian capital, he admires Hoffman<sup>52</sup> more than any other German, the latter and his partner are naturalized and married to Colombians and the President "personally guarantees" to me there will never be any threat to the Canal from this source.

(10) If the United States ever went to war with Germany, I would never have the opportunity to request dismissal of Germans because, within 15 minutes after he heard of it, they would all be out. This dictum applies to France or any other nation.

(11) He assured me "with all solemnity and as officially as he could make it" that everything would be done to protect the Canal by him and his Government.

(12) I promised to assist him in speeding conclusion of deal with Pan American Airways.

Unquestionably we must continue closely to watch this whole situation and particularly Panair but I do expect American personnel, on whom I have impressed their responsibility, will perform patriotically and, until further defense requirements occur to us, it does not appear that we can get or expect any greater assurances than the foregoing from the President of the Republic.

BRADEN

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821.796 Avianca/77 : Telegram

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

Bogotá, February 23, 1940—11 p. m.  
[Received February 24—12: 05 a. m.]

50. My telegram No. 48, to safety measures set forth by the President, there should be added his statement that the Government will also be guided throughout on defense measures by the advice of the United States Military Aviation Mission.

BRADEN

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<sup>52</sup> Capt. Hans Hoffman, former chief pilot of Scadta, who had resigned because of differences with Dr. von Bauer, president of Scadta. Subsequently, Hoffman became a naturalized Colombian citizen and, financed by his father-in-law, a native Colombian, formed Arco.

821.796 Avianca/76 : Telegram

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

WASHINGTON, February 26, 1940—4 p. m.

38. Your 47<sup>53</sup> and 48.<sup>54</sup> The assurances conveyed to you by President Santos on the subject of Canal defense are highly gratifying to this Government and in our opinion represent the basis for a satisfactory solution of the aviation problem. War and Navy have likewise indicated their satisfaction.

Although I do not believe it would be necessary or desirable to seek a further interview with the President for the time being, I hope you will find a suitable opportunity to express to him our appreciation of his friendly and cooperative attitude and our gratification at the specific assurances which he has conveyed.

The Department likewise desires to commend you and your staff for your successful handling of these important and difficult negotiations.

HULL

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821.796 Avianca/125a : Telegram

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

WASHINGTON, June 15, 1940—5 p. m.

112. We believe it would be desirable for you to take an early opportunity in informal conversation with the President to express our gratification over the establishment of Avianca and our appreciation of the cooperation of the Colombian Government throughout the negotiations, et cetera, incident thereto.<sup>55</sup> Unless you perceive objection, I believe that opportunity could also be taken for a discussion with the President of the obvious desirability of his Government's according wholehearted support to Avianca as the national air line of Colombia and consequently of discouraging the

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<sup>53</sup> Not printed.

<sup>54</sup> February 22, 2 p. m., p. 732.

<sup>55</sup> Pan American Airways had publicly announced on June 11, 1940, the consolidation by stockholders' action of the Scadta and Saco air lines in Colombia; the formation of Avianca. The Colombian Government received immediate control of the latter company and a purchase option on a majority of the stock. Pan American Airways was the principal minority stockholder and assumed responsibility for the technical staffing of the organization. (*New York Times*, June 12, 1940, p. 10; *ibid.*, June 17, p. 6.)

German personnel were dismissed from Avianca only when opportune and as competent substitutes became available. The replacement program spread as it was over a period of more than 6 months was of continuing concern to the Embassy at Bogotá and to the Department. Discussions over the issue were only between officials of Avianca and Pan American Airways and the Department. There was no correspondence between the American and Colombian Governments. (821.796 Avianca/182, 188, 191, 197, 203, 231.)

establishment or development of any other Colombian or allegedly Colombian domestic lines, whether or not they appeared to offer immediate competition to Avianca. Having in mind the Arco<sup>56</sup> situation, the fact that former Scadta employees have received very considerable *cesantia*<sup>57</sup> payments, the current trip of Schnurbusch<sup>58</sup> to the United States, et cetera, there is obviously the possibility that former Scadta pilots or their associates may endeavor to rejuvenate Arco or to establish other local lines on terms ostensibly very favorable to the Colombian Government.

We have no reason to believe that the Colombian Government fails to see eye to eye with us regarding this problem and of course assume that the Government having the potential dangers clearly in mind is fully prepared to take the necessary measures. For our part we consider the proper development of Avianca as a genuinely Colombian company to be of continuing national defense importance.

HULL

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821.796 Avianca/126 : Telegram

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

BOGOTÁ, June 17, 1940—10 a. m.

[Received 12:10 p. m.]

159. Department's 112. I have already expressed appreciation as indicated in Department's telegram. In view of President's personal guarantee (point 9 my telegram No. 48 of February 22, 10 [2] p. m.) and of Minister of War last Friday having broached to Rihl subject of absorbing of Arco by Avianca,<sup>59</sup> and of my previous remarks to authorities here on the subject, if the Department has no objection I recommend my deferring raising point with President until more appropriate moment.

In regard to Schnurbusch and other Germans pursuant to my final talk with Burke<sup>60</sup> I urge that through aeronautical Chamber of Commerce and in every other way possible sales to firms or individuals in Colombia of new or second-hand airplanes and equipment including spare parts be prevented unless specifically approved by this Embassy.<sup>61</sup>

BRADEN

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<sup>56</sup> See footnote 52, p. 733.

<sup>57</sup> A form of unemployment compensation insurance.

<sup>58</sup> William Schnurbusch, a former employee of Scadta.

<sup>59</sup> Purchase of Arco by Avianca required months of negotiation; its consummation was not announced to the Chargé in Colombia until April 26, 1941.

<sup>60</sup> Thomas Burke, Chief of the Division of International Communications.

<sup>61</sup> At this juncture, the Division of Controls felt that no measures could be taken to prevent the export of materials which Schnurbusch might purchase.

## COSTA RICA

### EXPORT-IMPORT BANK LOAN TO COSTA RICA FOR CONSTRUCTION OF A SECTION OF THE PAN AMERICAN HIGHWAY

818.51/884 : Telegram

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

WASHINGTON, September 25, 1940—7 p. m.

97. Your 118, September 25, 10 a. m.<sup>1</sup> Following press release was given out last night by Federal Loan Agency.

“Jesse Jones, Federal Loan Administrator, announced today the Export-Import Bank has authorized a loan to the Government of Costa Rica of 4,600,000 dollars for the construction of a section of the Pan American highway extending from San José to the Panama border, where it will connect with the Panamanian road south to the Canal.

“The loan will be at 4 per cent interest, maturing over a period of 10 years and will be guaranteed by the National Bank of Costa Rica and repaid from the proceeds of the gasoline tax. Approximately 60 per cent of the proceeds of the loan will be used for the purchase of equipment in the United States.

“It will require approximately 4 years to complete the road, and its construction will be especially helpful to Costa Rica in meeting its unemployment situation due to drastic curtailment of its coffee export market. The United States Public Roads Administration will lend the Costa Rican Government engineers to supervise and assist in the construction of the road.

“The loan was negotiated by Dr. Luis Anderson of Costa Rica, assisted by Señor Pena, President of the National Bank of Costa Rica, and Señor Matamoros, technical adviser.”

Please forward by air mail any press comment on this loan.

HULL

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<sup>1</sup> Not printed.

## CUBA

### REFUSAL OF THE UNITED STATES TO INDICATE WHETHER IT WOULD OR WOULD NOT RECOGNIZE A FUTURE GOVERNMENT OF CUBA

837.00/8629 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, January 11, 1940—5 p. m.

[Received 10:05 p. m.]

2. For Under Secretary. Ambassador Martínez Fraga<sup>1</sup> asked me to tell you that he considers the situation has two distinct phases. The first phase has to do with the Government's willingness to postpone elections until March 28 in order to give the opposition time to name candidates and the opposition's refusal to agree to name candidates even though under existing law the Congress must be renewed on April 1. The Ambassador considers that the Government's position is strong legally and morally and that the opposition's position is weak.

The second phase of the situation is the Government's preventing by positive acts the inauguration of the Constituent Assembly and the opposition's claim that the Constituent Assembly should be allowed to meet immediately. The Ambassador considers that the Government's position in this matter is very weak and dangerous and that the opposition's position is strong. He says he has warned Colonel Batista<sup>2</sup> that he is permitting himself to drift into a position where he will be rightly accused of having thwarted the popular will and in effect of having committed a *coup d'état*.

The Ambassador considers that the first phase of the situation is bound to be settled but that the second phase presents great difficulties. He says that the opposition parties insist that general elections be postponed for an undetermined period say until July or August but that they decline to give any assurance regarding the kind of regime which will exist between April 1 and the inauguration of the new government. It is assumed the opposition has in mind that during the interim or during a part of the interim the Constituent Assembly will exercise executive and legislative powers. This the Government is

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<sup>1</sup> Cuban Ambassador to the United States.

<sup>2</sup> Fulgencio Batista. On December 6, 1939, Colonel Batista resigned his post as Chief of Staff of the Army and became a coalition candidate for President of Cuba. He was elected President in the general election held July 14, 1940.

unwilling to consent to until the opposition informs it in detail of its specific plans in this regard and meanwhile it is continuing successfully to obstruct the convening of the Constituent Assembly.

Martínez Fraga believes that the Government is mistaken in this attitude; that it should allow the Constituent Assembly to meet immediately and face the problem of being able to control it by obstructive or other tactics when that problem arises. He says that Colonel Batista is anxious to avoid the charge of having committed a *coup d'état* and desires an equitable solution. He says it is difficult to discuss these matters with the opposition because there is no real unity within it.

In reply to my question he said that he did not know what Colonel Batista's attitude was toward the President's suggestion that the question of the terms of office of the long period members of Congress be determined by plebiscite at the time of general elections (although this question has been a central point of the entire controversy). He said that he himself was opposed to it because it introduced a new complication.

The Ambassador said that he was pessimistic although less so than when he arrived. He said he would see me again Saturday noon and give me further details which I promised to forward to you.

BEAULAC

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837.00/8632

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2692

HABANA, January 11, 1940.

[Received January 12.]

SIR: Supplementing my despatch No. 2689, of January 10, 1940,<sup>3</sup> I have the honor to report that the Senate last night approved the del Pozo bill to postpone general elections from February 28 to March 28. However, so much time has elapsed and so much remains to be done before the Constituent Assembly can really begin to function (the coalition forces continue to contest the elections in several provinces, and considerable mechanical preparations will have to be made) that it is now believed that the suggested date does not represent a sufficient postponement.

President Laredo Brú's suggested solution of the impasse created by the controversy over the date of general elections and the terms of present members of Congress is as follows:

(a) General elections will be postponed until May or June; and he will consent, if asked by both parties, to the extension of his term of office for a few weeks, provided that be necessary.

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<sup>3</sup> Not printed.

(b) The constitution will be drafted freely by the Constituent Assembly, which will not resort to any device to eliminate Colonel Batista as a candidate.

(c) If the Constituent Assembly decides that the structure of the present Congress shall be changed, a separate column will be inserted in the ballots at the general elections in which the voters will have the opportunity to say whether or not they wish the terms of the long-period Senators and Congressmen cut down. If the vote is affirmative, the terms of these members of Congress will expire when the present Government goes out of office, and the new Congress will be composed entirely of newly elected members. If the vote is negative, the long-period members of Congress will remain in the Congress, as additional members, until their terms expire. Any present member of Congress, of course, is free to become a candidate in the general elections.

The Department will have noted that the coalition, which originally supported the idea of such a plebiscite, has now taken the position that it is no longer a possibility because the opposition has turned it down. The opposition, on the other hand, states that it not only has not turned down the suggestion, but that it has never been officially advanced by the coalition.

The truth appears to be that the coalition favored the idea of a plebiscite until the opposition gave indications that it would agree to it. At this point the coalition backed down and is now endeavoring to place the onus for the failure of the plan upon the opposition, which, however, declines to accept it.

It is reported on excellent authority that Colonel Batista, himself, is responsible for the present attitude of the coalition in this respect, and that he was persuaded to take this attitude principally by Senators Casanova<sup>4</sup> and Hornedo.<sup>5</sup> It is reported that Colonel Batista is fully prepared to insist on his attitude and to prolong the present impasse indefinitely.

In contradiction to the attitude assumed by the coalition, the President takes the point of view that the matter of the plebiscite has not yet definitely been turned down, and he has expressed his intention to continue his efforts at mediation. He is reliably reported to have said that, rather than consent to continue indefinitely in the present situation, he will resign his office. The possible effect upon the Cuban situation of such a development is not difficult to conjecture. A condition would be created in which Colonel Batista, with the Army behind him, would be greatly tempted to impose himself upon the country by force. If this occurred, it is almost certain that some effort at reprisal would be made, and it is possible that the country would drift

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<sup>4</sup> José Manuel Casanova, member of the Liberal Party.

<sup>5</sup> Alfredo Hornedo, president of the Liberal Party.

into a situation resembling—in some measure, at least—that which pertained prior to the downfall of President Machado.<sup>6</sup>

In this connection, Ambassador Martínez Fraga is being quoted as having said that he participated in a conference in Washington between the Under Secretary of State, Mr. Welles, the Assistant Secretary of State, Mr. Messersmith, and Senator Zaydín,<sup>7</sup> in which the possible effect upon Cuba's future relations with the United States of a failure to solve Cuba's problems was pointed out.<sup>8</sup> Ambassador Martínez Fraga is quoted also as having said that he had an interview with President Roosevelt before returning to Habana, in which the latter made it clear that unless the revolutionary cycle which began with the downfall of Machado was completed at this time in a satisfactory and legal manner, the Government of the United States would not be in a position to defend Cuba when sugar legislation should be under discussion in the American Congress. It is believed that these reports have impressed President Laredo Brú, who continues to be the most powerful factor working toward an adequate solution of the present very unsatisfactory situation.

Respectfully yours,

WILLARD L. BEAULAC

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837.00/8634 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, January 12, 1940—11 a. m.

[Received 2: 40 p. m.]

3. For the Under Secretary. My telegram No. 2, January 11, 5 p. m. The Cuban Ambassador to Washington told me this morning that General Menocal<sup>9</sup> last night accused him of withholding from the Government the circumstances that the Government of the United States would not recognize the results of an election in which the opposition did not participate. The Ambassador says that General Menocal did not have this impression of our Government's attitude when he saw him prior to the return of Senator Zaydín from Washington and he therefore attributes the report of our Government's attitude in this hypothetical circumstance to Senator Zaydín. He considers that General Menocal's impression of our attitude is partly responsible for the failure of the Government and opposition to reach an agreement on the several matters in dispute.

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<sup>6</sup> August 12, 1933; for correspondence, see *Foreign Relations*, 1933, vol. v, pp. 270-361.

<sup>7</sup> Ramon Zaydín, member of *Acción Republicana*.

<sup>8</sup> No record of conference was found in Department files.

<sup>9</sup> Gen. Mario García Menocal, former President of Cuba (1913-1921); founder (1937) and head of the opposition *Partido Demócrata Republicano*.



The above is being transmitted to you at the Ambassador's request and he would like your reaction. I am sure he understands that it would be difficult for you to say that the Government of the United States would recognize the results of such an election and he probably wishes to be able to say that the Government of the United States has not committed itself either way.

BEAULAC

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837.00/8634 : Telegram

*The Secretary of State to the Chargé in Cuba (Beaulac)*

WASHINGTON, January 13, 1940—5 p. m.

3. From the Under Secretary. Your 3, January 12, 11 a. m. In the two conversations I had with Senator Zaydín when he was in Washington, in the latter of which Mr. Messersmith<sup>10</sup> took part, I made it absolutely clear beyond the possibility of any misunderstanding that this Government would under no conditions give any indication of whether it would or would not recognize a future government of Cuba. I stressed the fact that our relations with Cuba today were exactly the same as our relations with any other American republic, and that the time had passed, since the ratification of the treaty of May 29, 1934,<sup>11</sup> when any special relationship existed. You may inform the Cuban Ambassador to Washington accordingly. [Welles.]

HULL

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837.00/8641

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2715

HABANA, January 15, 1940.

[Received January 16.]

SIR: I have the honor to acknowledge the receipt of the Department's telegram No. 3, of January 13, 1940, and to report that I shall take the first opportunity to inform the Cuban Ambassador to Washington in the sense indicated.

I am sure the Department understands that the Embassy has made every effort to refrain from becoming involved in the present unsatisfactory electoral situation. In accordance with this policy, it has occurred to me—bearing in mind that the Cuban Ambassador to Washington, while personally friendly to General Menocal, is considered by the latter, and particularly by his followers, as a member of the government coalition—that it might become desirable, in the

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<sup>10</sup> George S. Messersmith, appointed Ambassador to Cuba on January 12, 1940.

<sup>11</sup> *Foreign Relations*, 1934, vol. v, p. 183.

interest of keeping our Government from becoming involved in this domestic situation, for me to transmit directly to General Menocal, or to Dr. Cuervo Rubio,<sup>12</sup> the information contained in the Department's telegram referred to.

If the Department agrees, I shall be glad to receive instructions to transmit this information to the persons indicated, should it appear desirable to do so.

Respectfully yours,

WILLARD L. BEAULAC

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837.00/8641 : Telegram

*The Secretary of State to the Chargé in Cuba (Beaulac)*

WASHINGTON, January 18, 1940—7 p. m.

4. Your despatch no. 2715, January 15. The Department perceives no objection whatever to your making clear its position, as expressed in the Department's telegram no. 3, January 13, 5 p. m., to anyone in your discretion, and specifically to the persons mentioned in your despatch under reference.

HULL

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837.00/8695

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

No. 7

HABANA, March 9, 1940.

[Received March 11.]

SIR: I have the honor to report that ex-President Menocal endeavored yesterday, through an intermediary in whom I have complete confidence, to ascertain from me whether the Government of the United States would like him to join forces with Colonel Batista or with Dr. Grau.<sup>13</sup> General Menocal also expressed to the same intermediary his belief that Colonel Batista would resign his candidacy if he received an indication that this would be pleasing to the Government of the United States.

Needless to say, I am taking no step which might indicate that the Government of the United States has any desire with reference to the group with which General Menocal may associate himself, or concerning Colonel Batista's candidacy.

Respectfully yours,

GEORGE S. MESSERSMITH

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<sup>12</sup> Member of the *Partido Demócrata Republicano*.

<sup>13</sup> Ramon Grau San Martin, Provisional President of Cuba, September 1933-January 1934.

ASSISTANCE OF THE DEPARTMENT OF STATE IN EFFORTS TO SECURE  
A SETTLEMENT OF THE CUBAN PUBLIC WORKS DEBT<sup>14</sup>

837.51 Public Works Debt/290

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2861

HABANA, February 20, 1940.

[Received February 21.]

SIR: With further reference to the unpaid portion of the public works debt, I have the honor to report that I discussed the prospect of payment with the Secretary of State<sup>15</sup> this morning.

The Secretary said that he had had several conversations in the matter with the President<sup>16</sup> and other officials of the Government recently, and he thought that there would be no difficulty in the way of congressional approval of the settlements already agreed upon. He said that, in his opinion, it was a question of weeks, and possibly of days, now before such congressional approval would be given. He promised to continue to pursue the matter, and reiterated his previously expressed conviction that the prompt payment of this debt would be in Cuba's interest.

I told Dr. Campa that, whereas I had had no conversations with General Menocal<sup>17</sup> on the subject, it had been reported to me by several persons that he had offered to cooperate in the matter of congressional approval. The Secretary said that that was his understanding also.

Respectfully yours,

WILLARD L. BEAULAC

837.51 Public Works Debt/291

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2879

HABANA, February 23, 1940.

[Received February 28.]

SIR: Supplementing my despatch No. 2861, of February 20, 1940, I have the honor to report that the Cuban Ambassador to the United States<sup>18</sup> told me this morning that he had spoken with the Secretary of State in the matter, and that he was now confident of action by the Cuban Congress within the next few weeks to complete the settlement of the public works debt. He expressed the opinion also that the settlement would make available bonds with which also to settle the Morris claim.<sup>19</sup>

Respectfully yours,

WILLARD L. BEAULAC

<sup>14</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 522-529.

<sup>15</sup> Miguel Angel Campa.

<sup>16</sup> Federico Laredo Brú.

<sup>17</sup> Gen. Mario García Menocal, ex-President of Cuba.

<sup>18</sup> Pedro Martínez Fraga.

<sup>19</sup> Claim based on a decision of the Cuban Supreme Court providing compensation for land seized by the Cuban Government.

837.51 Public Works Debt/292½

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2899

HABANA, March 1, 1940.

[Received March 2.]

SIR: With further reference to the unpaid portion of the public works debt, I have the honor to report that I saw Senator Casanova<sup>20</sup> this morning and suggested that he cooperate in effecting prompt settlement.

I reminded Senator Casanova that the President and the Secretary of State favored an early settlement and that General Menocal had offered to cooperate. I told him that I assumed that Colonel Batista<sup>21</sup> also favored an early settlement. He said that he knew this to be the case.

I said that it was apparent that all the elements involved had committed themselves to an early settlement, and suggested that this was the most appropriate time for the Cuban Congress to approve the settlements already agreed upon with Warren Brothers<sup>22</sup> and Purdy & Henderson.<sup>23</sup> I pointed out that the action would be in accord with the present spirit of conciliation between the opposing political groups in Cuba and with the constructive and patriotic attitude now being shown by all parties. I reminded Senator Casanova that Ambassador Messersmith would be arriving here tomorrow, and expressed the belief that the Cuban Government would not want, under any circumstances, to force him to initiate his service as Ambassador to Cuba by having to urge the settlement of the Public Works Debt, to which Cuba was obligated and to which it was committed, and concerning which everything that could be said had already been said.

I told the Senator, further, that Mr. Crafts,<sup>24</sup> representing Warren Brothers, had recently returned to Cuba, and that I had learned from him that Judge Brewster,<sup>25</sup> who had the Warren Brothers case under his jurisdiction, has been ill and that there is a possibility that the case will come into the hands of another federal judge, who may or may not have the sympathetic, patient attitude which Judge Brewster has shown. In the meantime, I had learned, the bondholders are becoming more impatient, and there is imminent danger of public hearings in the case, which would do no good to Cuba, to the bondholders,

<sup>20</sup> José Manuel Casanova.

<sup>21</sup> Fulgencio Batista, former Chief of Staff of the Cuban Army. See also footnote 2, p. 737.

<sup>22</sup> To Warren Brothers Company of Boston was due a large part of the Cuban public works debt for the construction of 481 miles of the Central Highway running from Piñar del Río to Santiago de Cuba.

<sup>23</sup> The portion of the public works debt due to Purdy & Henderson was for the construction of the capitol building at Habana.

<sup>24</sup> George B. Crafts.

<sup>25</sup> Judge Elisha Hume Brewster, United States District Court, District of Massachusetts.

or to any one else, but which the company might not be able to stave off as successfully as it has been able to in the past. I referred also to the discussions of proposed sugar legislation in Washington, and suggested that, since all elements in Cuba appeared to favor a settlement of this troublesome debt, the settlement be made immediately, in order that Cuba might capitalize on its action.

Senator Casanova said that he agreed entirely, and offered to take the necessary steps immediately to obtain passage of his bill by the Congress.

Respectfully yours,

WILLARD L. BEAULAC

837.51 Public Works Debt/294

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 2921

HABANA, March 6, 1940.

[Received March 7.]

SIR: Supplementing my despatch No. 2899, of March 1, 1940, I have the honor to report that I inquired of Senator Casanova yesterday what steps had been taken toward obtaining passage of the senate bill for completing the service of the public works debt and he replied, somewhat evasively, that he was having conversations on the subject and was seeing the Cuban Ambassador to the United States that afternoon. I asked him if that meant that there was no immediate plan, and he said that as yet there was no specific plan.

During a conversation with the Secretary of State this morning, I told him of my conversation with Senator Casanova and expressed apprehension lest Cuba might pass over the present opportunity to place its economic relations with the United States on a much stronger basis by completing the service of the public works debt. The Secretary of State said that he was to see the President in a few minutes and he would again bring up the subject with him, in the hope that the President, himself, might take the lead in the passage of the senate bill.

Respectfully yours,

WILLARD L. BEAULAC

837.51 Public Works Debt/295

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

No. 49

HABANA, March 19, 1940.

[Received March 21.]

SIR: With reference to conversations recently held on the subject of certain financial obligations of the Cuban Government, and their settlement, through action by the Cuban Congress, I have the honor to inform the Department that immediately after I had presented my

Letters of Credence to the President of Cuba, it seemed desirable, in view of a number of important factors, to discuss with the Secretary of State and with the President of Cuba certain factors of importance in the economic situation which have a direct reference to Cuban welfare. I presented my Letters, as the Department will recall, at a moment when the political situation in Cuba was particularly tense and when active conversations were in progress between General Menocal, Colonel Batista and Dr. Grau San Martin. The objective of these conversations was to determine whether General Menocal would turn his political strength to Colonel Batista or Dr. Grau San Martin—it being apparent that General Menocal had come to the conclusion that it would serve him and his party no useful purpose for him to be a candidate himself.

Almost immediately after my arrival and already before I had presented my Letters, I was approached by a number of the political leaders indirectly who expressed the desire that they might have an opportunity to discuss the political situation with me, and it was quite clear from the nature of the inquiries that the objective of such conversations was to learn to which party or persons the Government of the United States was prepared to give preference. It was quite obvious that it was impossible for me to see any of these persons before I had presented my Letters and, as will be indicated later, it has been equally difficult to form any contact with any of them up to this time, desirable as such contact in some respects may be. It was quite clear that any conversations which I might have with any political leaders would be misinterpreted, perhaps by them, and certainly misunderstood generally. I therefore made it clear courteously, but effectively, that much as I wished to learn to know the leaders of political, business and cultural life in Cuba, it would be preferable for me to meet them after I had presented my Letters.

As there were so many misunderstandings as to the attitude of our Government with respect to the internal political situation in Cuba and the approaching electoral campaign, it seemed to me desirable for this and for other reasons that I should have an opportunity to see the President and the Secretary of State as soon as possible after I had presented my Letters. I thought that it should be made clear to the President and to the Secretary of State that our Government did not intend to intervene in any way directly or indirectly in the electoral situation and this seemed the more important as there were very serious misapprehensions current. It seemed to me also important that certain factors in our own domestic economic and political situation should be made clear to the responsible officers of the Cuban Government in order that they might better be able to appraise their own position.

There was particular urgency, I felt, in my seeing the President and the Secretary of State in view of the fact that I had reliable information that the Judge of the District Court in Boston, who is acting as the receiver for Warren Brothers, was under such pressure that he would have, within the next few weeks, to reopen the hearings for the revaluation of the assets of Warren Brothers. The attitude of the bondholders, whose patience has become exhausted, was such that it was quite clear that if such hearings were recommenced, and this seemed certain, that the rather sordid story of delays and broken promises in the settlement of certain claims would be told in Court. It is reasonable to believe that if this story should be told in the Court it would have a very unfavorable repercussion in our own Congress and increase the difficulties of our Government in holding the situation with respect to the present quota for sugar allotted to Cuba under the Sugar Act of 1937.<sup>26</sup>

Although it had been my intention to mention to the appropriate Cuban authorities at the earliest possible opportunity the desirability of reaching an arrangement with respect to these and certain other obligations of the Cuban Government, this situation which arose with respect to the hearings to be reopened in Boston made it necessary for me to make a frank statement of the situation. I therefore sought conversations with the Secretary of State and with the President and presented this matter to them in its broad outlines. I made it clear that the question at issue was much broader than the issue of the payment of certain individual obligations, but that the question was one of the maintenance and re-establishment of Cuban credit and the confidence of the American business community here and in the United States in the Cuban situation. I emphasized that without such collaboration in the present juncture of world events, and for the foreseeable future, the Cuban economy would be the one to suffer the most.

There is appended hereto a statement<sup>27</sup> of the conversations which I had with the Secretary of State and with the President. There is no question that both of them understand the importance of action being taken by the Cuban Government without delay and before the present Congress expires on March 31, 1940. In view of the Easter holiday which intervenes, it is quite obvious that unless some action is taken before Friday of this week it is doubtful whether any action can be taken by the Congress on these obligations before the end of the month and the closing of the Congress. The President and the Secretary of State are fully alive to the desirability of settling this matter on which there is such a long record of broken promises and failure to meet acknowledged obligations. The President has been

<sup>26</sup> Approved September 1, 1937; 50 Stat. 903.

<sup>27</sup> Not printed.

holding conversations with various Senators, and yesterday had the hope that he had convinced a sufficient number of them to vote the bill now before the Cuban Senate which would bring about a settlement which represents an agreement between the creditors and the Cuban Government. A meeting of the Senate was called therefore last evening to discuss this matter and to pass the bill. No action was taken as a quorum was not present, although there were sufficient Senators in the lobbies to make up a quorum. . . .

I am reliably informed that the President and the Secretary of State have been very much concerned over the failure of the Senate to pass this bill last evening, and I understand that the President is today holding further conversations with individual Senators to impress upon them the importance of the passage of this bill and a settlement of these obligations as a step towards the reestablishment of confidence in the Cuban economic and financial situation. There is reason to believe that Colonel Batista and General Menocal are both interested in the passage of this bill. It seems clear that General Menocal has requested the Senators who follow his leadership to vote for it. It seems equally clear that Colonel Batista has expressed the same wish to the Senators of the Coalition, but it is equally clear that some of them have failed to follow his wishes . . .

The appended memoranda of conversations<sup>28</sup> will indicate to the Department that I have presented this matter to the President and to the Secretary of State in such a manner as not to bring to bear any pressure of any kind, but to show how important such action is at this time for the maintenance of the Cuban economy and financial situation. I have used every appropriate effort in order to make it clear that this step is one which should no longer be delayed because of the importance which it has and of the unfortunate results which the reopening of the hearings in the Warren Brothers' receivership in Boston may have. I have tried to make it clear that, while procrastination and a certain degree of irresponsibility in meeting promises given may have been undesirable in the past, a point has now been reached where failure to take appropriate action may have serious consequences and may make it exceedingly more difficult for our Government to maintain the sugar situation.

There is reason to believe that the President and the Secretary of State are fully alive to the situation and are making every effort in order to secure the passage of this bill covering the Public Works obligations before the end of this week by the Senate and then by the House during the early days of next week. Whether they will be able to convince a two-thirds majority of the Senators remains to be seen. I think the most that can be said is that there is at least now a greater

<sup>28</sup> Not printed.



prospect for the passage of this legislation than there has been at any time in the past. Whether this means that the legislation will actually be passed before the end of the month remains to be seen. I have wished to make it clear to the Department that I have done everything which I properly could to present this matter to the appropriate authorities of the Cuban Government.

It would have facilitated the situation if I could have had direct conversations with political leaders, which would ordinarily be quite proper for me to do. It was my hope until yesterday to be able to do this and my intention to do it. In view of the intensive conversations which have been in progress between the three principal persons concerned in this situation it has, of course, been quite impossible for me to follow out this line of action. Anything which I would have done toward seeing such leaders, and anything which I might have said to them, would unquestionably have been misconstrued or misused by some of them or by others for their own purpose. Now that it appears that Colonel Batista and General Menocal may have reached a definitive agreement with regard to cooperation in the approaching elections, it may develop that this impediment to my contact with leaders of Cuban opinion may be removed. In spite, however, of the importance of this legislation being passed by the end of the month, I still believe that it is too early for me to run the risks of engaging in direct conversations on any subject with leaders of political opinion. The risks involved in the misinterpretation which might be placed on my action are still too great.

I shall not fail to keep the Department informed as to further developments in this situation.

Respectfully yours,

GEORGE S. MESSERSMITH

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S37.51 Public Works Debt/298

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

No. 84

HABANA, March 28, 1940.

[Received April 1.]

SIR: I have the honor to refer to my despatch No. 49 of March 19, 1940, with which I transmitted memoranda covering conversations with the Secretary of State, Dr. Campa, and with the President, Dr. Laredo Brú. In view of further information which came into my possession, I deemed it advisable to seek another conversation with the President, and was able to do so on March 25, 1940. There is transmitted herewith a memorandum of my conversation<sup>29</sup> with him which

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<sup>29</sup> Not printed. Ambassador Messersmith informed the Cuban President and Secretary of State of reported activities by certain persons to delay action in an effort to get some personal advantage from the settlement of the public works debt.

is self-explanatory and which I believe the Department will find of interest.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/318

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

No. 508

HABANA, July 2, 1940.

[Received July 3.]

SIR: With further reference to the plan to settle the remainder of the public works debt, I have the honor to report that, according to today's press, the House of Representatives met yesterday and adjourned until July 18. It is obvious, therefore, that the House of Representatives, at least, will give no further consideration to either of the bills to settle the public works debt until after that date.

The Senate, of course, has not met since it received its powers to legislate from the Constituent Assembly, and there is no reason to believe that it intends to meet until sometime after presidential elections on July 14.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/318

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

No. 137

[WASHINGTON,] July 2, 1940.

SIR: The receipt is acknowledged of your despatch no. 467 of June 24, 1940<sup>30</sup> with regard to President Laredo Brú's message to the Cuban Congress urging the settlement of "the rest of the obligations originating in the public works program".

You are authorized in your discretion to state to the appropriate officials of the Cuban Government that the Department hopes that this matter will be settled on the basis of the agreement reached between the Cuban Government and the creditors in November 1938,<sup>31</sup> which agreement was incorporated in a bill introduced into the Cuban Senate by Senator Casanova in the same month. You will wish to stress the fact that the debt owed to the firm of Purdy and Henderson was included in this settlement. It is the Department's view that the agreement in question now constitutes a clearly recognized obligation of the Cuban Government to the creditors in question and that

<sup>30</sup> Not printed.

<sup>31</sup> See *Foreign Relations*, 1938, vol. v, pp. 472 ff.

there would be no justification for any further investigation or review of the claims.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

837.51 Public Works Debt/322

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

No. 572

HABANA, July 17, 1940.

[Received July 19.]

SIR: I have the honor to transmit herewith a memorandum of a conversation which I had with the President of Cuba, Dr. Laredo Brú, on Saturday afternoon, July 13.<sup>32</sup> The memorandum is self-explanatory and I will confine myself for the immediate present to the following comment.

It will be noted that the President stated that in his opinion it would be desirable to separate the obligation of the Cuban Government to Purdy & Henderson from that due to Warren Brothers on the ground that it would be relatively easy to get action by the Congress on the settlement of the Warren Brothers matter but exceedingly difficult to do so in the case of the Purdy & Henderson claim. The Department will appreciate my surprise on hearing this expression of opinion from the President, as he had at no time in previous conversations indicated any such attitude and had always expressed himself as being of the opinion that both of these claims should be settled without delay and that there was no advantage to be gained by any further discussion of the background of the obligations themselves.

As I stated in the accompanying memorandum, I am of the opinion that the President was largely acting under pressures in now endeavoring to make this distinction. I did not leave any doubt in the President's mind as to our own attitude on the matter.

It is my opinion that the settlement of the obligations will now undergo further delays and that it is useless to hope that any action will be taken prior to the meeting of the Foreign Ministers of the American States<sup>33</sup> or until after that meeting. Some fundamental change in the attitude of the higher Cuban officials with respect to this matter seems to have taken place.

There is always the possibility that the House of Representatives, which is to meet on July 18, may begin to consider and even take action on the various bills which have been presented for the settlement of

<sup>32</sup> Not printed.

<sup>33</sup> Second Meeting of the Foreign Ministers of the American Republics held at Habana July 21-30, 1940; see pp. 180 ff.

the obligations, but it is obvious that unless very great pressure is brought the settlement would be along lines to which we cannot agree. While I made our attitude thoroughly clear to the President in the interview under reference and conveyed to him the contents of the Department's instruction to this Embassy of July 2, 1940, No. 137 (file no. 837.51 Public Works Debt/313), the circumstances surrounding the interview were such that I could not go into the matter as fully as is desirable. It is therefore my intention to see the President again in the next few days, and also the Secretary of State, Dr. Campa, and make it clear that our Government would not recognize any solution except on the basis embodied in the Casanova bill of November 1938, which represents the agreement reached between the Cuban Government and the creditors. The most that can be hoped for through such representations at this time is, I believe, that the Congress will not take action for the present in a sense contrary to the agreement of November 1938.

My thought is that the most I can do at this time is to prevent action in an unfavorable sense and that in view of the Conference to be held in Habana in the next days, it may not be desirable to press for action after the close of the Conference. Unless I receive instructions from the Department to the contrary, I shall proceed along these lines. I may say that it is my opinion that in our own interest and in that of Cuba that we must take a determined, unequivocal stand with respect to the settlement of these obligations and insist upon a settlement on the basis which we have, and which the Cuban Government has, recognized as equitable and desirable.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/323

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

No. 577

HABANA, July 19, 1940.

[Received July 20.]

SIR: I have the honor to refer to my confidential despatch no. 572 of July 17, 1940, with which I transmitted a memorandum of a conversation which I had with the President of Cuba, Dr. Laredo Brú, on July 13th, during which the President indicated that it might be desirable for the Cuban Government to separate from the consideration of this matter the obligation due Purdy & Henderson.

In view of the importance of the settlement of the obligations due Warren Brothers and Purdy & Henderson in the relations between the United States and Cuba, and in view of the failure of the Cuban Government to take action in the settlement of these obligations, despite repeated assurances to the effect that the obligations would be

settled without delay, I considered that I should immediately discuss this matter further with the Secretary of State, Dr. Campa, and bring to his attention my conversation with the President, the observations I had made to the President, as well as the contents of the second paragraph of the Department's instruction to this Embassy of July 2, 1940. I therefore called on Dr. Campa this morning and discussed this matter again at length with him, and at the end of the conversation left with him the *aide-mémoire*, a copy of which is appended hereto.

Dr. Campa stated that the President had not yet informed him of his conversation with me, and he expressed surprise that the President should have indicated this desirability of separating from the consideration of this matter the obligations due Purdy & Henderson. Dr. Campa states that his attitude on this matter was well known, that he was in agreement with the views which I had expressed to him on the importance of the settlement of these obligations and that in his opinion the settlement authorized by the Congress should be on the basis of the agreement between the Cuban Government and the creditors arrived at in November 1938.

Dr. Campa expressed great concern that the matter had not been settled before this and stated that he would again and without delay express his views to the President, Dr. Laredo Brú, and to others.

I have made it clear to the President and to the Secretary of State that our Government could not recognize any solution other than that which it has constantly supported, which is the arrangement reached between the Cuban Government and the creditors in November 1938, and which agreement includes the obligations due Purdy & Henderson.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure]

*The American Embassy to the Cuban Department of State*

AIDE-MÉMOIRE

The American firms, Warren Brothers, Incorporated, and the Purdy & Henderson Company, reached an agreement with the Cuban Government in November 1938, for the payment of certain credits owed by the Cuban Government to those companies and fully recognized by the Cuban Government as a result of several separate investigations made by duly authorized representatives of that Government. The agreement was incorporated in a bill introduced in the Cuban Senate by Senator Casanova during the same month. Similar legislation was recently introduced in the Cuban House of Representatives. It has now been suggested that the debt due to the Purdy & Henderson Company be eliminated from the bill.

As already stated, this debt was included in the settlement reached between the Cuban Government and the creditors in November 1938, and was included in legislation introduced in the Cuban Senate during that month and recently in the House of Representatives. It is the view of the Government of the United States that the agreement in question constitutes a clearly recognized obligation of the Cuban Government to the creditors in question, and that there is no justification for any further investigation or review of either of these claims.

HABANA, July 18, 1940.

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837.51 Public Works Debt/325

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

No. 590

HABANA, July 24, 1940.

[Received July 25.]

SIR: I have the honor to refer to my confidential despatch No. 572 of July 17, 1940, and my No. 577 of July 19, 1940, with reference to the obligations due Warren Brothers and Purdy & Henderson. I now have to transmit herewith a memorandum of a conversation<sup>34</sup> which I had with President Laredo Brú on July 23, together with a copy of the *aide-mémoire* which I left with him. As these are self-explanatory, I am not making any further comment at this time.

It is my intention to see Colonel Batista today or tomorrow with respect to this matter.

Respectfully yours,

GEORGE S. MESSERSMITH

[Enclosure]

*The American Ambassador (Messersmith) to the President of Cuba  
(Laredo Brú)*

AIDE-MÉMOIRE

It has been reported that the Finance Committee of the House of Representatives will meet shortly to consider the two bills presented recently to that body providing for the service of the remainder of the Public Works Debt.

The American creditors, Warren Brothers, Inc., and the Purdy & Henderson Company, have furnished the Embassy with a draft, prepared by competent counsel, which would bring the so-called Casanova project, introduced into the Senate in November, 1938, and the so-called Grave de Peralta project, introduced in the House of Representatives recently, up to date so far as revisions are necessary to cover

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<sup>34</sup> Not printed.

the lapse of time since the agreement between the creditors and the Cuban Government was reached. A copy of this draft, marked (a), is attached. The Embassy is informed that the principal changes from the so-called Casanova project are as follows:

The Casanova project was to be dated January 1, 1939, and was to be amortized by 1953.

Project (A) calls for an issue bearing date of January 1, 1940, to be amortized by 1954.

The Casanova project calls for cancellation of coupons 1-2 and 3 on the Bonds of 1977. Project (A) calls for cancellation of coupons 1-2-3-4 and 5.

The Casanova project gives the Cuban Government 180 days for issuance of new bonds. Project (A) reduces this period to 120 days, to keep the settlement in 1940.

Project (A) also provides that both interest payments for the year 1940 be made on December 31, 1940. This is done as the first semester has passed.

The Embassy is informed that the project, if approved in the form suggested, would represent a cancellation of an additional year's interest (1939), representing a loss of \$391,630 to Warren Brothers, Inc., and of \$53,127 to the Purdy & Henderson Company. However, the Embassy is informed that these companies, as evidence of their willingness to cooperate in reaching an immediate solution, are prepared to accept these additional losses.

HABANA, July 23, 1940.

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837.51 Public Works Debt/326

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

No. 595

HABANA, July 27, 1940.

[Received July 29.]

SIR: I have the honor to refer to my confidential despatches No. 577 of July 19 and No. 590 of July 24, with which I transmitted memoranda of conversations which I had with the Secretary of State, Dr. Campa, and President Laredo Brú, with reference to the obligations due by the Cuban Government to Warren Brothers and Purdy and Henderson. It will be recalled that in the conversation which I had with the President, he stated that he would take up this matter immediately with the Secretary of State, Dr. Campa, the Secretary of Defense, Dr. Ramos, and Mr. Amadeo López Castro, with instructions that they were to see the President-Elect to urge upon him his collaboration in securing a settlement of these obligations without delay.

The Secretary of State, Dr. Campa, requested me to call on him yesterday, and he informed me that, on instruction of the President,

he, together with those above mentioned, had just called on the President-Elect, Colonel Batista. They had set forth to him the President's opinion and their own that the matter of the obligations should be settled without delay. The President-Elect replied that he shared this opinion and that it was his desire that there should be no further delay in meeting this obligation of the Government. He requested Dr. Campa to state to the President that he could depend upon his full cooperation in this matter and that he would move in that direction immediately. The President-Elect further requested Dr. Campa to inform the President that it was his opinion that it would not be desirable to have the Congress meet while the Habana Meeting of the Ministers of Foreign Affairs of the American States was in progress, as the Capitol was so occupied by the various delegations and their meetings. He felt, however, that the House of Representatives should meet immediately after the Habana Meeting adjourned and pass the appropriate bill to settle the obligations on the basis of the agreement reached in November 1938, and that immediately after the House had passed the bill, the Senate should be convened to take similar action thereon.

Dr. Campa stated that he had been requested by the President to convey this information to me, and he gave me his assurance that this long-standing matter was now on the way to settlement without further delay.

I shall continue to give this matter my attention, and I hope that I will be able to report favorable developments in the course of the next week, as the Meeting of Foreign Ministers is expected to adjourn on July 30, 1940.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/328

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

No. 605

HABANA, July 31, 1940.

[Received August 2.]

SIR: I have the honor to refer to various despatches of the Embassy with reference to the settlement of the obligations due by the Cuban Government to Warren Brothers and Purdy and Henderson, and to transmit herewith a memorandum covering a part of a conversation which Secretary Hull had with President Laredo Brú on July 30. This reference to the obligations took place during an informal conversation which Secretary Hull had with the President on the occasion of a courtesy call which the Secretary made on the President.

Respectfully yours,

GEORGE S. MESSERSMITH



[Enclosure]

*Memorandum by the Ambassador in Cuba (Messersmith) of a Conversation Between the Secretary of State and the President of Cuba (Laredo Brú)*

[HABANA,] July 30, 1940.

During the course of the Habana Conference the Secretary of State, Mr. Hull, indicated a desire to pay a courtesy call on the President of Cuba, Dr. Laredo Brú, in addition to the call which he made on the President, together with the other delegates to the Habana Conference. The call took place on July 30 at 11:30 a. m., and I accompanied the Secretary.

The Secretary and the President talked informally on a number of matters and exchanged views on matters of common interest. It is not necessary to make a record of the conversation, except in the following respect:

During the course of the conversation Secretary Hull spoke of the importance of orderly and stable governments in this hemisphere, as elsewhere, and of the necessity of governments maintaining their obligations. In this connection the Secretary expressed to the President his gratification that the President had recently taken the initiative in order to secure a settlement of the obligations due Warren Brothers and Purdy and Henderson. The Secretary spoke in general of the importance of governments meeting such obligations and indicated that the various agencies of our Government would find it impossible to cooperate with Cuba in a program of economic assistance of any kind unless these obligations were met. The President replied that he thoroughly understood the importance of the settlement of these obligations; that for that reason he had very recently again taken the initiative; that he was pressing the matter of settlement as hard as he could; and that he had spoken to Colonel Batista, the President-Elect, to impress upon him the importance of the matter. The President said that Colonel Batista had indicated that he did understand the importance of immediate settlement and that he had pledged himself to do all in his power to bring about such immediate settlement. The President said that this matter was now of more importance to the President-Elect than it was to him, as his functions would cease in a few months. He was, however, prepared to do everything in his power to bring about a settlement before the President-Elect took over his office, and he was working to that end.

The President expressed to Secretary Hull his belief that the matter of the obligations would be settled within a very brief period.

G[EORGE] S. M[ESSERSMITH]

837.51 Public Works Debt/329

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

No. 612

HABANA, August 3, 1940.

[Received August 5.]

SIR: I have the honor to refer to previous despatches with respect to the settlement of the claims due Warren Brothers and Purdy & Henderson by the Cuban Government and to transmit herewith memoranda of conversations<sup>85</sup> which I had on August 2 with Dr. Montouliou the Secretary of the Treasury, with Colonel Batista the President-elect of Cuba, with Dr. Amadeo López Castro, and with Dr. Ramos the Secretary of National Defense. This matter has reached a critical stage, and the memoranda herewith transmitted are self-explanatory. I believe it is reasonable to say that the prospects for settlement in the near future are now better than they have been at any time. I shall keep the Department promptly informed of developments. In view of the illness of Colonel Batista, I doubt whether action can be expected before the week beginning Monday, August 12.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Public Works Debt/331

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

No. 619

HABANA, August 5, 1940.

[Received August 6.]

SIR: I have the honor to refer to my confidential despatch No. 612 of August 3, 1940, with which I transmitted memoranda covering a number of conversations held on August 2 with officials of the Cuban Government with reference to the settlement of the Obligations due Warren Brothers and Purdy & Henderson, and to report the following conversation with Dr. Amadeo López Castro on August 3, 1940.

It will be recalled that in the memorandum of my conversation with Dr. López Castro, transmitted with the above-mentioned despatch, it was reported that Dr. López Castro would see the President on August 3. Immediately after he had seen the President, on August 3, he called on me at the Chancery.

He said that his conversation with the President had been most satisfactory. He had taken up with the President the President's reported intention of sending another message to the Congress recommending the payment immediately of the Obligation due Warren Brothers but leaving it to the judgment of the Congress as to whether the Obligation due Purdy & Henderson should be paid. Dr. López Castro said to

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<sup>85</sup> None printed.

the President that in his opinion such a message as the President had in mind would result in the Congress using the message as an excuse for not taking action on the Obligations due Purdy & Henderson. In his opinion, such a partial settlement would not be satisfactory to our Government and would damage Cuban credit. In view of the repeated promises of the Cuban Government to settle both claims, the failure to pay Purdy & Henderson would have serious effects for Cuba in a most difficult time. Dr. López Castro further informed the President that if he took the action he contemplated it would greatly increase the difficulties which the President-elect would have on coming into office. It was absolutely essential that both Obligations be paid in the interests of Cuba. If the Obligation due Purdy & Henderson was not paid now it would have to be paid later and the President-elect would be in the position of having an adverse report by his predecessor on record with reference to Purdy & Henderson.

Dr. López Castro stated that the President had indicated that his intentions with respect to the message he had intended to send to Congress had been misunderstood. It was not his intention to send a message along the line that Dr. López Castro had been informed. On the contrary, the President realized that a partial settlement would not be satisfactory to our Government. His previous message to the Congress had not been sufficiently clear and that it was his intention to recommend action on the Obligations due Purdy & Henderson as well as the one due Warren Brothers. What he did intend to do, therefore, was to send a message to the Congress making it clear that he recommended the immediate settlement of the Obligations due both Warren Brothers and Purdy & Henderson.

The President also stated that he was entirely prepared, together with Colonel Batista, to see the individual members of the Congress and to urge upon them the necessity for immediate action on the bill approving the Obligations. The President said that he would in these conversations urge upon the members of Congress to act on the bill following out the provisions of the project of law submitted by Senator Cassanova sometime ago as this carried out the Obligations assumed by Cuba in the agreement of November 1938.

In response to a specific request from Dr. López Castro, the President again assured Dr. López Castro that if a bill came to him from the Congress authorizing the payment of the Obligations due Warren Brothers and Purdy & Henderson on the basis of the agreement of November 1938, he would approve such a bill.

Dr. López Castro said that he considered his conversation with the President had been most satisfactory and that he now had great hope that this matter would be definitely settled by the Congress during the early days of the week beginning August 12.

Dr. López Castro was apparently not familiar with the conversation which Dr. Ramos had had with the President the evening before, and which conversation I reported in a memorandum<sup>36</sup> transmitted with my confidential despatch No. 612. The above-mentioned conversation with Dr. López Castro is particularly interesting as the President during it disclaimed having had any intention of sending a message to the Congress excluding Purdy & Henderson from his recommendations. In this respect the President does not seem to have been altogether frank with Dr. López Castro for, as I have already reported, the President, in a Cabinet meeting recently, indicated that it was his intention to send a message to the Congress leaving it to their judgment entirely as to what action they should take on the Purdy & Henderson Obligation. The nature of the conversation with Dr. López Castro, above reported, was, of course, determined by the conversation which the President had had the preceding evening with Dr. Ramos and during which Dr. Ramos had already secured the President's agreement not to send such a message, but, on the other hand, one in an affirmative sense with respect to both Obligations.

There is now, I believe, good reason to feel that through a combination of circumstances we may expect settlement of these Obligations by the Congress during the week beginning August 12, 1940.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/333

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

No. 626

HABANA, August 6, 1940.

[Received August 8.]

SIR: Supplementing my despatch No. 623, of August 6, 1940,<sup>36</sup> I have the honor to enclose a translation of President Laredo Brú's message of August 3 to the Cuban Congress,<sup>36</sup> urging that the Purdy & Henderson Company claim be included in the settlement of the public works debt.

It will be noted that the President admits that at the time of sending his earlier message he did not favor including the Purdy & Henderson Company in the proposed settlement. He says that, for "high and powerful reasons of public interest," he now thinks this should be done, and recommends that the Purdy & Henderson Company claim be settled along with that of the holders of gold obligations.

It will be noted, also, that the President specifically recommends not that the Congress approve the settlement reached by the Cuban Government with the creditors and embodied in the Casanova bill,

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<sup>36</sup> Not printed.

but that the amounts to be given to the creditors not exceed the amounts contained in the Casanova bill.

While the President's attitude in this respect might well have been stronger and more definite, his message is considered to be a favorable development.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Public Works Debt/347

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

No. 734

HABANA, September 4, 1940.

[Received September 5.]

SIR: I have the honor to inform the Department that at a session of the Cuban Senate yesterday afternoon there was approved the original Casanova bill with certain alterations which provides for the settlement of the Obligations due Warren Brothers and Purdy & Henderson and certain other creditors. There are seventeen Senators in the present Congress. Of these, fifteen voted for the bill. Those voting against were Senator del Pozo and Senator Barrena. The approval of the bill in the Senate was fairly certain when the majority of the Opposition Senators agreed to consider this bill as a matter in the public interest and not as a partisan issue.

It has not been possible to get a text as yet of the bill in the form in which it was passed by the Senate. There is transmitted herewith a clipping from the *Diario de la Marina*, of September 4, (enclosure 3)<sup>37</sup> which gives the text of the bill as passed, and I believe that this text is substantially correct. I shall, however, as soon as it is possible to secure an exact copy of the bill, transmit it to the Department. The Department is aware that this Embassy had informed the Cuban Government that the original Casanova bill, with certain alterations in dates in order to bring it up to date, would be considered as a satisfactory solution of this matter on the basis of the November 1938 agreement by the Cuban Government with the creditors. The changes which have been made in the original Casanova bill as passed yesterday by the Senate are, I understand, of a secondary and unimportant character with the exception of a change which provides that payment of interest on the new Obligations shall not begin until January 1, 1941. This change is not in agreement with the assurances given us concerning the settlement of this matter and it represents a further considerable sacrifice on the part of the creditors who have already suffered, not only a considerable loss in interest, but also a reduction in the capital amount of the debt due them.

<sup>37</sup> Not reprinted.

In view, however, of the fact that the bill has finally passed the Senate, and that it would create almost insuperable obstacles to endeavor to secure a change in the date on which interest shall commence, I am inclined to the opinion that we should not make any representations on this point.

The bill now goes to the House of Representatives which is scheduled to meet on Friday, September 6, and the approved Senate bill will be on the House calendar for consideration. The attitude of the majority of the members of the House of Representatives has been one of opposition to the passage of this bill, but I am inclined to the opinion that, although there may be some delay in the passage of the bill in the House, and considerable opposition thereto, that it will be approved by that body. The vote of 15-2 in the Senate will have considerable effect on the passage of the bill in the House—unless some delaying tactics should purposely be employed with the approval of members of the Government. The message of the President of Cuba to the Congress asking for the authorization of a loan of \$15,000,000 may cause additional opposition in the House of Representatives.

Respectfully yours,

GEORGE S. MESSERSMITH

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837.51 Public Works Debt/362 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, September 13, 1940—9 a. m.

[Received 11:05 a. m.]

107. Embassy's despatch 734, September 4. House this morning approved without modification Senate bill to complete the service of the public works debt.

BEAULAC

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837.51 Public Works Debt/364 : Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, September 17, 1940—9 a. m.

[Received 12:10 p. m.]

110. My telegram No. 107, September 13, 9 a. m. President signed public works debt bill yesterday.<sup>39</sup>

BEAULAC

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<sup>39</sup> For text, see Cuba, *Gaceta Oficial*, October 9, 1940, pp. 20,604-20,609. This printing corrected a previous publication of the text in the issue of September 19, in which there was an omission.

INTEREST OF THE DEPARTMENT OF STATE IN PROVISIONS REGARDING A DEBT MORATORIUM ADOPTED BY THE CUBAN CONSTITUENT ASSEMBLY

837.011/400

*Memorandum by the Assistant Chief of the Division of the American Republics (Bonsal)* <sup>40</sup>

[WASHINGTON,] May 16, 1940.

On May 13 the Coordinating Committee submitted to the Constituent Assembly two proposals, one on behalf of the majority and the other on behalf of the minority, relative to the existing credit moratoria. These two proposals are briefly described below. Both proposals take the form of transitory provisions to be inserted into the constitution and not to be subject to the terms of Articles 25 and 26 of the constitution relative to the retroactivity of laws and the impairment of the obligations of contract. Ambassador Martínez Fraga <sup>41</sup> today furnished you with a copy of the majority proposal *only*.

*The majority proposal*

This proposal provides that:

Congress is to have complete power of legislating regarding obligations which the moratoria were intended to cover regardless of whether rights under the moratorium were waived or direct adjustments made. Certain obligations, especially those relating to the sugar industry, contracted after the enactment of the moratorium legislation of 1934 are included within the scope of the present proposal. Unless Congress legislates within a period of two and one-half years, the original moratoria would again come into force as though newly enacted without reference to economic conditions which might exist at the time. The result would be to place the credits more or less permanently on the basis provided in the first five years of the moratorium legislation now in force. This proposal is *not* acceptable to creditor interests.

*The minority proposal*

This proposal applies only to obligations affected by the moratorium legislation of 1934 and which are still in effect. The date of origin of such obligations is changed from that of their original signature to the date on which the present provision comes into force. The rate of interest is fixed at five percent for amounts of less than \$50,000 and at three percent on amounts in excess thereof. (It is

<sup>40</sup> Addressed to the Ambassador to Cuba (Messersmith) and the Under Secretary of State (Welles).

<sup>41</sup> Cuban Ambassador in the United States.

understood that a flat rate of four percent has now been agreed to by the supporters of this proposal.) Amounts accrued on account of past due interest payments or penal interests are condoned. The date of maturity of obligations is extended by five years; if the obligation falls due in its entirety at a given date according to the original instrument, payment will now be made in five annual instalments beginning one year after the original due date. In the case of amortizable obligations, the period of amortization is extended by five years.

Mr. Lancaster<sup>42</sup> indicated a number of objections to this proposal. However, Mr. Beaulac<sup>43</sup> reported this morning that Messrs. Rosenthal<sup>44</sup> and Heneman<sup>45</sup> were in general agreement therewith. This minority proposal is said to have the support of the Menocalistas, the Autenticos, and the ABC's. Mr. Beaulac has been authorized to state, as a personal expression of opinion, that the proposal would not meet with objection from this Government.

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837.011/404½

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

[WASHINGTON,] May 22, 1940.

MR. DUGGAN: I have examined the "amendment" to the transitory provision approved by the Coordinating Committee of the Cuban Constituent Assembly which was proposed by Senator Casanova on May 18 and a copy of which was enclosed with Ambassador Martínez Fraga's letter of May 20 to Mr. Welles.<sup>46</sup> The document is not an amendment to either the majority or minority proposals with which we are already familiar; it is an entirely new proposal. Furthermore, the Ambassador's covering letter is misleading in that, unintentionally I am sure, he gives the impression that Casanova's proposal has some relation to the "minority proposal" of Dr. Miguel A. Suárez Fernández, concerning which we expressed ourselves favorably last week.

The Casanova proposal appears to be extremely favorable to the debtor class; it goes further in this direction than the bill for the liquidation of the moratorium which President Laredo Brú vetoed last October and concerning which we submitted a number of informal unfavorable comments.

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<sup>42</sup> W. W. Lancaster of Shearman and Sterling, counsel for the National City Bank of New York.

<sup>43</sup> Willard L. Beaulac, Chargé in Cuba.

<sup>44</sup> Louis S. Rosenthal, vice president of Chase National Bank and head of the Habana Branch.

<sup>45</sup> Harry Henneman of the National City Bank of New York.

<sup>46</sup> Not found in Department files.



The principal characteristics of the Casanova proposal are as follows:

(a) It applies to obligations connected with the sugar industry contracted after the enactment of the current moratorium in 1934 and would apparently do away with all adjustments or waivers which may have taken place directly between debtor and creditor.

(b) Although the capital amount of obligations is not reduced, an amortization period of some twenty to thirty years is granted, the shorter period being for amounts of less than \$50,000 and the longer one for those in excess of \$200,000.

(c) Over-due interest apparently would be added to the capital amount. The general interest rate is fixed according to a scale beginning at  $3\frac{1}{2}$  percent for amounts of \$25,000 or less and decreasing to 1 percent for amounts in excess of \$1,000,000.

The Casanova proposal contains other features of lesser importance. We have not yet heard from the Embassy in Habana in regard thereto nor have we had any analysis from banking sources. I believe it is fair to conclude that the proposal, which makes no provision for a sliding scale of payments in accordance with the price of sugar, will not be considered satisfactory by us when we have had the chance to analyze it completely.

As you are aware, recent European developments have had a highly depressing effect on the price of Cuban sugar, both for the United States and for the world markets. The situation is so uncertain that I am inclined to feel that, if there is no chance of the Constituent Assembly's adopting the minority proposal and if it is considered appropriate for us to express a further opinion, we might suggest a continuation of the present moratorium until the situation becomes stabilized. Such a continuation would imply the maintenance of interest and amortization payments at present levels and the avoidance of the increases which, in accordance with moratorium decrees, would go into effect after June 30 of this year.

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837.011/4053

*Memorandum by the Assistant Chief of the Division of the American Republics (Bonsal)*<sup>47</sup>

[WASHINGTON,] May 24, 1940.

Mr. Beaulac telephoned this afternoon with regard to the project drawn up by a special committee of the Constituent Assembly for the liquidation of the credit moratorium. This project, apparently based upon Senator Casanova's proposal of last Saturday, a copy of which was mailed to Mr. Welles by the Cuban Ambassador, was described

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<sup>47</sup> Addressed to the Chief of the Division of the American Republics (Duggan) and the Under Secretary of State (Welles).

in my memorandum of this morning. Mr. Beaulac states that it represents the views of the Government coalition but that it is doubtful that action will be taken upon it by the Assembly today since there are many delegates who do not understand it and wish to study the matter.

Mr. Beaulac is sending us the text of the proposal, together with certain comments which may be summarized as follows:

(1) Obligations contracted after the moratorium of 1934 should not be treated in the same manner as those contracted prior to the enactment of the moratorium.

(2) Adjustments entered into freely by debtor and creditor should be respected.

(3) Amortization payments should begin this year and not be delayed until 1942.

(4) Over-due payments of interest or principal under the moratorium should not be condoned as proposed but instead a reasonable time to cure defaults should be granted.

(5) The average price to be used in computing interest amortization in the case of sugar mill obligations should be defined. Provision should be made for the payment at least of interest when the average is between 1.25 and 1.40—the proposal at present contemplates payments only when the average is above 1.40.

(6) The scale of payments when the price is between 1.40 and 1.50 might be increased to 4 percent instead of 3 percent of the gross value of the crop. In a number of typical cases it has been computed that 3 percent of the gross value would only barely cover interest at the new proposed rates and leave very little for amortization.

(7) An attempt is made in the proposal to make all obligations owed by owners of sugar mills subject to the average price of sugar. This means that, if Senator Casanova—for example—owed money on an apartment house in Habana, he would not have to service his debt unless the price of sugar were in excess of 1.40. This provision seems wholly undesirable.

(8) The right of personal action should be retained.

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837.011/404½

*Memorandum by the Assistant Chief of the Division of the American Republics (Bonsal)*<sup>48</sup>

[WASHINGTON,] May 24, 1940.

This memorandum is supplementary to my memorandum of May 22 regarding the so-called Casanova proposal, a copy of which was enclosed with Ambassador Martínez Fraga's letter of May 20 to Mr. Welles.<sup>49</sup>

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<sup>48</sup> Addressed to the Chief of the Division of the American Republics (Duggan) and the Under Secretary of State (Welles).

<sup>49</sup> Not found in Department files.

As the result of telephone conversations with Mr. Lancaster yesterday and today and with Ambassador Messersmith this morning, the following developments are reported:

The Casanova proposal has been somewhat modified in a special committee of the Constituent Assembly. Rates of interest and amortization appear to have been made even more generous for debtors. However, payments to be made in connection with sugar mill obligations have been related to the average price of sugar. This is considered by Mr. Lancaster to be a favorable development. The proposal in this respect involves no payments at all if the average price is below 1.40; when it is between 1.40 and 1.50, the debtor is to pay the creditors 3% of the gross value of the crop, this amount to be applied first to interest and then to amortization. When the price is in excess of 1.50, the percentage of the value of the crop to be paid in this manner increases by  $\frac{1}{100}$  of 1% for each point above 1.50. Thus, if the average price reaches 1.75, the debtor will pay to the creditor 4% of the value of the crop. These payments are applied to the total indebtedness. The fact that no payment is made in a given year because the price of sugar is below 1.40 does not relieve the debtor from the eventual obligation to pay.

The average price of sugar this year was in the neighborhood of 1.50 for the first four months but has probably dropped below 1.40 during the past two weeks. Apparently, the Casanova proposal in its present form provides that no payments whatever on sugar obligations will be made until 1942. This is subject to verification upon receipt of the text.

Mr. Messersmith states that there is a strong possibility that the Assembly will not take action today on this matter as there is a general feeling that it requires more careful study than the members of the Assembly have been able to give it.

The Ambassador had a long talk with President Laredo Brú yesterday afternoon. The President expressed himself as very much disgusted with the progress being made in solving the moratorium matter. I indicated to the Ambassador our desire to be fully informed of his views in the matter as soon as possible. He promised a telegram for today. He stated his intention to indicate very strongly to the appropriate people the necessity for speeding up the procedure of making a constitution. (The deadline is apparently June 8.)

Mr. Lancaster also promised to send me further information regarding the current credit moratorium proposal as soon as he has had a chance to analyze it further. He considers it to be very drastic in respect to the interests of creditors. He also indicated that it contains a provision for the reopening of foreclosure proceedings terminated between the years 1930 and 1933.

837.011/408½

*Memorandum by the Assistant Chief of the Division of the American Republics (Bonsal) to the Under Secretary of State (Welles)*

[WASHINGTON,] May 28, 1940.

MR. WELLES: Ambassador Messersmith telephoned this morning to state that the debate regarding the proposal for the liquidation of the Cuban credit moratorium which was described in the attached memorandum<sup>50</sup> and concerning which you expressed yourself unfavorably to the Cuban Ambassador on Saturday, was proceeding today and that Cortina and Casanova are making strong efforts to have the measure adopted, alleging that they have the support of Colonel Batista.<sup>51</sup> The Ambassador is impressed with the necessity for further action on our part today.

Twelve New York banks have addressed a telegram to the Department<sup>50</sup> regarding this proposal, stating that its "confiscatory character" is obvious and earnestly requesting the Department to take immediate action for the protection of the interests involved. The representatives of certain of these banks have asked Ambassador Messersmith's advice as to whether they should address themselves directly to the Constituent Assembly; the Ambassador replied that this was a matter which they would of course have to decide for themselves but that, in his personal opinion, such a step would be inadvisable.

It is recommended that you again call the attention of Ambassador Martínez Fraga to the fact that many of the features of the current proposal appear unduly favorable to the debtors and consequently harmful to Cuban credit and that you sign the attached telegram to Ambassador Messersmith authorizing the latter to express these views to the President of Cuba and to other appropriate officials.<sup>52</sup>

837.011/417a: Telegram

*The Secretary of State to the Ambassador in Cuba (Messersmith)*<sup>53</sup>

WASHINGTON, May 28, 1940—6 p. m.

60. From the Under Secretary. With reference to your conversation this morning with Duggan, I am informing Ambassador Martínez Fraga that the current proposal for the liquidation of the moratorium appears unduly favorable to the debtors and that it would consequently have a harmful effect upon Cuban credit. Please convey these views

<sup>50</sup> Not printed.<sup>51</sup> Fulgencio Batista, former Chief of Staff of the Cuban Army. See also footnote 2, p. 737.<sup>52</sup> See *infra*.<sup>53</sup> The views stated in this telegram were expressed the same day by Mr. Duggan and Mr. Bonsal in a conversation with the Cuban Ambassador.

to President Laredo Brú and to any other persons whom you may consider appropriate, emphasizing our opinion that this matter should be disposed of upon a basis which, while responsive to the just needs of debtors, will nevertheless provide an orderly procedure for adequate and equitable repayment to the creditors. Although this Government has no desire to specify the terms of a satisfactory settlement, it would seem that the current proposal should be modified in several important particulars, including the raising of interest rates especially in the case of large obligations, the reduction of amortization periods and the exclusion from the effects of the proposal of obligations contracted after the enactment of the moratorium of 1934 or in which adjustments or waivers of moratorium provisions have taken place by mutual consent between debtors and creditors. Twelve of the New York banks which are trustees under bond indentures covering property in Cuba have telegraphed the Department to the effect that "the confiscatory character of the proposals is obvious". [Welles.]

HULL

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837.011/409½

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

[WASHINGTON,] May 28, 1940.

The Cuban Ambassador telephoned me at about six o'clock to say that he had spoken on the telephone with his brother who confirmed that there had been a tussle in the Constituent Assembly yesterday regarding the mortgage moratorium. His brother was going to the Coordinating Committee then and would convey to Senator Casanova the views of the Department. The Ambassador said that he took the liberty of stating that these views were those held by Mr. Welles, in order that the message to Senator Casanova might be of a more personal nature.

The Ambassador stated that he might hear further from his brother after the latter spoke with Casanova; in any case he felt that he was doing all that he could to bring about a moderate solution.

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837.011/415

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

No. 345

HABANA, May 29, 1940.

[Received May 31.]

SIR: Supplementing my despatch No. 336, of May 28, 1940,<sup>54</sup> I have the honor to report that a revised transitory provision covering the

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<sup>54</sup> Not printed.

moratorium was approved, as a whole, by the Constituent Assembly at about a quarter of three this morning. A copy of the new provision as taken from the press is enclosed.<sup>55</sup>

It will be noted that amortization periods have been slightly lessened—10 years for obligations not exceeding \$10,000; 15 years for those between \$10,000 and \$20,000; 20 years for those between \$20,000 and \$50,000; 25 years for those between \$50,000 and \$100,000; and 30 years for those exceeding \$100,000.

Interest rates have been increased slightly in the small categories. Up to \$10,000, the new rate will be 3½%; between \$10,000 and \$20,000, 3¼%; between \$20,000 and \$50,000, 3%; between \$50,000 and \$100,000, 2¾%; between \$100,000 and \$200,000, 2½%; between \$200,000 and \$400,000, 2%; between \$400,000 and \$600,000, 1½%; between \$600,000 and \$800,000, 1¼%; and above \$800,000, 1%.

With reference to sugar mill debts contracted between August 15, 1934, and September 4, 1937, as a concession to the theory that such debts should not receive the same treatment as debts now subject to moratoria, Article 10 provides that the amortization period for such new debts shall be reduced by one-third.

It will thus be seen that the transitory provision approved by the Assembly last night has slightly modified the previous draft, in the three directions suggested in the Department's telegram No. 60, May 28, 6 p. m.

Otherwise, the project is very much the same as that transmitted with my despatch No. 323, of May 24,<sup>55</sup> including the special cases, or what are known locally as "pictures." In the latter connection, I am enclosing a translation of a memorandum<sup>55</sup> which the Embassy considers reliable and which identifies certain of the private cases included in the present project. It will be noted that Assemblyman Cortina, Carlos Manuel de la Cruz, and Carlos Miguel de Céspedes are especially favored.

It is understood that now the proposed transitory provision must be voted upon, article by article. This will furnish an opportunity for amendments.

The debate in the Assembly last night was very lively. Quintín George and Martínez Sáenz eloquently opposed the draft which was finally approved, maintaining that it was being railroaded through the Assembly without proper study and without proper consideration and that, far from being intended to protect the masses, it was devised to enrich the few.

Discussion of the proposed transitory provision will be continued today.

Respectfully yours,

GEORGE S. MESSERSMITH

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<sup>55</sup> Not printed.

837.011/427

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

No. 373

HABANA, June 5, 1940.

[Received June 6.]

SIR: With further reference to the transitory provision to terminate the moratoria, I have the honor to report that the Constituent Assembly yesterday promulgated the provision, and it is therefore in effect. A copy and translation of the text, as published in the local press, are enclosed.<sup>56</sup>

Certain last-minute changes have been noted. For example, public service corporations are excluded from the benefits of the provision, except those with a capital of less than 100,000 pesos and which are not subsidiaries of larger companies. Railroads, on the other hand, will enjoy the benefits of the provision.

Respectfully yours,

GEORGE S. MESSERSMITH

837.011/428

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

No. 378

HABANA, June 6, 1940.

[Received June 7.]

SIR: Supplementing my despatch No. 373, of June 5, 1940, I have the honor to report that the transitory provision covering the moratorium has not yet been published in the *Official Gazette*. It is reliably reported, in this connection, that the President is endeavoring to prevent its publication. It is reliably reported also that the President is conferring with counsel in order to determine whether or not there is some manner in which he can veto the provision, on the ground that it is legislation and is therefore subject to his veto, or in which the provision can be declared invalid.

A movement has developed within the Assembly to modify Decree-Law No. 522. This movement, headed ostensibly by the communist leader, Marinello, has so far not gained great headway.

Respectfully yours,

GEORGE S. MESSERSMITH

837.011/431

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

No. 389

HABANA, June 8, 1940.

[Received June 10.]

SIR: Supplementing my despatch No. 378, of June 6, 1940, I have the honor to report that the transitory provision covering the mora-

<sup>56</sup> Not printed.

toria was published in yesterday's *Official Gazette*. A copy is enclosed.<sup>57</sup>

Respectfully yours,

GEORGE S. MESSERSMITH

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FINANCIAL ASSISTANCE BY THE UNITED STATES TO CUBA

837.51/2626

*The Cuban Ambassador (Martínez Fraga) to the Department of State*<sup>58</sup>

[Translation]<sup>58a</sup>

HABANA, August 29, 1940.

The Cuban Government sees itself obliged in view of the crisis in its revenue collections to consider a drastic reduction in the budget or to find an urgent emergency solution which will make unnecessary that reduction. The reduction method is considered dangerous and all of us who have been consulted have declared against it for a number of powerful reasons. I think that the best solution would be to negotiate a loan exclusively devoted to meeting the deficits of 1940-1941. The Cuban Government would like to know with the greatest possible speed if the Government of the United States, taking into account the serious situation faced by Cuba as a result of the general crisis in her principal markets, would be disposed to collaborate in the immediate solution indicated above, authorizing the negotiation of a loan through the Export-Import Bank or if that were impossible lending its friendly and confidential support to the negotiations which may be attempted with private banks. The general lines of the operation required by Cuba are: \$15,000,000 with interest at 3½ per cent for a 20-year period with the guarantee of the 8 cent tax used in connection with the Chadbourne sugar issue. The extreme urgency forces me to make this consultation by cable. A projected bill will be sent tomorrow by air but I would appreciate some advice before recommending the presentation to Congress of said projected bill. The Senate will vote tomorrow on the Casanova bill regarding obligations.

MARTÍNEZ FRAGA

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<sup>57</sup> See *Gaceta Oficial*, June 7, 1940, pp. 11, 905-11, 908.

<sup>58</sup> This cable, sent by the Cuban Ambassador from Habana, was delivered to the Department by the Cuban Chargé on August 30.

<sup>58a</sup> Translation filed separately under 837.51/2625.



837.51/2626 : Telegram

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

HABANA, August 31, 1940—1 p. m.

[Received 4:36 p. m.]

95. Department's telegram No. 140, August 30, 5 p. m.<sup>59</sup> The emergency in the Cuban financial situation to which Ambassador Martínez Fraga refers in his telegram to the Department does not in my opinion exist. That the Cuban Government will have a difficult budgetary problem and that Cuba will face an increasingly difficult economic situation is clear but in this respect her problem does not differ materially from that of many countries. The Department will find in the Embassy's financial report for the fortnight ended August 17 (No. 26)<sup>60</sup> a full picture of the present budgetary and financial situation including the Secretary of the Treasury's suggestions to the President for overcoming the expected budgetary deficit. These suggestions did not include a possible loan from the United States.

I have been of the opinion that our Government will in due course wish to consider with Cuba measures of economic cooperation which may be found after full study to involve some measure of financial assistance direct or indirect. It is, however, my opinion that any decisions of our Government can only be reached after full and frank conversations and exchange of information with the Cuban Government.

An immediate loan is not necessary and in my opinion it would be a mistake to grant any loan now or to discuss such a loan. I believe that we can appropriately say to the Cuban Government that we will be prepared to discuss problems of economic cooperation after it has taken the steps needed to establish its credit firmly.

No official of the Cuban Government has discussed with me such a loan and I am not aware to what degree the Ambassador may be interpreting the viewpoint and desires of the Cuban Government.

Air mail despatch follows.

MESSERSMITH

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<sup>59</sup> Not printed; it transmitted the text of the Cuban note, *supra*, and requested comments of the Ambassador as to the extreme urgency of the situation described and recommendations as to the answer which should be made (837.51/2625).

<sup>60</sup> Not printed.

837.51/2629

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

No. 726

HABANA, August 31, 1940.

[Received September 3.]

[Extract]

For the Department's convenience, I will résumé here the conditions under which I believe we could begin any conversations with the Cuban Government with respect to economic and/or financial cooperation.

1. We can under no circumstances, I believe, begin any conversations with the Cuban Government on either economic or financial cooperation before the Cuban Congress has passed the Bill and the President has approved the Bill satisfying the claims of Warren Brothers and Purdy and Henderson on the basis of the November 1938 agreement between the Cuban Government and the creditors.<sup>61</sup>

2. Before beginning such conversations I believe the Cuban Government should have taken appropriate action through the Congress to prolong Decree Law 522 without substantial alteration which governs the allocation of sugar quotas in Cuba.

Once the above have been satisfactorily carried through by the Cuban Government we could begin conversations in which, in my opinion, the following matters must be discussed among others.

3. Reorganization of the Treasury Department and the acceptance of an American expert or adviser in that Department.

4. Possible reorganization of other administrative Departments of the Cuban Government in order to provide an honest and effective administration in the interests of Cuba.

5. A satisfactory settlement of the Morris claim,<sup>62</sup> in which there has been an adjudication of the Supreme Court, and a satisfactory settlement of the Habana Coal Company situation.

6. Assurances of an adequate character with respect to possible legislation of a social character, so that undue and impossible burdens may not be placed on business interests here and the Cuban economy destroyed from within.

7. Assurances that there will not be unsound or discriminatory legislation affecting American interests.

8. Assurances that Cuba will not start lending, at our expense, money to those who are unable to secure credit from private banks as a result of moratorium legislation.

9. A careful examination of the budgetary and tax situation.

10. Negotiation of a treaty of commerce which has been pending for some time.

<sup>61</sup> For correspondence regarding the above claims, see pp. 743 ff.

<sup>62</sup> Claim based on a decision of the Cuban Supreme Court providing compensation for land seized by the Cuban Government.

It is not intended that the foregoing should be a complete statement of the subjects to be discussed in such conversations with Cuba, but only a statement of those subjects which I believe it is indispensable to discuss and to reach satisfactory agreement before any economic assistance or financial aid can be granted to Cuba.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51/2626

*Memorandum of Telephone Conversation, by Mr. Ellis O. Briggs of the Division of the American Republics*

[WASHINGTON,] September 3, 1940.

Participants: Ambassador Messersmith  
Mr. Duggan<sup>63</sup>

Ambassador Messersmith telephoned from Habana at ten o'clock this morning concerning the initiative of Ambassador Martínez Fraga, now in Habana, in approaching the Department through his Embassy here for the purpose of obtaining a United States Government loan. Mr. Messersmith said that he had outlined his views in detail in his despatch no. 726 of August 31 and in a letter of September 1 to the Under Secretary.<sup>64</sup> He stated emphatically that "we should not for a moment consider the loan" and that "if we permitted the Cubans to carry through this maneuver", he thought irreparable harm would be done. He said the Senate was still stalling in regard to the settlement of the public works debt bill<sup>65</sup> and that although he thought this measure would be approved in the next two or three days, there would probably be a period of further delay and efforts to shakedown the creditors on the part of the Representatives. In Ambassador Messersmith's opinion, Dr. Martínez Fraga is now trying to make a "bargain" with us whereby in effect, if we will promise them a loan, they will pass the public works debt settlement bill; that the latter should be handled on its merits and that he had made clear on repeated occasions that we are not prepared to discuss economic cooperation until the public works debt matter is out of the way.

Ambassador Messersmith said that he believed that, with the situation as it now is, and with everything that can be said to the Cuban Government already vigorously conveyed to them, it would be desirable for him to proceed to Washington. He accordingly asks for authorization to leave Habana on Thursday evening, September 5, via Miami, which will bring him to Washington next Saturday noon, September 7.

ELLIS O. BRIGGS

<sup>63</sup> Laurence Duggan, Chief of the Division of the American Republics.

<sup>64</sup> Latter not found in Department files.

<sup>65</sup> For correspondence, see pp. 743 ff.

837.51/2642

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

[WASHINGTON,] September 3, 1940.

THE SECRETARY: In accordance with the Secretary's suggestion, I telephoned Dr. Barón<sup>66</sup> and informed him that the Secretary wished Ambassador Martínez Fraga to know that we were giving the most careful consideration to his request for a credit, that we had requested a full report and had already received a preliminary report on the Cuban financial situation from Ambassador Messersmith, and that as soon as we had the complete report, we would endeavor to come to some conclusion. I pointed out, however, that no member of the Cuban Government had brought to Mr. Messersmith's attention the crisis in Cuban finances, and that the restoration of Cuban credit by action on the Public Works Obligations had always been a prerequisite. I informed him that in this latter regard, I thought the Department's policy had been firmly established. I concluded by saying that we were giving thought to ways and means for alleviating the economic problems confronting all of the American republics, including Cuba, and for that purpose the Congress had been requested to increase the funds of the Export-Import Bank. I expressed belief that action on this request might be completed in the near future.

LAURENCE DUGGAN

837.51/2642a : Telegram

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

WASHINGTON, September 4, 1940—2 p. m.

144. Your 96, September 3, 4 p. m.<sup>67</sup> I shall look forward to discussing with you in Washington when you arrive our relations with Cuba. In the meantime no decision will be taken with respect to the Cuban request for a loan.

HULL

837.51/2636

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

No. 733

HABANA, September 4, 1940.

[Received September 5.]

SIR: With further reference to my confidential despatches No. 726 of August 31, 1940, and No. 728 of September 3, 1940,<sup>68</sup> I now have to

<sup>66</sup> José T. Barón, Cuban Chargé.<sup>67</sup> Not printed.<sup>68</sup> Latter not printed.

transmit a memorandum of a conversation <sup>69</sup> with the Secretary of the Treasury, Dr. Montouliou, which is confirmatory of opinions expressed by me in these despatches. It is quite clear that the initiative for this loan came from Ambassador Martínez Fraga who is now in Habana. It is quite clear that the message was transmitted in this unusual way on the direction of the President-elect, Colonel Batista, who now holds no official position in the Cuban Government. Although the telegram was sent by the Cuban Ambassador here as being on behalf of the Cuban Government, the Secretary of State,<sup>70</sup> the immediate superior of the Ambassador, had no knowledge of this telegram being forwarded before it was transmitted and did not know of it until several days later. The Secretary of the Treasury had no knowledge of the approaches to our Government with regard to a loan, and with regard to the Ambassador's telegram, until after the telegram had been transmitted. Whether the President, Dr. Laredo Brú, had any information with respect thereto before the telegram was sent, I am not able to say.

It will be noted that the President-elect, Colonel Batista, frankly stated to Secretary Montouliou that he wanted this loan because he did not wish to reduce Government expenditures, including salaries, and he was not prepared to discuss the recommendations which Dr. Montouliou had made for reductions in the budget to bring it in line with the income of the Government.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51/2643: Telegram

*The Chargé in Cuba (Beaulac) to the Secretary of State*

HABANA, September 11, 1940—10 a. m.

[Received 12:25 p. m.]

104. Department's telegram No. 140, August 30, 5 p. m.<sup>69</sup> The Secretary of the Treasury has just informed me that instead of a \$15,000,000 loan the Government now wants a \$65,000,000 loan and that a detailed request will be forwarded to Washington promptly. He of course does not favor the loan.

BEAULAC

837.51/2647

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 784

HABANA, September 11, 1940.

[Received September 13.]

SIR: Supplementing my confidential telegram No. 104, September 11, 10 a. m., I have the honor to report that, although the President

<sup>69</sup> Not printed.

<sup>70</sup> Miguel Angel Campa.

has not yet sent any message to the Congress concerning the desired \$65,000,000 loan, it is expected that he will do so in the near future. It is reported that the \$65,000,000 figure was worked out by Colonel Batista and Ambassador Martínez Fraga and represents the \$15,000,000 loan already requested plus the \$50,000,000 loan which the Cuban Government spoke of following Colonel Batista's visit to Washington in 1938.<sup>71</sup>

It will interest the Department to know that I was told on very good authority that Colonel Batista, during recent conversations with members of the House of Representatives, was asked by a member of the House what assurance he had that Cuba would receive a loan if the public works debt bill were passed. Colonel Batista is said to have replied that he had received no assurance, but that he was confident that the loan could be obtained because if the United States Government placed obstacles in the way of a loan, he would suspend service on Cuba's entire foreign debt.

The Embassy knows that Colonel Batista had in mind this possibility last year, at the time negotiations for a Supplementary Trade Agreement were suspended by the United States.<sup>72</sup>

Respectfully yours,

WILLARD L. BEAULAC

837.51/2650a

*The Under Secretary of State (Welles) to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, September 14, 1940.

MY DEAR MR. SECRETARY: During the last two or three years, as you are aware, the Department has on numerous occasions discussed many phases of Cuban economic affairs with the Treasury and other appropriate agencies of this Government. Such discussions have included, among other things, reform and reorganization of the Cuban tax and fiscal systems; reorganization of the Cuban monetary and banking system, including the question of the exchange relationship between the Cuban peso and the dollar; the development of any new productive facilities in Cuba; and the carrying out of much needed public works, including the reconstruction of the Habana water works.

The carrying out of any of these projects has in the past been postponed due to the delay of the Government of Cuba in settling on a satisfactory basis a number of problems outstanding between the two nations. During the last few days, however, the Cuban Congress

<sup>71</sup> On the invitation of the Chief of Staff of the United States Army, Colonel Batista had visited Washington in November 1938 to attend Armistice Day exercises.

<sup>72</sup> See *Foreign Relations*, 1939, vol. v, pp. 558 ff.

has adopted legislation <sup>73</sup> settling one of the most troublesome issues, that of the obligations to American contractors who constructed public works in Cuba in the twenties. The Department now believes that, when this legislation becomes law, this Government should be prepared to consider and discuss with the Cuban Government a number of the projects mentioned above which are of special interest to Cuba.

The Department therefore requests that, in anticipation of discussions in the near future of many phases of Cuban-American economic relations and the Cuban economy, the Treasury undertake a broad study of the Cuban monetary, banking and fiscal situations in relation to the whole Cuban economic structure. The Department is of course prepared to render every possible assistance in such a study. The Department is also requesting in anticipation of the forthcoming discussions, that the Export-Import Bank review its files with regard to the Habana water works and other projects.

Sincerely yours,

SUMNER WELLES

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837.51 Cooperation Program/1 : Telegram

*The Secretary of State to the Chargé in Cuba (Beaulac)*

WASHINGTON, September 19, 1940—4 p. m.

153. Your 110, September 17, 9 a. m.<sup>74</sup> Please express to Secretary of State Campa my personal gratification at the final disposition of the gold obligations matter. This action clears the ground for the study by both Governments of a comprehensive program of cooperation principally along economic lines. In order that a decision may be reached as rapidly as possible regarding the items to be included in that program, please suggest to Campa that the Department would welcome the designation by the Cuban Government of two or three distinguished experts who could proceed to Washington in the near future for the purpose of initiating preliminary discussions. It is the Department's plan to submit to these experts the items of the program which have been suggested as a result of the Department's study of the situation and to receive from them those items which the Cuban Government believes might usefully be included. You should emphasize to Campa the Department's desire that these discussions as well as the program, which may finally be adopted, should be comprehensive and not limited to a single phase of Cuban-American economic relations.

You should indicate tactfully to Campa that in view of the fact that you have submitted the above suggestions, which, if adopted by the Cuban Government, will provide for a full and constructive dis-

<sup>73</sup> See telegram No. 110, September 17, 9 a. m., from the Chargé in Cuba, p. 762.

<sup>74</sup> *Ante*, p. 762.

cussion of problems of mutual interest, the Department plans to make no specific reply to the two communications which it has received from Ambassador Martínez Fraga regarding the negotiation of a loan.<sup>75</sup>

You are authorized in your discretion to seek an interview with Batista and indicate to him the substance of the above.

It is the Department's hope that the experts selected by the Cuban Government for the preliminary discussion will be persons of the type of Montouliou, Lopez Castro,<sup>76</sup> or Oscar Garcia Montes<sup>77</sup> and you should therefore emphasize the need for technical qualifications as well as a broad background of practical experience in economic matters.

HULL

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837.51/2657

*The Chargé in Cuba (Beaulac) to the Secretary of State*

No. 817

HABANA, September 19, 1940.

[Received September 20.]

SIR: With further reference to my despatch No. 803, of September 16, 1940,<sup>78</sup> I have the honor to report that, according to the press, the President yesterday signed the \$50,000,000 loan bill.

Respectfully yours,

WILLARD L. BEAULAC

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837.51 Cooperation Program/9

*The Secretary of State to the Secretary of the Treasury  
(Morgenthau)*<sup>79</sup>

WASHINGTON, October 4, 1940.

MY DEAR MR. SECRETARY: I have just been informed that a delegation of distinguished Cuban economic and financial experts will arrive in Washington on Saturday, October 5, in order to initiate discussions with officials of this Government regarding the agenda of a broad program of cooperation in the economic field between Cuba and the United States. The delegation will be presided over by Dr. Pedro Martínez Fraga, Cuban Ambassador to Washington, and will consist of the following additional members according to present advices:

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<sup>75</sup> In addition to the memorandum of August 29, 1940, p. 772, the Cuban Embassy presented a project of a law concerning the proposed loan and a memorandum justifying the loan on September 2, 1940 (837.51/2655).

<sup>76</sup> Amadeo López Castro, former Secretary of Agriculture and of the Treasury.

<sup>77</sup> Former Secretary of the Treasury.

<sup>78</sup> Not printed.

<sup>79</sup> Similar letters were sent to the Coordinator of Commercial and Cultural Relations between the American Republics (Rockefeller), the Secretary of Agriculture (Wickard), the President of the Export-Import Bank (Pierson), and the Secretary of Commerce (Jones).



Mr. Eduardo I. Montouliou,  
 Secretary of the Treasury.  
 Mr. Amadeo López Castro,  
 Former Secretary of Agriculture and of the Treasury.  
 Dr. Oscar García Montes,  
 Former Secretary of the Treasury.  
 Major Antonio Bolet, of the Army Engineer Corps.

Among the subjects which it is believed will be discussed are the following:

(a) A survey of Cuban agricultural possibilities, with particular reference to non-competitive products.

(b) Examination of the Cuban monetary, banking, and exchange organization and situation, and fiscal system, with the object of drawing up specific proposals for legislation and cooperation.

(c) The financing through the Export-Import Bank of a moderate and largely self-liquidating program of public works in Cuba.

(d) The negotiation of a treaty of residence and navigation between Cuba and the United States in order, particularly, to protect the status of the citizens of the two countries residing in and doing business in the other country.

(e) The reaching of an agreement for the prompt settlement of a number of claims owed by the Cuban Government to American citizens.

(f) The examination of the situation faced by the Cuban sugar industry on account of the current paralysis of Cuba's European markets.

Your assistance will of course be essential to the success of these discussions, and I shall consult with you shortly regarding details.

Sincerely yours,

CORDELL HULL

837.51 Cooperation Program/16

*The Cuban Ambassador (Martínez Fraga) to the Secretary of State*

[Translation]

WASHINGTON, October 5, 1940.

EXCELLENCY: I have the honor to advise Your Excellency that my Government has created an Economic Technical Commission, constituted in the manner set forth below, for the purpose of initiating,—moving to this capital city,—with the officials and technical experts of the Government of the United States, the formal conversations intended to examine the possibility concerning the Loan of Fifty Million Dollars authorized by Law Number 8 of September last and to study certain aspects of the economic relations between Cuba and the United States.

The Economic Technical Commission consists of the following gentlemen:

Chairman: His Excellency Dr. Pedro Martínez Fraga, Ambassador Extraordinary and Minister Plenipotentiary to the United States of America:

Delegates: Engineer Eduardo I. Montoulieu, Secretary of the Treasury; Dr. Oscar García Montes, former Secretary of the Treasury, Professor of Political Economy and Public Finances in the University of Habana; Engineer Amadeo López Castro, former Secretary of the Treasury and Agriculture, Chairman of the Sugar Arbitration Commission, Professor of Land Surveying and Drawing in Institute Number Two of Secondary Education of Vedado, Habana.

Advisers: Major Antonio Bolet, Engineer Corps of the Constitutional Army; Mr. Eduardo Durruthy, Assistant Treasurer General of the Republic.

I take pleasure, moreover, in advising Your Excellency that the members of the Economic Technical Commission are already in this capital city and, as Chairman of the same, I request Your Excellency to be good enough to indicate the day and hour which you may consider convenient for the purpose of offering to the Commission in question the opportunity of greeting Your Excellency and of paying our respects to you.

I avail myself [etc.]

MARTÍNEZ FRAGA

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837.51 Cooperation Program/9

*The Under Secretary of State (Welles) to the Secretary of the Treasury (Morgenthau)*

WASHINGTON, October 10, 1940.

MY DEAR MR. SECRETARY: I refer to the Secretary's letter of October 4, 1940 informing you of the visit of a Cuban economic mission, and conversations on this subject between officers of the Department and officers of the Treasury Department. I received the Cuban group formally yesterday and at that time its chairman, the Cuban Ambassador, informed me that by the end of the week there would be submitted a comprehensive statement of the purposes of the mission and the types of financial and technical cooperation which it desired to discuss. Pending the receipt of such a statement and before entering into technical discussions with the several members of the economic mission, I believe that it would be appropriate for you to receive the group formally.

With the idea of laying out a program for discussions between the Cuban group and the interested agencies of this Government I am arranging for a meeting at my office on Monday, October 14 at eleven o'clock of the members of the Cuban economic mission and officers of this Department and of the Departments of the Treasury and Agriculture, the Export-Import Bank, and the Federal Reserve System,<sup>80</sup>

<sup>80</sup> Similar letters were sent to these organizations.

who will carry on the detailed discussions. I should greatly appreciate your designating one or more officials to attend this preliminary meeting.

Sincerely yours,

SUMNER WELLES

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[On October 14 the Cuban Ambassador transmitted to the Under Secretary of State a translation of a "Statement of the Plan of Operation with regard to the Proposed \$50,000,000.00 Loan" presented by the Cuban Technical Committee. This document consisted of 111 mimeographed pages with chapters on the need for covering the 1940 budget and probable deficit for 1941, tourist development and publicity, communications and public health. (837.51/2688)]

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837.51 Cooperation Program/20

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

No. 1009

HABANA, October 29, 1940.

[Received October 30.]

[Extract]

. . . . .

It is, I believe, the almost unanimous opinion in sound and informed Cuban business and financial circles that the Cuban economy, and mutually advantageous relations between the United States and Cuba, would not be served by the loan asked for by the Cuban Government and for the purposes for which it intends to use this money. There is the definite fear here that if Cuba receives money from our Government in the form of a loan in order to meet budget deficits, it will stimulate increased and even more irresponsible spending. There is a general opinion in these informed quarters that the money has been asked for purposes which will admit improper administrative practices and that the end served would not be the improvement or the maintenance of the Cuban economic position. Outside of certain political circles in the Government, it is the general conviction that there should be a broad study of all the economic factors involved in the Cuban situation and in the economic relations between the United States and Cuba—the purpose of this study being to determine what steps could usefully and constructively be undertaken to aid Cuban economy.

For these reasons, sound public opinion in Cuba is unable to understand why the memorandum of the Cuban Government did not include two of the major problems of Cuba—sugar and tobacco. The

exclusion of the improvement of the water works of Habana, which is also one of the soundest public works projects which could be undertaken, is not understood.

Respectfully yours,

GEORGE S. MESSERSMITH

837.51 Cooperative Program/47a

*The Under Secretary of State (Welles) to the Cuban Ambassador  
(Martínez Fraga)*

WASHINGTON, December 4, 1940.

MY DEAR MR. AMBASSADOR: There is enclosed a memorandum, of which I have spoken to you, which outlines a program of economic cooperation between the United States and Cuba which is submitted by this Government for the consideration of the Financial Commission over which you preside.

With regard to the specific undertakings mentioned therein which involve the Export-Import Bank, I quote a statement of the Federal Loan Administrator, Mr. Jesse H. Jones:

"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."

Believe me [etc.]

SUMNER WELLES

[Enclosure—Memorandum]

[WASHINGTON,] December 3, 1940.

A PROGRAM OF ECONOMIC COOPERATION BETWEEN THE UNITED STATES  
AND CUBA

## A. SCOPE OF PROGRAM

1. *Fiscal System*

## a) Reorganization—

It is essential that a thoroughgoing reorganization of the fiscal administration and reform of the tax system be undertaken at once by a Joint Cuban-American Committee working principally at Habana. Such a committee should include experts in all phases of Treasury administration, as well as broad tax economists. It should begin its work at once and, with assistance of previous studies of Seligman, Magill, and Shoup,<sup>81</sup> should be able to conclude its general studies within three months. Thereafter a small group of administration specialists should remain at least a year to carry out fully the recommendations. The constitutional requirement that a new organic law of the Ministry of Finance be enacted should facilitate the adoption of satisfactory legislation.

## b) Mineral Legislation—

One of the principal points made in the memorandum of the Cuban Commission is the desirability of constructing highways to open up mineral resources. Mineral development in Cuba is hindered by antiquated mineral legislation as well as by lack of transportation. It is suggested accordingly that appropriate experts, including one or more on mineral taxation, cooperate with the Cuban Government in connection with the general fiscal study.

## c) Budgetary Problem—

The immediate budgetary problem should be speedily attacked. Reports indicate that it would be possible to reduce expenditures by at least 10 per cent without throwing any Government employees out of their jobs.

## d) Revolving Fund—

Upon a general 10 per cent reduction in budgetary expenditures and the undertaking of fiscal reform, the Export-Import Bank would be disposed to establish a short-term revolving fund credit of \$4,000,000 to the Republic of Cuba.

2. *Agriculture*

## a) Reorientation—

The execution of a broad program of agricultural development is of basic importance in the readjustment of the Cuban economy. The

<sup>81</sup> Edwin R. A. Seligman and Carl S. Shoup, *A Report on the Revenue System of Cuba* (Habana, 1932); Roswell Magill and Carl Shoup, *The Cuban Fiscal System, 1939* (n. p., n. d.).

Department of Agriculture is in general accord with the projects recommended in the Cuban Memorandum but it is not prepared to comment specifically on the feasibility or desirability of any particular item until a detailed investigation has been made on the spot. Rice growing, tick eradication, resettlement, reforestation, and irrigation projects all appear to offer some possibilities of productive development which further study may bring out.

*b) Agricultural Credit—*

Closely associated with a program of agricultural development and diversification is the study of a suitable system of agricultural credit. The establishment of agricultural credit institutions must be considered in relation to the general monetary, exchange, banking, and credit situation.

*c) Recommendation—*

It is recommended that the Department of Agriculture assign technical experts to cooperate with the Cuban Government in the study of appropriate agricultural development projects. It is also recommended that experts of the Federal Loan Agency, the Farm Credit Administration, the Federal Reserve System, and the Department of Agriculture proceed to Cuba to consider, in cooperation with the Cuban authorities, a plan of agricultural credit—this plan to be correlated with a broader study of the entire Cuban financial mechanism. The Export-Import Bank is prepared to give sympathetic consideration to applications for loans of a total amount not to exceed \$10,000,000 in connection with such self-liquidating projects of agricultural development and diversification as may be recommended by representatives of the Bank, the Department of Agriculture, the Farm Credit Administration, and the Federal Reserve System, in conjunction with appropriate Cuban officials.

*3. Public Works (Excluding Irrigation and Other Directly Agricultural Projects)*

The Export-Import Bank is prepared to consider the extension of credits for the construction of productive public works such as the Habana waterworks, other waterworks and sanitation systems, highways, and certain tourist developments. It is prepared to discuss the rehabilitation of the Habana waterworks immediately upon the submission of a project which has been soundly worked out from the engineering, the commercial, and the legal points of view, and to take up other projects after careful engineering and commercial analyses by competent Cuban and United States experts.

*4. Monetary, Exchange, Banking, and Credit System*

It is recommended that a group of experts from the Treasury and the Federal Reserve System, assisted by experts from Farm Credit and Agriculture as to agricultural credit, cooperate with the Cuban author-

ities, in a complete study, largely carried out in Cuba, of the Cuban financial mechanism, pushing forward from the preliminary discussions which have taken place over three years. Such a study should include such matters as the legal tender status of the existing currencies, regulation of banks, exchange system, monetary reforms, new credit institutions and so forth.

### 5. *Sugar and Tobacco*

#### a) Law 522—

It is essential that Law 522 be extended at once.

#### b) Commercial Arrangements—

Consideration should be given immediately to commercial arrangements which might involve further concessions on sugar and tobacco.

### 6. *Treaty of Establishment*

It is recommended that discussions be resumed at once in Habana.<sup>82</sup>

## B. TIME SCHEDULE

### I. *First Period—Immediate Action*

#### A. Cuba to

- 1) Reduce budgetary expenditures by 10 per cent.
- 2) Initiate negotiations for settlement of the Morris claim and other United States claims.
- 3) Initiate congressional action for extension of Decree Law 522, new law to remain in effect as long as United States sugar quota plan is in effect.

#### B. United States and Cuba to

- 1) Appoint joint committees, all to work in Cuba, and all to report as soon as possible but no later than February 28, 1941, as follows:
  - a) Fiscal reorganization, revision of the tax system, including the mining code.
  - b) Monetary, banking, exchange, especially agricultural credits.
  - c) Agricultural projects.
  - d) Public works projects, including mining development.

2) Resume negotiations of a Treaty of Establishment.

3) Begin discussions of additional commercial arrangements.

#### C. United States

1) Upon the reduction in budgetary expenditures of 10 per cent and the undertaking of fiscal reform, the 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.

<sup>82</sup> Preliminary negotiations for a Treaty of Establishment were suspended in July 1939.

2) The Export-Import Bank will give consideration to a loan application for the rehabilitation of the Habana waterworks if presented on a sound engineering, commercial, and legal basis.

*II. Second Period—Now to February 28, 1941*

A. Cuba to

1) Arrive at settlements of Morris claim and other United States claims.

2) Adopt law extending Decree-law 522.

B. United States and Cuba to

1) Four joint commissions to report.

2) Conclude negotiation of the Treaty of Establishment.

3) Conclude commercial arrangements.

*III. Third Period—March 1, 1941 On*

A. Cuba to

1) Ratify Treaty of Establishment.

2) Adopt legislation to make effective recommendations of the four joint committees (e. g., organic law for the Treasury Department, law establishing agricultural bank).

B. United States

1) Ratify Treaty of Establishment.

2) Export-Import Bank to give sympathetic consideration to the extension, upon the adoption by Cuba of requisite legislation, of appropriate financial assistance for the execution of useful projects recommended by the joint technical committees:

a) Public works.

b) Agricultural development.

837.51 Cooperation Program/59

*The Cuban Secretary of State (Cortina) to the American  
Ambassador in Cuba (Messersmith)*<sup>83</sup>

[HABANA,] December 24, 1940.

[Memorandum—Translation]

I.

In view of the present state of the economic negotiations proceeding between the Government of Cuba and the Government of the United States and after a detailed study of all of the antecedents, the Government of Cuba believes that it is desirable, in order to assure a rapid and satisfactory accord, to simplify the questions raised in

<sup>83</sup> Copy transmitted to the Department by the Ambassador in his communication of December 26, 1940; received January 22, 1941.



the negotiation in a manner to avoid the development of unnecessary confusion and delays.

We believe that aspects having no direct relation with the credit or loan which is requested should not be mingled with this negotiation.

The other questions of interest to both countries may be studied and considered in separate negotiations in the spirit of mutual cooperation within the field of political relations of the good neighbor and of the reciprocal friendship between the Government of Cuba and the Government of the United States.

To this end the following bases are suggested to the Government of the United States of America :

The Export-Import Bank will open an advance credit to be called a credit for agricultural development (*fomento*) which, according to the views exchanged, may reach as high as 10,000,000 pesos. This credit will be used by the Cuban Government for the specific purposes of agricultural development in undertakings which the Cuban Government considers necessary and useful for the progress and diversification of agricultural and stock raising activities in Cuba.

The Government of Cuba, on the basis of the credit granted for the purposes of agricultural development to which the preceding paragraph refers, will select the undertakings or activities which it considers best for these purposes. The study which is effected will include an estimate of the cost of the undertaking or activity in question, and will be made by the technical delegates designated by the Government of Cuba and by those whom the Export-Import Bank may designate.

Once the project is approved, the corresponding credit will be made available for each specific undertaking within the general credit authorized.

With regard to what may be denominated general public works which are not included within the concept of agricultural development, the Export-Import Bank will open an advance credit the minimum amount of which we desire to see determined. This credit will be used for the payment of the works which may be studied between the technicians of the Government of Cuba and the technical delegates who may be named through the medium of the Export-Import Bank and which are found to be of positive value to Cuban economy and useful to the development and transportation of production and for communication with the ports and mining zones, consideration being also given to works which increase strategic facilities of communication and defense.

In these public works consideration shall also be given to those which, owing to their importance and their social, economic, and hygienic results, should be carried out in certain cities.

The payment of these works should be carried out through employment of a procedure analogous to that relating to agricultural development.

A method of certification of each work will be established to serve as a basis for the corresponding payments.

## II.

During the current negotiations mention has frequently been made of self-liquidating works by which are understood those which on being completed produce from taxes or income sufficient capital to pay a part or all of the cost of the work.

The Government of Cuba considers that this point cannot be generalized because there are many works which produce a notable increase of wealth which is returned to the State by the ordinary channels of taxation and which nevertheless cannot directly produce sufficient receipts for their own amortization.

There are others which by their nature can produce income for their total amortization.

This indicates that it is impossible to adopt a general criterion and that it is necessary to have it understood that within the field of public works there will be some which are self-liquidating, either wholly or partially; and others which should be liquidated by means of special funds producing taxes which have been created for this purpose.

### CASH CREDIT

In regard to the opening of a direct cash credit for the Government of Cuba, the latter considers that the immediate establishment of a central rediscount bank and of an agricultural credit bank connected with the said bank is fundamental for stabilizing currency, financing crops, and stimulating the circulation of wealth.

For these two purposes the Government of Cuba considers necessary the opening of a credit which shall be fixed in accordance with the elementary and primary necessities of both banks within the usual practices for the creation of organs of this kind.

The Government considers that the creation of these credit institutions facilitate the stabilization of currency and give a permanent value to all the projects of agricultural development and public works of a general character in view of the fact that they permit taking advantage of the favorable economic reaction which these works produce through the means of adequate employment of properly managed credit.

### FORM OF PAYMENT

The liquidation of the credits which the Export-Import Bank opens for purposes expressed above will be made from the permanently and

completely guaranteed fund which is formed from the taxes created by the Law and from the product of the self-liquidating works, the several ways of payment to be established according to the particular work and the special cases.

In respect of the immediate credit of 4,000,000 pesos at the interest rate fixed by the Law of September 18, 1940, the Government of Cuba is undertaking the necessary legal studies to determine its position in this problem.

J. M. CORTINA

## DOMINICAN REPUBLIC

### CONVENTION BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC MODIFYING THE CONVENTION OF DECEMBER 27, 1924, CONCERNING COLLECTION AND APPLICATION OF THE CUSTOMS REVENUE OF THE DOMINICAN REPUBLIC, SIGNED SEPTEMBER 24, 1940<sup>1</sup>

839.51/4804

*Draft "X" of the Proposed Convention Between the United States and the Dominican Republic*

MAY 15, 1940.

WHEREAS a Convention between the United States of America and the Dominican Republic, providing for the assistance of the United States of America in the collection and application of the customs revenues of the Dominican Republic, was concluded and signed at Washington on December 27, 1924, and

WHEREAS, pursuant to a provision of the said Convention the President of the United States of America appointed a General Receiver of Dominican Customs to collect all customs duties accruing at the several customhouses of the Dominican Republic, and

WHEREAS, under the Receivership constituted and existing under the Convention signed December 27, 1924, as well as under the Convention signed February 8, 1907,<sup>2</sup> which was superseded by the Convention of 1924, the Dominican Republic has discharged its obligations to the holders of External Bonds and the service of its External Debt has been maintained in a commendable and satisfactory manner, and

WHEREAS the Dominican Republic has reached an agreement with the Foreign Bondholders Protective Council, Incorporated, which has been approved by a majority of the holders of the bonds of Dominican external loans issued in 1922 and 1926, and registered with the Securities and Exchange Commission of the United States of America in connection with the listing of the bonds on the New York Stock Exchange, whereby it has been agreed that the amortization periods for these bonds of the Dominican Republic's debt may be extended.

WHEREAS the Dominican Republic has proposed to organize a National Bank in accordance with its own laws, and to that end has proposed to recommend the enactment of an Organic Law of the

<sup>1</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 579 ff. For text of convention signed December 27, 1924, see *ibid.*, 1924, vol. I, p. 662.

<sup>2</sup> *Ibid.*, 1907, pt. 1, p. 307.

National Bank of the Dominican Republic and, when enacted, to promulgate the same;

WHEREAS the Government of the Dominican Republic desires that the above-mentioned National Bank of the Dominican Republic shall be charged through its Customs Division with the collection and application of the revenues pledged to the service of the External Debt of the Dominican Republic in the form hereafter to be established, and

WHEREAS the Government of the United States of America is disposed, in a spirit of friendship and cooperation, to recognize the Bank established in conformity with the provisions of the said Organic Law as the agency charged through its Customs Division with the collection and application of the revenues specifically pledged to the service of the External Debt of the Dominican Republic, in such form as shall fully protect the interest of the holders of the bonds of the said External Debt, and

WHEREAS the Government of the United States of America and the Government of the Dominican Republic desire for the time being to substitute for the provisions of the Convention of 1924, a procedure which recognizes the aspirations of the Dominican Republic while safeguarding the rights of the holders of the bonds of the External Debt of the Republic;

The President of the United States of America, represented by  
 . . . . . Secretary of State of the United States of America,  
 and

The President of the Dominican Republic, represented by  
 . . . . . Envoy Extraordinary and Minister Plenipotentiary of the Dominican Republic to the United States of America,

Who, having communicated to each other their respective full powers, found to be in good and due form, have agreed upon the following Articles:

#### ARTICLE I

The Government of the Dominican Republic declares its intention to recommend the enactment into law in the manner prescribed by its Constitution of an "Organic Law of the National Bank of the Dominican Republic", the provisions of which shall be mutually agreeable to the High Contracting Parties. The Government of the Dominican Republic likewise declares its intention to establish a National Bank of the Dominican Republic using as its organic law, the "Organic Law of the National Bank of the Dominican Republic" above referred to.

The "Organic Law of the National Bank of the Dominican Republic" shall provide for the establishment in the National Bank of the Dominican Republic of a Customs Division which shall be under

the sole jurisdiction, supervision and management of a Committee of the Customs Division. The said Committee of the Customs Division shall consist of three members, one of whom shall be a member of the Board of Directors designated annually for the purpose by the Board of Directors, and the others, the Manager and the Assistant Manager of the Customs Division.

Beginning one month after such time as the Government of the Dominican Republic shall have informed the Government of the United States of America of the establishment of the National Bank of the Dominican Republic and of its Customs Division using as its organic act the "Organic Law of the National Bank of the Dominican Republic", the Government of the United States of America will not invoke the provisions of the Convention between the United States of America and the Dominican Republic signed at Washington December 27, 1924 so long as the National Bank of the Dominican Republic and its Customs Division shall continue to function as contemplated by the Organic Law of the National Bank of the Dominican Republic and that Law shall not have been altered or amended in a manner prejudicial to the interests of the holders of the bonds issued in 1922 and 1926.

Whenever the National Bank of the Dominican Republic or its Customs Division or both shall have ceased so to function, or whenever the Organic Law of the National Bank of the Dominican Republic shall have been altered or amended in a manner which, in the opinion of either of the High Contracting Parties, expressed to the other in a formal official communication, prejudices the interests of the holders of the bonds issued in 1922 and 1926, the Government of the United States may again and at once invoke the provisions of the Convention between the United States and the Dominican Republic signed at Washington December 27, 1924; provided, however, that whenever all of the bonds issued in 1922 and 1926 shall have been redeemed and paid, both the Convention signed December 27, 1924 and the present Convention shall automatically cease to have force and effect.

It is further agreed that the said National Bank of the Dominican Republic through its Customs Division shall, in representation of the Government of the Dominican Republic, be irrevocably charged with the collection of all revenues derived from levies on imports into and exports from the Dominican Republic. Such revenues shall include those derived from duties on imports provided for in the customs tariff in force on this day plus those arising from taxes which may be derived from the application of the laws enumerated in the notes exchanged on this day between the two Governments, and such revenues shall be considered from this day as having been pledged

specifically to the service of the Dominican external loans of 1922 and 1926. The duties and taxes indicated above shall be merged, by a law of the Congress of the Dominican Republic, in a single schedule of customs duties, as soon as it has been possible to effect the necessary studies, but in any case not later than nine months after the entry into force of the present Convention. Until they have been so merged, the Customs Division of the National Bank of the Dominican Republic shall collect the revenues derived from such duties and taxes in conformity with the provisions of the laws now governing them.

The revenues thus collected shall be deposited to the credit of the Customs Division of the said National Bank of the Dominican Republic for the benefit of the bondholders of the 1922 and 1926 loans and the Bank shall apply them as follows :

1. To the payment of the expenses of collection, plus the percentage of such expenses due to the Bank as compensation.
2. To the payment of interest upon all the said bonds outstanding.
3. To the payment of the annual sums provided for the amortization of the said bonds and to the payment of interest on all bonds which may be held in the sinking fund.
4. To the purchase and cancellation, or the retirement and cancellation, of any of the said bonds pursuant to the terms thereof, when the Government of the Dominican Republic shall so order.
5. The balance shall be paid to the Government of the Dominican Republic. This balance shall not constitute the guarantee of any other loan or financial arrangement of the Government of the Dominican Republic without the previous agreement of the Committee of the Customs Division.

The manner of distributing the funds collected by reason of the revenues specified above shall be as follows :

The Bank will deduct from the total collections the sum necessary to cover expenses of collection, which shall be paid as they are incurred. The Bank will also deduct an amount equal to ten percent (10%) of the total of said collection expenses as compensation for its services in the collection and application of the revenues mentioned above; provided, that in no case may the total of the expenses of collection, plus the ten percent (10%) indicated as the Bank's compensation, exceed five percent (5%) of the total of the collections.

The Customs Division of the National Bank of the Dominican Republic shall, not later than the first day of each month, deliver to the Fiscal Agents of the 1922 and 1926 loans proportionate amounts, calculated as prescribed by an exchange of notes accompanying this Convention, of the annual interest on all the said bonds outstanding or held in the sinking fund, and of the annual amounts provided for the amortization of the said bonds. Thereafter the balance of the collections of the last preceding month shall be paid to the Government of the Dominican Republic.

In case the total collections from the revenues specified above should in any year exceed five million three hundred thousand pesos (\$5,300,000) there shall be applied to the sinking fund (notwithstanding the provisions of paragraph 4, Article I) for the redemption of external bonds of the 1922 and 1926 loans which may be outstanding ten percent (10%) of the excess above five million three hundred thousand pesos (\$5,300,000) but less than six million three hundred thousand pesos (\$6,300,000) and in addition five percent (5%) of all sums exceeding six million three hundred thousand pesos (\$6,300,000).

#### ARTICLE II

The Government of the Dominican Republic shall recommend to the Congress the enactment of such laws and shall promulgate such decrees and regulations as the Government, the Board of Directors of the Bank, and the Committee of the Customs Division, by common consent, may consider necessary or useful to accomplish the aims of this Convention. In the event that common consent cannot be obtained, either or both of the High Contracting Parties may be notified in writing by any of the said entities.

The Government of the Dominican Republic hereby guarantees to the aforesaid Bank, for the same period, all needful aid and assistance for the proper accomplishment and execution of the powers conferred upon the above-mentioned Bank by the said Organic Law and by this Convention, and likewise agrees to give full protection to the personnel of this Bank in connection with the fulfilment of its task.

#### ARTICLE III

The existing pledge of the customs revenues under the terms of the contracts of the Dominican External Loans of 1922 and 1926 and subject to the agreement concluded between the Foreign Bondholders Protective Council, Incorporated, and the Government of the Dominican Republic on August 10, 1934, set forth in the bonds and the certificates attached thereto which were re-issued on January 2 and February 1, 1937, and subject to this Convention, shall continue in full force and effect until all bonds issued by the Dominican Republic and now outstanding are paid or retired in accordance with the plans and the limits as to time and amount stated on the said bonds, as modified in 1937.

#### ARTICLE IV

The Dominican Government undertakes at no time to lower the customs levies mentioned in Article I including those which are the subject of an exchange of notes, hereto annexed, to such a point that, on the basis of imports and exports of the same amount and of the



same type for the two years preceding that in which it is desired to make such modifications, the total net customs revenues derived from duties under the tariffs so modified would not have reached, in each of those two years, at least one and one-half times the amount necessary to assure the service of interest and amortization on the external debt represented by the bonds issued in 1922 and 1926.

#### ARTICLE V

The National Bank of the Dominican Republic through its Customs Division shall render monthly reports to the Department of State for Treasury and Commerce of the Dominican Republic and to the Fiscal Agents of the Dominican External Loans of 1922 and 1926 on all operations relating to the collection and application of the revenues pledged to the service of the Dominican External Debt pursuant to Articles I and III of the Convention. Such reports are to be subject to examination and verification by competent officials of the Government of the Dominican Republic and by competent representatives of the Fiscal Agents referred to above.

#### ARTICLE VI

Controversies arising between the High Contracting Parties as a result of the execution of the provisions of the present Convention shall, if possible, be settled through diplomatic channels. Upon notification by either of the High Contracting Parties that, in its opinion, the possibilities of settlement by this means shall have been exhausted, such controversies shall be settled in accordance with the procedure stipulated in the Inter-American Arbitration Convention signed at Washington January 5, 1929, notwithstanding the provisions of Article 2 (a) thereof.

#### ARTICLE VII

The present Convention shall be ratified by the High Contracting Parties in accordance with their respective constitutional methods, and shall become effective on the first day of the month following the exchange of ratifications. The exchange of ratifications shall take place at . . . . . as soon as possible.

In witness whereof the respective Plenipotentiaries have signed the present Convention in Duplicate, in the English and Spanish Languages, both texts being equally authoritative, and have hereunto affixed their seals.

Done at the city of Washington, this . . . . . day of . . . . ., 1940.

839.51/4804

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

[WASHINGTON,] May 20, 1940.

Participants: Señor Don Andrés Pastoriza, Minister of the Dominican Republic.

Mr. Finley<sup>3</sup>

Mr. Barber<sup>4</sup>

Mr. Collado

The Dominican Minister came in to go over the final preliminary draft of the proposed Convention and Organic Act. Copies of Draft X<sup>4a</sup> were made available to him, and the changes which had been previously discussed with him and incorporated in Draft X were pointed out. He expressed satisfaction with the draft and indicated that as soon as Mr. Lancaster<sup>5</sup> had provided him with a translation thereof he would attempt to arrange to go to Ciudad Trujillo to present the matter to his Government.

The Dominican Minister requested that a copy of the draft be sent to Mr. Lancaster. (This was done on May 20, 1940.)

839.51/4809

*The Dominican Minister (Pastoriza) to the Secretary of State*

[Translation]

WASHINGTON, June 25, 1940.

MR. SECRETARY OF STATE: I have the honor to advise Your Excellency that the Dominican Government has given the most careful and thorough attention to the last proposal for the amendment of the Dominican-American Convention of 1924 which the Department of State submitted through this Legation, in reply to the note which I had the honor of addressing to Your Excellency on December 18, 1939,<sup>6</sup> containing the last Dominican proposal for the amendment of the said Convention.

The Dominican Government, after having studied with the attention the case requires the proposal which the Department recently submitted to its consideration for the amendment of the said Convention, deeply regrets that the bases contained in the above mentioned

<sup>3</sup> Harold D. Finley, Assistant Chief of the Division of the American Republics.

<sup>4</sup> Willard F. Barber of the Division of the American Republics.

<sup>4a</sup> *Supra*.

<sup>5</sup> W. W. Lancaster of Shearman and Sterling, counsel for the National City Bank of New York.

<sup>6</sup> *Foreign Relations*, 1939, vol. v, p. 593.

note which I had the honor of addressing to Your Excellency on December 18, 1939, were not taken into account for the preparation of the new proposal whereby the United States Government endeavors to find a solution which would not injure any of the mutual interests which exist in this case and which at the same time would be in accord with the just aspirations of the Dominican Republic that the new international instrument which is concluded may not impair its rights as a sovereign nation nor render difficult the collaboration which in the economic aspect the Dominican Republic may be able to give to the principle of continental solidarity.

My Government deems, in fact, that the form and the bases proposed in the note of December 18, 1939, give full satisfaction, both to the interests of the bondholders, since the said plan tends to increase the guarantee which the Convention in force accords to them by affecting to the service of the foreign debt the total amount of the receipts of the Dominican Republic, which exceed twelve million dollars annually, and to the legitimate interest of the Dominican Government which, in proposing the solution of this case in the form indicated in the said note, had primarily under consideration the ethical and moral aspect of the unsettled problem between our two nations.

In order to recover its full sovereignty, seriously impaired by the Dominican-American Convention of 1924, the Dominican Government has not spared even the sacrifice of offering the whole of its fiscal revenues as a guarantee for the payment of its foreign debt, which constitutes a precious and undeniable evidence of its purpose to maintain and reinforce in the proposed solution the guarantee of the bondholders, in return for a simple conquest of a purely moral order; the disappearance of all the provisions of the Dominican-American Convention of 1924 which impair the sovereignty of the Dominican nation; hinder its full collaboration in the work of a continental character which is actuated by principles of American solidarity, and finally, conflict with the spirit of the Pan American policy which has today, in the illustrious President Roosevelt, one of its most eminent and sincere promoters.

The Dominican Government, sure that the form proposed in the note of December 18, 1939 conciliates all points of view and tends to solve the problem raised by the Convention of 1924 in a manner fully satisfactory to the bondholders and to our two countries, has instructed me to advise Your Excellency of its desire that the Department of State, in accordance with the spirit of fraternal understanding which has animated it at all times with respect to the solution of this problem, take into consideration the form and the bases proposed in the note already several times mentioned.

This request of the Government of my country responds to the desire to put the Dominican-American Convention of 1924 in harmony with the profound and sincere amity which now prevails in the relations between our two countries, wherefore it does not doubt that Your Excellency will examine it with the sincere interest and cordial sympathy with which you receive every effort intended to promote in America the spirit of international conciliation and more and more strengthen American solidarity.

I avail myself [etc.]

A. PASTORIZA

839.51/4823

*The Under Secretary of State (Welles) to the Minister in the Dominican Republic (Scotten)*

WASHINGTON, July 23, 1940.

DEAR MR. SCOTTEN: You will now have received with the Department's instruction No. 368 of July 16, 1940<sup>7</sup> a copy of the Dominican note dated June 25, 1940, rejecting draft X of the proposed Convention between the two countries. The note reverts to the Dominican position taken in its note of December 18, 1939. That position is not acceptable in view of our commitments to the bondholders.

It has occurred to me that negotiations at Ciudad Trujillo in the near future might have a chance of success. Would you be good enough to sound out President Troncoso to learn whether he shares our interest in having the question of a new convention thrashed out to see whether some basis acceptable to the two Governments may not be reached.

You may say that if further negotiations are desired by the Dominican Government, I would favor sending two or more officers from the Department to Ciudad Trujillo to assist you in negotiating with a similar commission of Dominican officials.

Very sincerely yours,

SUMNER WELLES

839.51/4844

*The Acting Secretary of State to the Special Representative of the Secretary of State (Wilson)*

WASHINGTON, August 13, 1940.

SIR: With reference to the instruction dated August 13, 1940,<sup>7</sup> directing you to proceed to Ciudad Trujillo, Dominican Republic,

<sup>7</sup> Not printed.

for the purpose of negotiating an agreement to modify or supersede the Convention of 1924, you are requested, after making yourself acquainted with the Dominican authorities authorized to negotiate, to say that the Secretary of State has directed you to proceed to Ciudad Trujillo, not with any idea of opening new negotiations, but rather of continuing those which have been in course during the past five years and, if possible, bringing them to a conclusion satisfactory to both governments. You should say that you feel it essential that your negotiations be brief, since the question at issue has already been thoroughly explored, and that your mission represents the sincere and final attempt of the Department to reach a happy solution of this long outstanding question.

It is believed that you should outline briefly the course of the negotiations, as well as emphasize the commitments which the United States has undertaken vis-à-vis the holders of the bonds of 1922 and 1926. Having in view these commitments, you may wish to explain in detail to the Dominican authorities why the proposals advanced in the Dominican note of December 18, 1939, and readvanced in the Dominican note of June 25, 1940, are unacceptable to the Government of the United States. Moreover, any convention agreed upon will require favorable action by the United States Senate, which would of course desire to give full consideration to the rights of the bondholders.

Thereafter, you may wish to take up the draft of the proposed convention (draft X) recently handed the Dominican Minister in Washington, and explain that this document has been developed after protracted study of the question at issue and represents a basis which it is hoped the Dominican Government will accept for the present discussion. For your confidential information, draft X represents in principle approximately the least which it is believed would be acceptable to the bondholders and the Senate.

You may then wish to inform the Dominican negotiators that you and your Government will of course be prepared to consider carefully any suggestions which they may wish to advance which, in their opinion, would make the proposed draft more acceptable to the Dominican Government. These, as they are submitted, should be referred to the Department for comment.

Should an agreement be reached, you will be authorized by the Department to initial *ad referendum* in order that it may later be incorporated in an official document and signed in Washington by the Secretary of State and a Dominican representative.

Very truly yours,

SUMNER WELLES

839.51/4831a : Telegram

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

WASHINGTON, August 17, 1940—10 a. m.

115. I have designated the Honorable Hugh R. Wilson Special Representative of the Secretary of State, with rank of Ambassador, for the purpose of negotiating with appropriate officials of the Government of the Dominican Republic concerning the Convention between the United States and the Dominican Republic providing for the assistance of the United States in the collection and application of the customs revenues of the Dominican Republic, signed at Washington on December 27, 1924.

Mr. Wilson sailed on the Steamship *Borinquen* from New York on August 15, accompanied by Mr. Harold D. Finley as assistant and Miss Marcella Sheahan as clerk. Please request customs courtesies for the party.

Air mail instruction follows.

WELLES

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839.51/4832 : Telegram

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

CIUDAD TRUJILLO, August 21, 1940—4 p. m.

[Received 7 : 35 p. m.]

139. From Wilson. At a meeting this morning with the negotiators referred to in the Legation's telegram No. 138, August 21, 10 a. m.,<sup>9</sup> Despradel<sup>10</sup> presented draft proposal. I am repeating the text of the body but not of the preamble. I reserved comments pending necessary study. Comments on text will follow in separate telegram. Text follows:

"Article 1. The Government of the United States of America and the Government of the Dominican Republic agree to abrogate the convention entered into between them both on December 27, 1924 in order to substitute for the said convention the provisions which are established in this agreement.

Article 2. On the date on which this agreement enters into force the Dominican Republic will take charge of the collection of the customs revenues of the Republic through its corresponding national officials, of all the revenues derived from customs duties, and therefore the general receivership of Dominican customs will be closed as from this same date.

Article 3. The Government of the United States of America and

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<sup>9</sup> Not printed.

<sup>10</sup> Arturo Despradel, Dominican Minister for Foreign Affairs.

the Government of the Dominican Republic in common accord will designate a bank with an establishment in the Dominican Republic, as depository of the general funds of the Dominican Government and agrees to designate, also by common accord, an official who would act in the said bank to represent the Foreign Bondholders Protective Council, Incorporated, in all that concerns the service of the Dominican external debt.

During the first days of each calendar month the official thus designated will receive by endorsement and by means of orders of payment which will be given to the bank by the Dominican Republic through the intermediary of the Secretary of State of [*for*] the Treasury and Commerce, the sum necessary for the monthly service of the external debt, which should be applied by the same representative in the following manner:

First, to the payment of the services of the depository bank in accordance with what may be agreed upon between the bank and the Dominican Government and to the payment for the services rendered by the representative of the Foreign Bondholders Protective Council in connection with the service of the public debt, it being understood that said payments may in no case exceed three fourths of one per cent monthly of the revenues deposited.

Second, to the payment of the interest of all the outstanding bonds.

Third, to the payment of the annual sums designated for the amortization of the said bonds, including the interest of all the bonds which are retained in the sinking fund, which will be effected in accordance with the agreement concluded between the Dominican Republic and the Foreign Bondholders Protective Council, Incorporated, August 16, 1934.

Article 4. The Government of the Dominican Republic promises not to dispose of the funds which will be deposited each month in the said bank until the Secretary of State, of [*for*] the Treasury and Commerce has ordered the payment to the order of the representative of the Foreign Bondholders Protective Council, Incorporated, of the sum necessary for the corresponding monthly service of the foreign debt.

Article 5. The system of deposit of all the revenues of the Dominican Republic will be carried out in conformity with the laws of accounting and of the Treasury now governing such matters and these laws as well as the powers which the tenor of this accord confers upon the representative of the Foreign Bondholders Protective Council, Incorporated, may not be modified or diminished by the Dominican Government during the life of this agreement without the previous consent of both Governments.

Article 6. The present agreement will enter into effect after having been ratified by the contracting parties in conformity with their respective constitutional methods and will continue in full force and effect during the existence of the outstanding external bonds, it being understood that after payment or cancellation of the bonds issued by the Dominican Government and included in the conventions of 1907 and 1924, the provisions of this agreement shall be considered automatically null and void.

Article 7. The exchange of ratifications of this agreement will be effected in the City of Washington, District of Columbia the first day of the month immediately following the last ratification by either of the two countries and from that date the convention signed by the Dominican Government and the United States of America on December 27, 1924 will cease to have effect provided, however, that article I to V inclusive of the said convention of December 27, 1924 shall continue in full force and effect until there have been adopted and executed all the necessary requirements in order that the present agreement may enter into effect.

In testimony whereof the plenipotentiaries will sign and seal this convention in duplicate, in English and Spanish, both texts being authentic.

Done in the City of Washington, District of Columbia, the . . . . day of . . . . ., 19 . . .”

[Wilson]  
SCOTTEN

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839.51/4833 : Telegram

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

CIUDAD TRUJILLO, August 21, 1940—4 p. m.

[Received 8 : 25 p. m.]

140. From Wilson. Supplementing my telegram No. 139 of August 21, 4 p. m., an analysis of the Dominican proposal shows the following outstanding points: (1) Elimination of the receivership; (2) elimination of the restriction against any additional loans now contained in article III of the 1924 convention; (3) elimination of restriction on changes in the customs tariff.

The essential points of positive nature are: (1) All Government revenues to be deposited in a designated bank and to serve as collateral for the foreign debt; (2) appointment of an official by common accord to whom the Government will remit monthly the service of the debt. The Government undertakes to make no use of any of its funds until monthly service of interest and amortization has been fulfilled.

It seems clear from our conversations that the Government is not disposed to sign a convention which continues the collection of customs by other than its nationals. It is my impression that they would prefer to retain the present situation rather than to enter a new agreement which does not meet their wishes in this respect. Hence I am inviting attention in the first instance to this feature. If you are able to meet the Dominicans in this regard there would seem to be latitude for negotiation on their proposal; if not the hope for success in this negotiation appears remote.



The omission of provisions, analogous to those contained in article III of the 1924 convention might I think be met by the establishment in the new convention of a specific prior lien in favor of the 1922 and 1926 bonds.

For the sake of brevity I am not reporting the presentation which I made to the Dominican representatives both in the informal talks and official negotiations. I have left them in no doubt, however, as to the limitations under which we are acting in respect to the protection of our bondholders and ratification by the United States Senate. [Wilson.]

SCOTTEN

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839.51/4832 : Telegram

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

WASHINGTON, August 24, 1940—5 p. m.

120. For Wilson. Your 139, 140 and 141,<sup>11</sup> August 21. The Department is disposed to consider a departure from "draft X" along the general lines suggested by Despradel containing as minimum requirements all of the following conditions:

1. Dominican Republic to make a specific pledge with first lien against all of its revenues, including customs and internal revenues and all ordinary or extraordinary receipts.

2. All revenues to be deposited in a depositary.

3. The depositary to be a bank chosen by the two Governments. Adequate provision to be made for the selection of successor banks if the original bank ceases operations, or if for any other reason this Government deems it desirable to do so.

4. A Fiscal Representative to represent bondholders to be selected by the two Governments, by common accord. Suitable provision to be made for successors, for removal, and so forth.

5. The Fiscal Representative to have complete access to all of the records and books of the depositary bank and in addition to receive complete and detailed reports from the Dominican Treasury of all of its operations, including the collection and disbursement of all revenues.

6. No funds to be disbursed by the depositary bank until the depositary bank and the Fiscal Representative have been compensated, and interest and amortization of the external debt has been met in accordance with loan contracts as modified by the 1934 Agreement between the Dominican Republic and Foreign Bondholders Protective Council, Incorporated. Irrevocable orders to be issued to the bank granting the Fiscal Representative the veto power with respect to all withdrawal of funds until the monthly service of the debt has been met.

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<sup>11</sup> Telegram No. 141 not printed.

7. A provision to be incorporated similar to that contained in the last paragraph of Article I of "Draft X". Some such provision is essential to make the arrangement at all palatable to the bondholders.

8. A provision for arbitral procedure to be incorporated.

It is the Department's opinion that a suitable depositary bank would probably in the first instance be the Dominican branch of the only American Institution there, that is the National City Bank. The appointment of such a depositary might be appealing to the bondholders. At some subsequent time a local institution, if one is created, might be considered.

The Department would welcome your comments on all of the above and in addition would appreciate your studying carefully the following two points:

1. What would be proper figures to be inserted in the provision called for in (7) above?

2. Is the seasonal variation in the revenues of the Dominican Republic sufficiently great to require that interest and amortization payments be made on a basis other than one-twelfth of the annual totals each month?

In your discretion you are authorized to discuss all of these matters with the Dominican Commissioners.

HULL

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839.51/4837: Telegram

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

CIUDAD TRUJILLO, August 25, 1940—4 p. m.  
[Received 7:25 p. m.]

142. From Wilson. Thanks for your 120, August 24, 5 p. m. I particularly appreciate the flexible form in which the instructions are issued.

We hope to meet the Dominican Commission tomorrow and are in complete accord with your points 1 to 8 inclusive.

We also agree as to the National City Bank and plan to mention the matter orally at tomorrow's meeting.

As to figures to be inserted under your point 7, we think that 10 per cent of revenues in excess of 12,500,000 and less than 13,500,000 should be applied to the sinking fund and that an additional 5 per cent should be levied on all collections over 13,500,000 dollars.

On examination the seasonal variation in the revenues of the Republic does not appear sufficiently great to warrant changing the payments from 12 equal installments. [Wilson.]

SCOTTEN

839.51/4838 : Telegram

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

WASHINGTON, August 26, 1940—8 p. m.

122. Your 143, August 25,<sup>12</sup> and in further reference to Finley's telephone call<sup>13</sup> to Briggs,<sup>14</sup> the following is our suggestion for a draft of Article III :

"The Government of the United States of America and the Government of the Dominican Republic, in common accord, shall designate a bank, with establishment in the Dominican Republic, as sole depository of all revenues of the Dominican Republic and agree to designate, also by common accord, an official who shall act in the said bank as representative of the holders of the bonds of the External Debt of 1922 and 1926 in all matters that concern the service of the said external debt. If at any time the bank so designated ceases for any reason to function in this capacity, or if either of the High Contracting Parties deems a change advisable, a successor shall be designated under the procedure outlined above. If the official who shall act in said bank as representative of the holders of the bonds of the External Debt of 1922 and 1926 ceases for any reason to serve in such capacity or if either of the High Contracting Parties deems a change advisable, his successor shall be designated by the same procedure established for the original designee. In the event that it becomes necessary to designate a successor either to the bank or the official representing the holders of the bonds of the External Debt of 1922 and 1926 and in the further event that the Government of the United States of America and the Dominican Government are unable to reach mutual accord on such designation within a period of three months, the Foreign Bondholders Protective Council, Incorporated, shall then nominate said successor, and in the event that the Foreign Bondholders Protective Council, Incorporated, is unwilling to make such nomination, the President or a Vice President of the American Bankers Association or his duly authorized representative shall be requested to make the nomination. The High Contracting Parties in this event undertake to appoint such designee to office. The official representing the holders of the bonds of the External Debt of 1922 and 1926 shall designate a deputy to serve in his stead in the event of his temporary absence or incapacity."

It is believed that a provision for pensions should be included in the new draft convention, perhaps with the details to be contained in an exchange of notes rather than in the convention itself.

The Department does not recommend that the matter of the floating debt be included in the convention itself, although should you desire

<sup>12</sup> Not printed. In it Mr. Wilson submitted a tentative draft for article III which, with minor verbal differences, was the same as draft contained in this telegram except that where the holders of bonds of the External Debt of 1922 and 1926 are mentioned, the draft in telegram No. 143 read "The Foreign Bondholders Protective Council, Incorporated."

<sup>13</sup> No record of conversation found in Department files.

<sup>14</sup> Ellis O. Briggs, Assistant Chief, Division of the American Republics.

to exchange notes on this subject the Department would be pleased to consider your draft text.

HULL

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839.51/4840 : Telegram

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

CIUDAD TRUJILLO, [August 27, 1940—5 p. m.]

[Received August 28—1: 56 a. m.]

144. From Wilson. Your 122, August 26, 8 p. m., and previous correspondence. We met this morning with the Dominican negotiators. We have subsequently prepared a text which represents the meeting of minds between the Dominicans and ourselves though they understand, of course, that this is subject to the Department's approval. A separate telegram is being prepared of commentary on the text.

In order to expedite matters, I suggest that when you have considered the text you advise by cable when you would find it convenient to telephone me to make such suggestions and alterations as you may deem advisable. The text follows:

“Article I. The Government of the United States of America and the Government of the Dominican Republic agree to abrogate the convention entered into between them on December 27, 1924, in order to substitute for the said convention the provisions which are established in this present convention.

Article II. Beginning on the date of the entry into force of the present convention the Dominican Government will collect the customs revenues of the Dominican Republic through its appropriate national officials, and all revenues pertaining to the customs duties. The general receivership of the Dominican [apparent omission] the customs will be closed as from this same date.

All property and funds of the general receivership, as well as the cash and securities in the pension fund of the general receivership, shall be turned over on the same date to the Dominican Government.

The High Contracting Parties undertake that no claim shall be advanced by one against the other on account of any act of the general receivership.

Article III. The Government of the United States of America and the Government of the Dominican Republic, in common accord, shall designate a bank, with establishment in the Dominican Republic, as sole depository of all revenues of the Dominican Government, and agree to designate, also by common accord, an official who shall act in the said bank as representative of the holders of the bonds of the external debt of 1922 and 1926, in all matters that concern the service of the said external debt. If at any time the bank so designated ceases for any reason to function in this capacity, or if either of the high contracting parties deems a change advisable, a successor shall be

designated under the procedure outlined above. If the official [who?] shall act in said bank as representative of the holders of the bonds of the external debt of 1922 and 1926 ceases for any reason to serve in such capacity, or if either of the High Contracting Parties deems a change advisable, his successor shall be designated by the same procedure established for the original designee. In the event that it becomes necessary to designate a successor either to the bank or the official representing the holders of the bonds of the external debt of 1922 and 1926, and in the further event that the Government of the United States of America and of the Dominican Republic are unable to reach mutual accord on such designation within a period of 3 months, the Foreign Bondholders Protective Council, Incorporated, shall then nominate said successor, and in the event that the Foreign Bondholders Protective Council, Incorporated, is unwilling to make such nomination, the president or a vice president of the American Bankers Association, or his duly authorized representative shall be requested to make the nomination; provided, however, that a bank and/or official previously rejected by either of the high contracting parties may not be so designated.

In the case of absence, incapacity or death of the representative of the holders of the bonds of the external debt of 1922 and 1926 the manager or acting manager of the bank shall act in that capacity ad interim.

The representative of the holders of the bonds of the external debt of 1922 and 1926 shall have complete access to all the records and books of the depository bank.

During the first 10 days of each calendar month the official thus designated will receive by endorsement and orders of payment which will be issued to the bank by the Dominican Government through the intermediary of the Secretary of State for the Treasury and Commerce, the sum necessary to cover payments as follows:

First, the payment of interest of all the outstanding bonds;

Second, the payment of the annual sums designated for the amortization of the said bonds, including the interest of all the bonds which are retained in the sinking fund, which shall be effected in accordance with the agreement concluded between the Dominican Republic and the Foreign Bondholders Protective Council, Incorporated, August 16, 1934.

Third, the payment of the services of the depository bank in accordance with terms which shall be agreed upon between the bank and the Dominican Government; the payment of the services rendered by the representative of the holders of the bonds of the external debt of 1922 and 1926 in connection with the service of the foreign debt; and the payment of the pensions of those former employees of the general receivership listed in annex A to this convention; provided, however, that the payments referred to in this paragraph may in no case exceed three-fourths of one (1) per cent monthly of the Government revenues so deposited.

Article IV. The Government of the Dominican Government declares that the service of the 1922 and 1926 bonds as well as the expenses connected therewith, as outlined in article III of the present convention, constitute an irrevocable first lien upon all of its revenues.

Article V. On the date of the entry into force of this convention the Government of the Dominican Republic shall issue irrevocable orders to the depository bank not to make any disbursements of any funds of the Dominican Government until the Secretary of State for the Treasury and Commerce has ordered the payments to the order of the representative of the holders of the bonds of the external debt of 1922 and 1926 of the sum necessary to cover the disbursements specified in article III of the present convention.

Article VI. The system of deposit of all revenues of the Dominican Republic will be carried out in accordance with the Dominican laws of accounting and of the Treasury now governing such matters, and these laws as well as the powers which this convention confers upon the representative of the holders of the bonds of the external debt of 1922 and 1926 may not be modified or diminished by the Dominican Government during the life of this convention without the previous consent of both Governments.

Article VII. Controversies arising between the Governments of the United States of America and of the Dominican Republic as a result of the execution of the provisions of the present convention shall, if possible, be settled through diplomatic channels. Upon notification by either the Government of the United States of America or the Government of the Dominican Republic that, in its opinion, possibilities of settlement by this means shall have been exhausted, such controversies shall be settled in accordance with the procedure stipulated in the Inter-American Arbitration Convention signed at Washington, January 5, 1929,<sup>14a</sup> notwithstanding the provisions of article II (a) thereof.

Article VIII. The exchange of ratifications of this convention will be effected in the City of Washington, D. C., the first day of the month immediately following the last ratification by either of the two countries and from that date the convention signed by the United States of America and the Dominican Republic on December 27, 1924, will cease to have effect; provided, however, that articles I to V inclusive of the said convention of December 27, 1924, shall continue in full force and effect until there have been adopted and executed all the necessary requirements in order that the present convention may enter into effect.

Article IX. The present convention will enter into effect after [apparent omission] have been ratified by the High Contracting Parties in accordance with their respective customs and methods and will continue in full force and effect during the existence of the outstanding external bonds of 1922 and 1926, it being understood that after the redemption or cancellation of the said bonds, the provisions of this convention shall automatically become null and void.

In witness whereof the respective plenipotentiaries have signed the present convention in duplicate, in the English and Spanish languages, both texts being equally authoritative, and have hereunto affixed their seals.

Done in the City of Washington the . . . . day of . . . . ,  
19 . . .”

[Wilson]

SCOTTEN

<sup>14a</sup> *Foreign Relations*, 1929, vol. I, p. 659.

839.51/4841 : Telegram

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

CIUDAD TRUJILLO, August 27, 1940—8 p. m.

[Received August 28—2:23 a. m.]

145. From Wilson. Please refer to the text transmitted in my telegram No. 144, August 27, 5 p. m.

Article III. The text grants the representative of the bondholders full access to all records and books of the depository bank. In addition we had suggested, in accordance with your 120, August 24, 5 p. m., that he receive complete and detailed reports from the Dominican Treasurer. Despradel argued that the insertion of such a clause would appear to accord to the representative supervisory rights over the administration of Dominican domestic matters. He explained that the laws in effect referred to in article VI would make available to the representative all the information which we had requested for the representative and that such laws under the text of article VI were irrevocable except with the consent of the two Governments. In view of this argument I acquiesced in the suppression of this additional prerogative for the representative, subject to your approval.

The alteration in the order of payments enumerated in "first, second, third" in article III was made at the request of the Dominicans in view of their explanation that the bank could not be in a position to charge for its services until such services had been rendered.

Also in article III we had incorporated provision for additional amounts to be allocated to the sinking fund as stated in the fourth paragraph of my 142, August 25, 5 [4] p. m. This was the only point to which the Dominicans strenuously objected. Despradel explained that the Dominican Government felt that if by their own efforts and economy they were able to increase the national revenue they should have the right to devote such increase to the benefit of the country. He argued further that the establishment of such a lien upon additional revenue would be detrimental to further credit for the Republic. He invited our attention to the fact that the 1934 agreement,<sup>15</sup> which is expressly reaffirmed in the convention, has provisions limiting the amounts which after 1939 should be allocated to the sinking fund. He said that it would be more royalist than the King for us to insist upon a more favorable arrangement in respect to the sinking fund than the bondholders themselves had agreed to. I stated that I could make no decision in respect to the suppression of this article but that I would consult you on this matter.

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<sup>15</sup> See *Foreign Relations*, 1934, vol. v, pp. 189 ff.; see also Foreign Bondholders Protective Council, Inc., *Annual Report, 1934* (New York, 1935), pp. 57-67.

I am inclined to feel that barring unexpectedly prosperous years it is unlikely that the Government's revenue under its own administration will attain 12,500,000, and that we are dealing therefore with an hypothesis somewhat unlikely of realization. Accordingly you may feel that it is unnecessary to insist upon the insertion of this article.

You will note that we have inserted a provision for pensions under the paragraph headed "third" in article III.

Article V. We had suggested a veto power for the representative of the bondholders in respect to disbursements when payments had been met. The phraseology submitted for this article is almost textually that of a Dominican counterproposal made to us this morning which seems to us even more advantageous than our earlier conception. [Wilson.]

SCOTTEN

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839.51/4848: Telegram

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

CIUDAD TRUJILLO, August 28, 1940—6 p. m.  
[Received 9: 53 p. m.]

148. From Wilson. Referring to my 144, August 27, 5 p. m., we had a further meeting with the Dominicans this afternoon. An examination of texts prepared by them in Spanish and ourselves in English revealed no important differences other than the elimination of the phrase in article III relating to pensions.

Despradel explained that the Dominican Government recognized its responsibility for carrying out these pensions, that there was no divergence between us as to the necessity for fulfilling this obligation. The only question was one of "form". The Minister explained that there were constitutional difficulties in incorporating such a provision in an international agreement. I feel that this was a facade, however, since it emerged that the Dominicans were unwilling to include in a treaty dealing with foreign debt an item which they considered a domestic responsibility. Despradel proposed that at the time of the signature of the treaty there should be an exchange of notes by which the Dominican Government would guarantee to pay throughout their lifetime the present pensions of the two Americans involved, Pulliam and Orme. The Dominican Government would further guarantee immediately to pass the necessary legislation to make these payments effective.



We contested his position. I told him I felt sure that my Government would be disappointed and that I was unable to tell him what our position would be. I need not elaborate further my arguments.

I may add that other than these two only one American, Mr. Norris, has served for a long time in the receivership. He, however, is not entitled under the rules of the receivership to a pension. Speaking in personal capacity only I said yesterday that I thought the Dominican Government might feel under some obligation in respect to Mr. Norris in view of his length of service. Despradel told me today that they were disposed to take care of him by further employment or through some other method.

In respect to the other American employees of the receivership under the regulations of that body they would receive 6 months pay on notice of termination of services.

If you think well of the idea of a telephone conversation suggested in my 144 it would be advantageous to discuss the matter as well at that time. [Wilson.]

SCOTTEN

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839.51/4850 : Telegram

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

CIUDAD TRUJILLO, August 29, 1940—4 p. m.  
[Received 5:55 p. m.]

149. From Wilson. "My 148, August 28, 6 p. m. At lunch today Despradel told Scotten and me again that the Dominican Government had the fullest intention to carry on the pensions; that they merely objected to a domestic obligation being incorporated in a treaty dealing with a foreign loan. He added that the American Government could include in the proposed exchange of notes on the subject any provisions that might seem desirable to afford absolute guarantee for the pensions including the provision that the representative of the bondholders should receive the sums due for pensions before clearance was given to Dominican disbursements.

He further suggested that the notes might include a statement to the effect that the exchange of notes had the same force and validity as the convention itself and that the Dominican Government obligated itself and succeeding Dominican Governments not to modify or revoke the law which would establish the pension payments."

SCOTTEN

839.51/4848 : Telegram

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

WASHINGTON, August 29, 1940—6 p. m.

124. For Wilson. Your numbers 144,<sup>16</sup> 145,<sup>17</sup> 146,<sup>18</sup> 147<sup>18</sup> and 148.<sup>19</sup> The Department is giving very careful consideration to the proposed text of convention and press release and to your comments thereon. Detailed comments will be telegraphed very shortly and the Department does not feel it useful to telephone until it has been able to complete its consideration.

It is the Department's view that it has been exceedingly generous in offering to meet the Dominican Government halfway, and it feels that the Dominican Government must be equally generous in considering the point of view of this Government and especially the reactions of the bondholders and of the Senate and American public. For these reasons the Department feels that it must insist upon all of the eight points previously laid down as minimum requirements.

The Department is carrying out extensive minor revisions of wording, is preparing a redraft to combine articles 8 and 9 into one coherent article, and is entirely redrafting article 5 to attain precision in the terms of the Dominican undertaking.

HULL

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839.51/4848 Suppl. : Telegram

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

WASHINGTON, September 1, 1940—9 a. m.

128. For Wilson. Department's no. 124, August 29, 6 p. m. The preamble transmitted in your no. 146, August 28, 6 p. m.,<sup>18</sup> is satisfactory.

The following provisions would seem to meet the criteria set forth in the Department's no. 120 of August 24.

"Article I. The Government of the Dominican Republic shall collect, through its appropriate national officials, the customs revenues of the Dominican Republic and all revenues pertaining to the customs duties. The General Receivership of the Dominican Customs provided for in the Convention of December 27, 1924 shall cease to operate on the date on which the Dominican Government undertakes the collection of customs revenues.

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<sup>16</sup> August 27, 5 p. m., p. 808.

<sup>17</sup> August 27, 8 p. m., p. 811.

<sup>18</sup> Not printed.

<sup>19</sup> August 28, 6 p. m., p. 812.

All property and funds of the General Receivership, except the cash and securities in the pension fund of the General Receivership, which is the subject of an exchange of notes attached hereto, shall be turned over on the same date to the Government of the Dominican Republic.

No claim shall be advanced by one of the High Contracting Parties against the other on account of any act of the General Receivership.

Article II. The Government of the United States of America and the Government of the Dominican Republic, in common accord, shall designate a bank, with establishment in the Dominican Republic, as sole depository of all revenues and public funds of whatsoever nature of the Dominican Government. They likewise shall designate, also by common accord, an official who shall act in the said bank as representative of the holders of the bonds of the external debt of 1922 and 1926, in all matters that concern the service of the said external debt. If at any time the bank so designated ceases for any reason to function in this capacity or if either of the High Contracting Parties shall deem a change advisable, a successor shall be designated under the procedure stipulated above. If the representative of the holders of the bonds of the external debt of 1922 and 1926 shall, for any reason, be unable to continue in that capacity, or if either of the High Contracting Parties shall deem a change advisable, his successor shall be designated in accordance with the same procedure established for the original designation. In the event that it should become necessary to designate a successor to either the bank or the official representing the holders of the bonds of the external debt of 1922 and 1926, and in the further event that the two Governments should be unable to reach mutual accord on such designation within a period of 3 months, the Foreign Bondholders Protective Council, Incorporated, shall be requested to nominate said successor, and in the event of its failure to make such nomination, the president or a vice president of the American Bankers Association, or his duly authorized representative, shall be requested to make the nomination; provided, however, that neither a bank nor a person previously rejected by either of the High Contracting Parties may be so nominated. In the event that a bank or person is nominated in accordance with this procedure, the High Contracting Parties shall designate such nominee.

The official representing the holders of the bonds of the external debt of 1922 and 1926 shall, with the approval of the two Governments, designate a deputy to serve in his stead in the event of his temporary absence or incapacity.

Article III. During the first 10 days of each calendar month the representative of the holders of the bonds of the external debt of 1922 and 1926 or his deputy shall receive, by endorsement and orders of payment which shall be issued to the depository bank by the Dominican Government through the intermediary of the Secretary of State for the Treasury and Commerce, the sum necessary to cover monthly payments, as follows:

First, the payment of one-twelfth of the annual interest charges of all of the outstanding bonds of the external debt of 1922 and 1926;

Second, the payment of one-twelfth of the annual amounts designated for the amortization of the said bonds, including the interest of all the bonds which are or may be retained in the sinking

fund. The said amortization shall be effected in accordance with the loan contracts as modified by the agreement concluded between the Dominican Republic and the Foreign Bondholders Protective Council, Incorporated, on August 16, 1934, and by the provisions of Article V of the present convention;

Third, the payment of one-twelfth of the annual cost of the services rendered by the representative of the holders of the bonds of the external debt of 1922 and 1926, who shall receive as salary \$\_\_\_\_\_ per annum and a reasonable amount for expenses incurred in the performance of his duties, including costs of bonding; and the payment of one-twelfth of the annual amount agreed upon between the Dominican Government and the representative of the holders of the bonds of the external debt of 1922 and 1926 as the compensation for the services of the depository bank; provided, however, that the annual total of monthly payments referred to in this paragraph shall not in any calendar year exceed three-fourths of one per cent ( $\frac{3}{4}\%$ ) of the total revenues of whatsoever nature of the Dominican Republic. No disbursements of funds of the Dominican Government shall be made by the depository bank until the payments provided for in this Article shall have been made.

Article IV. The Government of the Dominican Republic declares that the interest and amortization service of the bonds of the external debt of 1922 and 1926 as well as the payments stipulated in the third numbered paragraph of Article III of the present convention, constitute an irrevocable first lien upon all of its revenues of whatsoever nature.

Article V. In case the total collections from all the revenues of whatsoever nature of the Dominican Government should in any calendar year exceed \_\_\_\_\_ pesos there shall be applied to the sinking fund for the redemption of bonds of the external debt of 1922 and 1926 which may be outstanding ten percent (10%) of the excess above \_\_\_\_\_ pesos but less than \_\_\_\_\_ pesos and in addition five percent (5%) of all sums exceeding \_\_\_\_\_ pesos. The depository bank shall ascertain and certify to the Dominican Government within thirty days after the close of each calendar year the amount to be applied to the Sinking Fund provided for in this Article V. When such amount shall have been ascertained and certified no disbursements of any funds of the Dominican Government, except as provided in Article III, shall be made by the depository bank until such deposit and application shall have been made.

Article VI. The representative of the holders of the bonds of the external debt of 1922 and 1926 shall have complete access to all of the records and books of the depository bank relating to the public revenues, and shall receive from the Dominican Treasury complete and detailed reports of all the operations of collection and disbursement of all revenues of whatsoever nature of the Dominican Government.

Article VII. The system of deposit of all revenues of the Dominican Republic will be carried out in accordance with the Dominican laws of accounting and of the Treasury now governing such matters, and these laws shall not be modified nor shall any law inconsistent with the terms of this convention be enacted by the Dominican Government

during the life of this convention without the previous consent of both governments.

Article VIII. The exchanges of notes attached to this convention shall be given full force and effect as integral parts of the convention.

Article IX. Your Article VII in your no. 144.<sup>20</sup>

Article X. The convention signed by the United States of America and the Dominican Republic on December 27, 1924, shall cease to have effect, and the present convention shall enter into force upon the exchange of ratifications which shall take place in the City of Washington the first day of the month immediately following ratification by the Government which ratifies the later in point of time; provided, however, that Articles I, II, and V of the said convention of December 27, 1924 shall continue in full force and effect until the High Contracting Parties agree that there have been adopted and executed all the necessary measures provided for in the present convention.

The present convention shall continue in full force and effect during the existence of the outstanding external bonds of 1922 and 1926. After the redemption or cancellation of the said bonds, the provisions of this convention shall automatically cease to have effect.

In witness whereof the respective plenipotentiaries have signed the present convention in duplicate in the English and Spanish languages, both texts being equally authoritative, and have hereunto affixed their seals.

Done in the City of Washington the . . . . . day of . . . . . , 19 . . .”

It will be noted that Articles I, VIII and IX in text transmitted in your no. 144 have been merged into Article X in order to make clear the time relationship of the various changes that will occur.

The Department reiterates its belief that an accelerated amortization clause is indispensable in order to make the proposed convention acceptable to the bondholders and the Senate. You may again point out to the Dominican Commissioners that it would not advance what both Governments are seeking, to sign a document which would have little hope of favorable consideration by the Senate. To the Dominican contention that the Department is now suggesting a greater scale of amortization than that agreed to in 1934 by the bondholders, you should reply that the bondholders did not anticipate at that time the modification of, much less the termination of, the General Receivership.

It should be made clear by *aide-mémoire* that the phrase “all revenues of whatsoever nature” envisages the deposit and pledge of any and all government income, from whatsoever source derived, whether styled revenues, customs, duties, excises, fees, fines, imposts, charges, levies, or any other kind of fund that comes into the control of the Dominican Government.

Please give your views on the adequacy of the figure of three-fourths of 1 percent which appears in Article III.

<sup>20</sup> Dated August 27, 5 p. m., p. 808.

The Department has included in Article VI a statement that the representative of the bondholders shall have access to all expenditures and information of the government, as the Department is not aware of the provisions of Dominican legislation referred to in Article VII. If these laws offer the representative of the bondholders full opportunity to obtain the information needed, the Department will consider a modification of Article VI. For further consideration by the Department, please submit a brief statement on the foregoing.

There should be annexed to the Convention, and made integral parts thereof, notes regarding the floating debt and pensions. Previously drafted texts of notes on floating debt are in your possession. Notes regarding pensions should provide that the existing cash and securities mentioned in Article I should be devoted to that purpose. Specific provision should be made, by name, for Pulliam and Orme, as well as an arrangement for Norris. Please submit draft texts of notes.

HULL

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839.51/4852 : Telegram

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

CIUDAD TRUJILLO, September 2, 1940—5 p. m.  
[Received September 3—12:20 a. m.]

152. From Wilson.

"Referring to your 128, Sept. 1, 9 a. m., I want to make certain observations:

1. The floating debt and the possibility of incorporating in the convention an exchange of notes thereon was mentioned to me neither in the Department nor in subsequent messages except a reference thereto in your No. 122, Aug. 26, 8 p. m. which left the matter to my discretion. At no time in the negotiations have I mentioned this matter to the Dominicans and I had contemplated before leaving here discussing informally with the Minister the best way of expediting the matter. I cannot feel that we would be justified at this late stage of negotiations in introducing into the convention a subject extraneous to the foreign loans of 1922 and 1926. If it appears well to you I might endeavor to work out an exchange of notes similar to the one included in the Department's instruction to the Legation No. 190 of May 16, 1939<sup>21</sup> but I believe that the convention should not bring up this question nor make any reference to it.

2. The last phrase of your article VI. In reply to your question, Bonetti has furnished us an analysis of the laws and we think that the representative of the bondholders can obtain more accurate in-

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<sup>21</sup> Not printed.

formation as to Dominican collection and disbursement from the records and books of the bank than from any information that would probably be handed him by the treasury. My impression is that to insist on the insertion of this phrase might make the position of the representative an unpalatable one to the Dominicans and serve no practical and useful purpose.

3. I entirely agree to the insertion of a sliding scale as provided in your article V. Article V, however, leaves blank the sums to be inserted in the sliding scale although I proposed figures in my 142, August 25, 5 [4] p. m. Please comment.

4. I learn from Erikson, local manager of the National City Bank, that under its present contract the Dominican Government is paying the bank three-fourths of one percent of the Government's deposits for its services as a depository. The bank may make some objection to paying from this sum the salary and expenses of the representative of the bondholders. I do not feel competent to pass on whether three-fourths of one percent is a reasonable charge or otherwise, for the services rendered. Perhaps you would desire to telephone National City Bank in this connection.

5. Your article III, point "third" leaves a blank for the salary of the representative. Is it your desire that the salary should be stipulated in the convention and if so what is your suggestion?

The same paragraph provides that the sum to be paid the bank for services as depository is to be negotiated between the representative of the bondholder and the Dominican Government whereas the draft which we submitted (my 144, August 27, 5 p. m.) provided that this sum would be arranged between the bank itself and the Dominican Government. Does the Department believe that it would be appropriate for representative of the bondholders to negotiate with the Dominican Government for the services of the bank? The depository bank might well refuse to carry out such services if it did not make the arrangements itself.

6. Your article I, second paragraph, states "except the cash and securities in the pension fund of the general receivership". The final paragraph of your 128 provides that the exchange of notes concerning pensions should provide "that the existing cash and securities mentioned in article I should be devoted to that purpose". The text therefore does not make clear in whose possession these funds would remain. It would seem that the right of the American Government to retain such funds on liquidation of the receivership is dubious. If the Dominican Government undertakes the responsibilities of the receivership it should, I submit, be in possession of the assets of the receivership. The exchange of notes might stipulate that the Dominican Government holds these sums earmarked for the payment of

pensions but I would hesitate to recommend this as I believe this might subsequently cause the Dominicans to feel that their responsibility was ended when the sums were exhausted.

Do you feel it indispensable to make reference to the pensions in this convention as provided in your article VIII. I think there is something to the Dominican contention that pensions are a purely domestic responsibility and extraneous to the subject of the convention. The Dominicans themselves offer to state that the exchange of notes constitutes an obligation of the same force and validity as the convention itself (see my 149, Aug. 29, 4 p. m.). The members of the Dominican commission have repeatedly made it clear to me in conversation how deeply [they] feel on this point. I am submitting a proposed exchange of notes in a separate telegram.

7. I note that the final paragraph of your article II rejects the Dominican suggestion as to the deputy being ex officio the manager or the acting manager of the depository bank. While the matter is not of high importance I rather prefer the Dominican suggestion merely because it assures continuity whereas under your text both the representative and the deputy might be absent or incapacitated simultaneously."

SCOTTEN

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839.51/4853 : Telegram

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

CIUDAD TRUJILLO, September 2, 1940—6 p. m.

[Received 9:56 p. m.]

154. For the Under Secretary from Hugh Wilson. I sent a text on August 27 feeling that only two of the eight points mentioned in the Department's 120, August 24, 5 p. m. namely the sliding scale and information to the representative of the bondholders as well as the subject of pensions remained to be cleared up. The whole matter seemed simple as I was convinced that the Dominicans would meet us rapidly.

Instructions received today as you will see from my reply No. 152, September 2, 5 p. m. have introduced new thoughts complicating the matter and may lead to considerable delay.

I hope you will do what you can to keep the thing as simple and as speedy as possible. [Wilson.]

SCOTTEN



839.51/4852 : Telegram

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

WASHINGTON, September 3, 1940—8 p. m.

129. For Wilson. Your 152, September 2.

Your observation 1. It is not the Department's view that the matter of the floating debt should be referred to in the convention. The Department agrees that you should endeavor to work out an exchange of notes similar to that you mentioned, in order to make provision for the settlement of this long drawn-out and in the past at times irritating problem.

Your observation 2. On the basis of your recommendation the Department is agreeable to receding on the question of treasury reports to the representative.

Your observation 3. The Department feels that the rate of acceleration may be such as to require but a small sacrifice on the part of the Dominican Government but that it should, nevertheless, be such as to provide increased amortization in years of relative prosperity. Please reconsider the figures you have recommended in the light of this observation and your own comments in the third paragraph at the end of your 145, August 27, 8 p. m.

Your observation 4. The Department likewise does not have any complete factual basis on which to pass on what would be a reasonable charge for the services of the representative and of the depository bank. If a reasonable charge by the depository bank for its services is now considered to be three fourths of 1 per cent of the Government's total revenues, it would seem necessary, however, that the maximum permissible service payment be greater in order to take care of the salary and reasonable official expenses of the representative. Probably 1 per cent would be adequate to cover the total, but it is suggested that you sound out the Dominicans on inserting one and one quarter per cent as the maximum. It should be emphasized that this in no way sets the actual charges to be paid for the services rendered.

Your observation 5. After reconsidering this point, the Department believes that it would be preferable to indicate in Article III, third numbered paragraph, that the amount of the salary will be fixed in an exchange of notes. The Department believes that the salary to be fixed in an initial exchange of notes on the subject should not exceed \$10,000 per annum. Please telegraph draft of text of exchange of notes.

The Department's draft as to the fixing of the bank's remuneration is not intended to preclude negotiation and consultation with the bank, but rather to make use of the representative's close knowledge of the actual services rendered by the bank, to enhance the authority of the

representative, and to add to the bondholder's confidence in the representative. If after you present this point to the Dominicans, they object strenuously, you are authorized in your discretion to revert to the plan suggested in your 144.

Your observation 6. The whole matter of the pensions, including the draft submitted in your 153, September 2, 5 p. m.,<sup>22</sup> will be the subject of a separate telegram. In any event the Department believes that the words "except the cash and securities in the pension fund of the General Receivership, which is the subject of an exchange of notes attached hereto" should be stricken out of Article I.

Your observation 7. At the present time we are all thinking of the appointment of an American bank as the depository bank, but at some future time some other institution, perhaps a local one, might be appointed. In such event, it might not be deemed desirable in all cases that the manager and assistant manager of the depository bank be ex officio deputies. The Department's draft, on the other hand, does not rule out the possibility of the manager of the depository bank being named deputy.

HULL

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839.51/4857: Telegram

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

CIUDAD TRUJILLO, September 4, 1940—5 p. m.

[Received 7: 23 p. m.]

155. From Wilson.

"I highly appreciate your 129, September 3, 8 p. m. I shall begin at once discussions regarding the floating debt. In the meantime it would be helpful to know more exactly your views on the subject.

Is it your desire that provision be made in respect to all floating debt irrespective of the nationality of the claimant or is this matter to be treated purely on the basis of the American claims? In considering whether claims should be pushed for nationals of other countries we might I think give consideration to the fact that we ourselves have frozen the accounts of numerous countries. Under the circumstances some embarrassment might result from pushing for such nationals.

I have no doubt that you have already considered the possibility of requiring some arrangement on the floating debt before the extension of credit to the Dominican Government through the Export-Import Bank.

There are in the Legation lists of about 30 claims but the archives do not reveal whether these are all the claims outstanding of Ameri-

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<sup>22</sup> Not printed.

can citizens, whether they have been met wholly or in part, or whether the claimants themselves desire them to be pushed at this time.

It is estimated by the Legation that the amount owed to American claimants is in the neighborhood of \$700,000 excluding unrevealed amounts claimed by the contractor for port works. The total floating debt is roughly estimated at \$2,000,000. The Dominican Foreign Minister told Norweb<sup>23</sup> some time ago that the number of American claims amounted to 1,400 most of which were for small amounts.

It would be helpful to me to have your views and such supplemental information as may be available."

SCOTTEN

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839.51/4895

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

[WASHINGTON,] September 5, 1940.

Participants: Ambassador Wilson  
Mr. Harold D. Finley, in Ciudad Trujillo.  
Mr. E. G. Collado

In accordance with our phone conversation of the morning,<sup>24</sup> I called Mr. Finley to inform him of the decisions which were taken in the consultation with Mr. Hackworth and Mr. Duggan.<sup>25</sup>

I informed Mr. Finley that the Department was prepared to agree with the Dominican's request that the notes regarding pensions and the floating debt stand on their own feet and not be made an integral part of the convention. To do this Article VIII would be omitted. In order to make the exchange of notes regarding the salary of the representative an integral part of the convention, appropriate words would be added in Article III. Regarding the amount of the salary and expenses of the representative, I indicated that the Department was agreeable to a \$5,000 maximum for the expenses if Ambassador Wilson felt that this was appropriate, and that we hope that it would be possible to get a suitable representative at a salary that would not be too great a burden to the Dominicans. The Department felt it desirable to insert in the exchange of notes "not to exceed \$10,000" with the further understanding that the matter would be subject to further discussion at the time of appointing the representative.

With respect to the question of the floating debt mentioned in Mr. Wilson's 155, I indicated that it was the Department's view that

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<sup>23</sup> R. Henry Norweb, former Minister in the Dominican Republic.

<sup>24</sup> Memorandum of conversation not printed.

<sup>25</sup> Green H. Hackworth, Legal Adviser of the Department of State, and Laurence Duggan, Chief of the Division of the American Republics.

he should present only the American claims, but that the Department felt that it would be generally desirable if all the claims were cleared up.

Mr. Finley also stated that with respect to the acceleration clause that he and the Ambassador recommended the use of the figures earlier mentioned, that is \$12,500,000. He added that the Dominican negotiator would not agree to any lower figure, and that he and the Ambassador felt that these figures were justified. I stated that I believed that the Department would accept their recommendation.

Mr. Finley indicated that on the basis of these instructions he felt that the negotiation could be concluded almost immediately and expressed the Ambassador's appreciation for the cooperation of the Department in the matter. Mr. Finley stated that he and the Ambassador had reservations to leave Ciudad Trujillo, he for Port-au-Prince and the Ambassador for Miami. He added that he would stay for a brief period of time in Haiti, leaving on the Panama line on September 17.

Ambassador Wilson then took the phone to express his appreciation and to ask if a settlement of the floating debt over five years would appear adequate to the Department. I stated that it was my impression that the early discussions of the floating debt had contemplated a period of five years and that I believed that the Department would accept any reasonable terms as to the details of the settlement.

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839.51/4859 : Telegram

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

CIUDAD TRUJILLO, September 5, 1940—8 p. m.

[Received September 6—3:08 a. m.]

157. From Wilson. We made good progress with the Dominicans this afternoon working on your text transmitted in your telegram 128, September 1, 9 a. m.

Article I: Accepted.

Article II: Accepted.

Article III: point 3rd: After the words "attached hereto", at our suggestion they have accepted the words "shall be given full force and effect as integral parts of the convention". The Dominicans suggest redrafting the last half of the paragraph referred to, to read as follows: "and the payment of one-twelfth of the annual amount agreed upon between the Dominican Government and the depository bank as compensation for the services of said bank. No disbursements of funds of the Dominican Government shall be made by the

depository bank until the payments provided for in this article shall have been made.”

This would eliminate the representative of the bondholders as the medium of negotiation between the bank and Government. The Dominicans explained that they had a very intricate contract with the National City Bank providing for other operations than those associated with the service of foreign debt, and hence were obliged to negotiate with the bank direct. The Department has already indicated that it has no serious objection thereto. As to the suppression of any mention of  $1\frac{1}{4}\%$  of total revenues, the Dominicans pointed out that under the convention the Dominican Government itself will negotiate with the American Government on salaries and with the bank for services; hence the requirements for a maximum percentage. I consider the point well taken. Despradel did not, however, attach very high importance to its inclusion of [*or*] suppression.

Article IV: Accepted.

Article V: First half accepted with figures of 10% exceeding \$12,500,000 and less than \$13,500,000 and 5% additional over \$13,500,000. The Dominicans strongly urge the suppression of the second half of the article beginning with the words “the depository bank shall as usual”. They point out that article III, point 2, already covers the right of the representative of the bondholders to receive such excess amortization as may be derived from the operation of the first paragraph of article V. They are willing to add to article VI the type of statement which they previously objected to, designed to reenforce the ability of the representative to obtain full information as to revenues and disbursements. They suggest a text as follows as a second paragraph to article VI: “The Secretary of State, of Treasury and of Commerce will supply monthly to the representative of the holders of the bonds of the loans of 1922 and 1926 complete and detailed reports, duly certified, of all the revenues and disbursements and other fiscal operations of the Dominican Government.”

Despradel argued that under their fiscal law the Comptroller is the only person authorized “to ascertain and certify”, and that the portion in discussion would thus be a violation of existing fiscal law, the modification of which is expressly forbidden under article VII.

Article VI: Accepted but addition suggested as previously outlined under article V.

Article VII: The Dominican Government emphatically objects to the inclusion of words as follows: “nor shall any law inconsistent with the terms of this convention be enacted”. They feel sure this puts them in the humiliating position of undertaking not to violate a convention which they have signed and ratified. Despradel said he felt that the Generalissimo would not permit the signature of a document

containing this phrase. They referred to their original text reading as follows: "And these laws as well as the powers which the tenor of this accord confers upon the representative of the holders of the bonds of 1922 and 1926 may not be modified or diminished by the Dominican Government during the life of this agreement without the previous consent of both Governments". The Dominicans pointed out that they were willing to re-insert this phrase and accept any reinforcement that we might suggest; for instance, if we desire to provide that the functions of the bank as well may not be modified, they would be happy to admit it.

Article VIII: Suppressed.

Article IX: Accepted.

Article X: Accepted with the addition of the following words at the end of the first paragraph: ", and on that date the said convention of December 28, 1924 is abrogated".

The Dominicans, although not insisting strongly on this point, would, for popular appreciation of this convention, like to use the word "abrogated" in the body thereof.

The text of the communiqué with your changes was approved.<sup>26</sup>

The note on pensions incorporating your changes in the first paragraph was approved.<sup>27</sup>

The note on salaries (text in separate telegram No. 159<sup>28</sup>) was approved after a hard struggle. Despradel felt that a salary of \$10,000 was incompatible both with the scale of payments in the Republic to officials of high position, and with the type of work to be performed by the representative of the bondholders. In announcing that he accepted the note he stated that he understood that the phrase "not to exceed \$10,000" should not be interpreted as meaning that this must be the salary. This would be discussed by the two Governments at the moment of selecting the representative. [Wilson.]

SCOTTEN

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839.51/4859: Telegram

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

WASHINGTON, September 6, 1940—8 p. m.

135. For Wilson. Your 157, September 5, 8 p. m.

Article III: point third. The re-draft of the last half of the paragraph approved.

<sup>26</sup> Drafts not printed. For press release as issued, see Department of State *Bulletin*, September 7, 1940, p. 209.

<sup>27</sup> Drafts not printed. They provided for continuing life pensions of \$200 per month to Messrs. W. E. Pulliam and N. L. Orme, retired officials of the General Receivership of Dominican Customs.

<sup>28</sup> Not printed.

Article V. Suppression of second half approved. In lieu thereof, however, Article III, point second, second sentence should start as follows: "The said amortization shall be computed and effected in accordance . . .".

Article VI. The Department prefers Article VI with the addition suggested by the Dominicans.

Article VII. The Department agrees to the deletion requested by the Dominicans and would prefer to revert to the original text proposed by the Dominicans, modified to read as follows: "and these laws as well as the powers conferred by this convention upon the representative of the holders of the bonds of 1922 and 1926 shall not be modified nor their force diminished by the Dominican Government during the life of this agreement without the previous consent of both Governments." Further in regard to Article VII please change the word "will" in the first sentence, to the word "shall".

Article X. The Department much prefers the wording as it stands, especially in view of your statement that the Dominicans do not insist strongly on this point.

Your 159, September 5, 8 p. m.<sup>29</sup> Text approved with addition of phrase "with pay" after the phrase "sixty days" in the second paragraph.

Your 160, September 5, 10 p. m.<sup>30</sup> The Department assumes that the exchange of notes regarding the floating debt will be made simultaneously with that regarding pensions. The exchange of notes regarding the floating debt should specify that actual payments are to be made (rather than mere appropriations).

Please inform us in advance when you plan to release the press communiqué, so that the Department may issue a statement at the same time.

Please telegraph clean drafts of all texts.

HULL

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839.51/4863 : Telegram

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

CIUDAD TRUJILLO, September 7, 1940—noon.

[Received 2:04 p. m.]

163. From Wilson. Your 135, September 6, 8 p. m. We met the Dominicans this morning and received full agreement in accordance with the telegram under reference.

<sup>29</sup> Not printed; it transmitted draft text for exchange of notes respecting salaries (839.51/4860).

<sup>30</sup> Not printed.

Your final sentence reads, "Please telegraph clean drafts of all texts".

The documents are so lengthy for coding that you would hardly receive by telegraph the full texts before Sunday night<sup>32</sup> in Washington. Hence I am venturing to modify your instruction and I am sending full clean texts by open air mail to reach you Monday morning. [Wilson.]

SCOTTEN

839.51/4862 : Telegram

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

CIUDAD TRUJILLO, September 7, 1940—6 p. m.

[Received 7:45 p. m.]

164. From Wilson. Convention initialing [*initialed?*]. Leaving tomorrow morning by the plane. Finley remains at Port au Prince; I proceed Miami arriving Washington by railroad early Tuesday morning. Please notify Mrs. Wilson. [Wilson.]

SCOTTEN

839.51/4864 : Telegram

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

CIUDAD TRUJILLO, September 7, 1940—7 p. m.

[Received 10 p. m.]

165. From Wilson. Referring to my 160, September 5, 10 p. m.,<sup>33</sup> in respect to an exchange of notes on claims of American citizens Despradel told me today that he had been in telephone communication with Bonetti in New York who accompanies General Trujillo,<sup>34</sup> that Bonetti stated that an arrangement would be constructed but that the General desired to negotiate it in the United States. I showed Despradel a draft of a note from the Dominican Government to the United States Government which I felt would meet the necessities. It included the suggestions in your No. 135, September 6, 8 p. m. He declared himself in entire accord both with yearly provision in the budget and yearly payment to creditors of \$125,000.

I subsequently brought up the matter with President Troncoso. He stated that he was convinced that the present was the time for the Dominican Government to act in this respect and that he felt convinced that General Trujillo to whom full powers had been given would be in a position to work out a satisfactory arrangement with us.

<sup>32</sup> September 8.<sup>33</sup> Not printed.<sup>34</sup> Rafael L. Trujillo y Molina, Chief of Staff of the Dominican Army.



Both of these gentlemen informed me for the first time that General Trujillo had also received full powers to sign with the Secretary of State the convention just initialed.

[Wilson]  
SCOTTEN

839.51/4900½

*The Dominican Minister (Pastoriza) to the Secretary of State*

[Translation]

WASHINGTON, September 18, 1940.

MR. SECRETARY: I have the honor to inform Your Excellency that His Excellency the President of the Dominican Republic has designated the Honorable Generalissimo Rafael Leonidas Trujillo Molina, ex-President of the Dominican Republic, in the capacity of Ambassador Extraordinary on special mission to the Government of Your Excellency, in order that he may sign in the City of Washington and in the name of my Government, the new agreement which will be substituted for the Dominican-American Convention of December 27, 1924.

I take this opportunity [etc.]

ANDRÉS PASTORIZA

839.51/4892

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] September 21, 1940.

The Minister of the Dominican Republic accompanied by former President Trujillo, came in to pay their respects.

General Trujillo was immensely pleased with the new debt settlement between our two Governments. He most emphatically pledged his word that so long as he lived the Dominican Republic would meet this debt service promptly and fully. He seemed to feel that way. He pledged the fullest cooperation with our Government in all the work pertaining to Pan American development. I thanked him for the cooperation of his Government's representative at Habana. He was profuse in every way in his professions of friendship and cooperation.

C[ORDELL] H[ULL]

[For text of the convention signed at Washington, September 24, 1940, with accompanying exchanges of notes, see Department of State Treaty Series No. 965, or 55 Stat. (pt. 2) 1104.]

839.407/12 : Telegram

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

CIUDAD TRUJILLO, October 20, 1940—6 p. m.

[Received 11 : 42 p. m.]

191. The ceremonies which took place today to celebrate the signing of the new convention and the return of Trujillo and which culminated in a parade of several thousand people were marked by a spirit of national pride at having terminated the 1924 Convention and also by a spirit of friendliness to and cooperation with the United States. As American Minister, I was given a prominent place at all the celebrations and in the parade mentioned above there marched a contingent of about 100 leading business men carrying our flag. As they approached the reviewing stand where I sat with Trujillo, both the Dominican and American national anthems were played.

In Trujillo's address this morning before a joint session of Congress, he reviewed the importance to the Dominican Republic of the recovery of its sovereignty. He praised the facilities which had been given him in Washington and the interest shown by President Roosevelt and Secretary Hull in the negotiations.

He emphasized the special nature of the relations existing between the United States and the Dominican Republic on account of the situation of the latter on the route to the Panama Canal. He stated that due to this, the Dominican Republic forms a part of the group of countries which constitutes a strategic zone and will necessarily play a preponderant part in the defense of the continent. "Our cooperation in whatever manner may be necessary and useful to this end cannot be denied because we form part of the block of nations to which is confided in this grave historical moment the safeguard of traditional democracy." He concluded by stating that "For the defense of the hemisphere and democratic traditions, the Dominican Republic is disposed to lend all its force in case the ambition for conquest which has been unchained in other continents brings war to these shores."

Full report by mail.

SCOTTEN

## ECUADOR

### COOPERATION OF THE UNITED STATES IN THE ELIMINATION OF GERMAN INFLUENCE FROM ECUADORAN AIRLINES<sup>1</sup>

822.796/112 : Telegram

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

WASHINGTON, April 25, 1940—6 p. m.

21. As a result of conferences at the Department, Pan American-Grace Airways is preparing and will shortly present a plan to the Ecuadoran Government for the improvement of that Government's domestic air service. In view of your despatch no. 954<sup>2</sup> concerning the negotiations now going on between officials of Sedta<sup>3</sup> and the Government of Ecuador, you are requested in your discretion to make known informally and strictly confidentially to appropriate officials of the Government of Ecuador the intentions of Pan American-Grace Airways. Alfaro<sup>4</sup> is being informed of the above.

Please telegraph your views and those of the Ecuadoran officials whom you contact.

HULL

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822.796/114 : Telegram

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

QUITO, April 26, 1940—5 p. m.

[Received April 27—5:10 a. m.]

33. Contents of Department's telegram No. 21, April 25, 6 p. m. discussed solely with Minister of National Defense<sup>5</sup> who is negotiating for hydroplane service to Oriente with Sedta. He said this service was of the greatest importance to the Army and that others consistently favor arrangements with others if Oriente service were excluded. He stated that he wished to be frank about it as he could not accept less from a new group than Ecuador is now receiving and is about to

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<sup>1</sup> 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.

<sup>2</sup> Not printed.

<sup>3</sup> Sociedad Ecuatoriana de Transportes Aéreos, a German (Lufthansa) airline operating in Ecuador under a contract granted in 1938.

<sup>4</sup> Colón Alfaro, Ecuadoran Ambassador in the United States.

<sup>5</sup> Galo Plaza.

get through Sedta. He gladly offered to delay Sedta closing for 1 week during which he hoped a clear idea of the Panagra plan would be available. He intimated that he would prefer an American service but stated that Sedta prestige in Ecuador was such that the public would probably rebel if they lost Sedta and got in exchange a less comprehensive or efficient service.

Minister Plaza added that every one here was now accustomed to Sedta tariffs, and although some are lower than Panagra, he was certain that the public would not stand for increases since Sedta planes and services were regarded by most people as satisfactory.

LONG

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822.796/121 : Telegram

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

WASHINGTON, May 14, 1940—6 p. m.

34. Reference the Department's 32 of May 10, 7 p. m.<sup>6</sup> Pan American-Grace has now instructed Campbell<sup>7</sup> to proceed to Quito to propose to Ecuadoran authorities that dependent upon the elimination of German interests from air transport service in Ecuador, Pan American-Grace will extend its operations within Ecuador at no cost to the Ecuadoran Government, providing all the scheduled services now provided plus certain additional facilities. The proposals are described in a letter addressed to the Department by Pan American-Grace, copies of which have been sent to Campbell and are being sent to you.

Please emphasize to Campbell that the general objective is to eliminate German interests from Ecuadoran aviation, and that the Department is supporting Campbell's proposals with that end in view.

Although it is desired that you present Campbell to the appropriate Ecuadoran authorities, and that you request these authorities to give their most careful consideration to Panagra's proposals, you should not be present at any discussions or make any suggestions independently and directly to the Ecuadoran authorities. In other words, the negotiations should be entirely in the hands of Campbell. If at any time you believe it would be useful and desirable for you to take any further action than that authorized by this instruction, the Department will welcome your suggestions.

HULL

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<sup>6</sup> Not printed.

<sup>7</sup> Douglass Campbell, vice president of Pan American-Grace Airways resident in South America.

822.796/138 : Telegram

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

QUITO, May 24, 1940—6 p. m.

[Received May 25—12: 03 a. m.]

67. In amplification of the information contained in my telegram No. 65, May 22, 10 a. m. [*p. m.*]<sup>8</sup> the Minister of National Defense confirmed last night that some arrangement would have to be made for Oriente air service before he would be content to see Sedta bought out by some company that would not undertake Oriente service. Plaza asked whether there was not some way in which our Government could finance buying of hydroplane or amphibian and helping Ecuador to get some excellent pilots. I replied that the possibility would be taken under advisement. He replied that he could not wait much longer.

LONG

822.796/138 : Telegram

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

WASHINGTON, May 27, 1940—6 p. m.

50. Your 67, May 24, 6 p. m. Please inform the appropriate officials of the Ecuadoran Government that the Export-Import Bank is prepared to finance the sale of two hydroplanes or amphibians to Sedta, with the understanding that this credit would be guaranteed by the Ecuadoran Government. It is understood, of course, that prior to concluding such an arrangement the Ecuadoran Government would take steps to acquire the ownership of Sedta, or at least a majority of shares, and to eliminate German personnel and interests from that company and from further aviation activities in Ecuador. If these steps are taken, and the new equipment is thereupon purchased with the aid of the Export-Import Bank, this Government will assist in getting pilots for the new service. This Government believes that in making Sedta a truly Ecuadoran company the subsequent expansion of national aviation in Ecuador will be greatly facilitated.

With regard to your 72, May 26, 4 p. m.,<sup>8</sup> would the proposals thus far advanced by Campbell, in conjunction with the above, meet requirements of the Ecuadoran Government and achieve the desired objective?

HULL

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<sup>8</sup> Not printed.

822.796/147 : Telegram

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

QUITO, May 29, 1940—10 a. m.

[Received 4:40 p. m.]

77. To my surprise Minister Plaza called here last night and stated he doubted Ecuador could buy Sedta as it did not have the funds, since the two trimotor Junkers were valued by Sedta at 1½ million sucres. Worse than that how would this country get rid of German personnel even if it found some way to buy Sedta. The Ministry of National Defense did tell me that Sedta a fortnight ago requested the Ecuadoran Government to acquire shares held by its citizens up to 51%, but stated that other 49% was not for sale—this Government declined.

The Ecuadorans' indisposition or inability to acquire Sedta has not been clearly established, but uncertainty in this regard should be taken into consideration in connection with my telegram No. 75, May 28, 5 p. m.<sup>9</sup>

In order to obtain our objectives I believe a more realistic procedure must be followed and in this connection Campbell is today cabling his principals a suggested method for their consideration and possible discussion with you.

LONG

822.796/147 : Telegram

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

WASHINGTON, May 30, 1940—2 p. m.

54. Your 77, May 29, 10 a. m. Please telegraph directly to the Department the suggestions Campbell is making to his principals. Please telegraph also your opinion, without consulting Ecuadoran officials, as to the reasons for Sedta offering control to the Ecuadoran Government on its own initiative.

With respect to the probable cost of Sedta, it has been the impression in the Department that Sedta airplanes are not owned by it but are used on a lease basis, so that the airplanes need not constitute a part of any transaction whereby the Government would receive majority control of Sedta. It is our information that Sedta has very little property in Ecuador and that the purchase price would be largely a nominal compensation for the value of the franchise. For the Department's assistance in appraising this situation, please report your estimate, without consulting any Ecuadoran officials, of the value of the physical investment of Sedta and the extent of personnel to which there might be legal obligations.

<sup>9</sup> Not printed.

With regard to the German personnel of Sedta once the Government was the controlling owner of the company, it could then discharge such employees as it might see fit.

HULL

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822.796/150 : Telegram

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

QUITO, May 31, 1940—11 a. m.

[Received June 1—12: 33 a. m.]

81. Referring to the Department's telegram No. 54, May 30, 2 p. m., Campbell had not drafted cable when he left for Lima, but said that he would send it from Guayaquil last Wednesday afternoon. Before departing he was acquainted with the substance of my telegram and seemed to think surest way to clear out Sedta was for Panagra to buy them out, if the United States Government would foot the bill. Campbell intimated that with Panagra's experience it might purchase Sedta, possibly without two Junkers and arrange for the German personnel to fly them out of Ecuador and then liquidate Sedta Company.

Precisely what he cabled I do not know, but assume it must have been above. Reasons why Sedta proposes that the Government acquire a controlling interest are that local shareholders have not paid up and owing to its relatively large investment in physical assets, the company is in need of funds; and that under Government control it would be certain of obtaining Oriente service and other concessions.

A shareholder whose information has been usually dependable states that physical assets amount to 300,000,000 sucres, including two Junkers valued at 1,000,000 each and a third plane now being overhauled in Brazil, radio stations, well stocked repair shops but the large hangar has not yet arrived from Germany.

Under clause 21 of the present German corporation, Campbell can dismiss Sedta employees. (Legation's despatch No. 244, October 31, 1938<sup>10</sup>).

LONG

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822.796/183a : Telegram

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

WASHINGTON, July 3, 1940—7 p. m.

87. As a result of discussions with representatives of Pan American-Grace Airways, we are now prepared to approach the Ecuadoran Gov-

<sup>10</sup> Not printed.

ernment with a comprehensive aviation plan. Unless you perceive some objection, in which case please communicate with the Department by telegraph, you are accordingly instructed to arrange for a joint interview with the President, the Minister for Foreign Affairs and the Minister of National Defense, and to outline the proposal as follows:

(1) Having in mind the necessity for safeguarding the Panama Canal and appreciating the interest of Ecuador in the safety of the Canal as well as in the general question of hemisphere defense and continental solidarity, we believe that the Sedta franchise should be terminated at once by action of the Ecuadoran Government. The facts as to the real value of Sedta (and hence of what would constitute adequate compensation to be paid by the Ecuadoran Government) ought not to be difficult for the Government to ascertain; for example, if as has been reported the planes have been loaned or leased (or sold on mortgage) to Sedta by the Lufthansa organization, they could be turned back to the latter on the termination of the concession.

(2) This Government is in entire sympathy with the desire of the Ecuadoran Government to be supplied with an efficient modern domestic air transport service to meet the present needs and anticipated developments of the country, and is prepared to cooperate fully with the Ecuadoran Government to that end. Having in mind the immediate problem, it suggests that the following steps be taken:

(a) Concurrently with the elimination of Sedta operations, Pan American-Grace will institute services replacing Sedta services at all points at which satisfactory ground facilities now exist. Pan American-Grace will serve all other points now reached by Sedta as soon as satisfactory ground facilities are provided, and will cooperate with the Ecuadoran Government to the end that such ground facilities may be promptly established. Services between points in Ecuador will be at the now published Sedta rates. Schedules will be so arranged that the new services will include one trip per week in each direction between Esmeraldas, Quito, Manta, Salinas, Guayaquil, Cuenca and Loja, and in addition at least six trips per week between Guayaquil and Quito, making a total of seven trips per week between the latter two points. The trip to Esmeraldas would also be continued to Cali and Cristóbal, thus providing a fourth international service to and from Ecuador.

If after the inauguration of services on the foregoing bases it appears desirable to do so, Pan American-Grace is prepared to undertake a part of these services through a local subsidiary to be incorporated by it in Ecuador; the company has in mind in that connection facilitating the future establishment of a national Ecuadoran air transport company as outlined in section (3) hereafter.

(b) The Pan American-Grace organization will arrange for ground instruction of Ecuadoran mechanics and technicians without cost to the Ecuadoran Government.



(c) It is believed that arrangements now being worked out in connection with the preparations for a Military Aviation Mission to Ecuador will shortly provide for adequate training of Ecuadoran pilots.

(3) At such time in the future as the Ecuadoran Government may desire, this Government will cooperate with the Ecuadoran Government in the establishment of a national Ecuadoran air transport company to operate domestic services within Ecuador, it being anticipated that in due course 51% or more of the stock of such company would be acquired by the Ecuadoran Government or by the Ecuadoran Government and nativeborn Ecuadoran citizens. The details in connection with the organization of such a company and the conduct of the operations would, however, be worked out when the occasion arises. In any case, it would of course be provided that present Pan American-Grace cabotage and other contractual rights in Ecuador would be maintained.

(4) With respect to Ecuador's desire for an Oriente service, we are in agreement with the views of the Minister of War that in the first instance this should be undertaken by the Ecuadoran Government direct. We are prepared to furnish credit for the purchase of the necessary equipment and will be pleased to recommend the names of whatever United States pilots and mechanics might be necessary for the initial operations. It is assumed that the Ecuadoran Government would be prepared to allocate sufficient funds to the Ministry of War for the operation of the service, and for the repayment of the credit on mutually satisfactory terms.

(5) In consideration of all of the foregoing, Ecuador would undertake to grant no further aviation concessions or franchises to any organization or individual not of the American Republics. Having in mind the suggested establishment of a national Ecuadoran company, we are confident that the Ecuadoran Government will immediately perceive the importance of this point.

HULL

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822.796/184 : Telegram

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

QUITO, July 6, 1940—9 a. m.  
[Received 5:49 p. m.]

140. The Department's telegram No. 87 was presented in accordance with the Department's instructions and the general outline was accepted in principle with the exception of points mentioned below, also that the elimination of Sedta must be undertaken by Panagra, in which the Ecuadoran Government will collaborate. That is, Pan-

agra will provide three international services weekly, with the fourth via Esmeraldas, Cali and Cristóbal, also serve in Ecuador all points now reached by Sedta immediately ground facilities are available. Ecuadoran Government desires Panagra services completely planned before actually putting on pressure to eliminate Sedta. Ecuador has the service now satisfactory for Sedta but fields at Loja, Cuenca and possibly Manta will need amplification for Douglases while they are satisfactory for Junkers. Any improvement required for Panagra type planes to be undertaken by Panagra.

LONG

822.796/183a Suppl. : Telegram

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

WASHINGTON, July 6, 1940—4 p. m.

89. The following comments concerning the aviation plan are submitted for your confidential information and guidance: (references are to numbered paragraphs of telegram no. 87, July 3, 7 p. m.)

The elimination of Sedta is of course the *sine qua non* of our proposals. We believe that in view of the immediate and anticipated advantages offered, and having in mind also the broad program of cooperation between this Government and Ecuador, that Government should itself buy out Sedta. Although we do not know what would be a just price, it appears to us that the estimate contained in your 133,<sup>11</sup> Section 2, of 250,000 to 300,000 dollars (or its sucre equivalent) would be altogether excessive.

Paragraph 2 appears self-explanatory.

Panagra has urged that the suggestion in paragraph 3 be omitted, arguing that Ecuador is not now interested in having a national domestic service, that such a service might eventually prejudice United States international aviation interests, that the plan should be outlined in further detail before making the suggestion, et cetera. It seems clear to us, however, that by having in mind in the first instance the establishment of a national domestic airline, the Ecuadoran Government would be amply justified in bringing about the elimination of Sedta as a means of protecting the growth of its own enterprise. Certainly, such a domestic line would represent a legitimate aspiration of Ecuador, particularly in so far as it would aid the general internal economic and technical development of the country and its nationals. The Department feels that this argument has the virtue of logic in addition to being a sound business practice. The protection thus afforded the Ecuadoran national company and the participation as minority stockholders by an American commercial line, would

<sup>11</sup> Not printed.

be a definite insurance against future action detrimental to our mutual interests.

The maintenance of present Panagra cabotage and other contractual rights must, of course, be safeguarded.

With reference to paragraph 4: Since the proposed Oriente service would be specifically to serve garrisons adjacent to Peruvian outposts, and having in mind the extensive Panagra interests in Peru, we have agreed with Panagra representatives that their company should not be connected with that service at this time.

Paragraph 5 is, of course, of especial importance and a clear understanding on that score must be reached. We must carefully guard against the development of any situation in the future analogous to Sedta problem.

The suggestion has been made that the President-elect<sup>12</sup> be informed of our proposals. The Department leaves that to your discretion.

HULL

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822.796/189 : Telegram

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

QUITO, July 9, 1940—6 p. m.

[Received July 10—3:05 a. m.]

144. Department's No. 89 of July 6, 4 p. m. Ecuadoran authorities disagree and think it would be more difficult and expensive for them to eliminate Sedta than for Panagra to do so. In any event they are without funds for this purpose but assert they are disposed to cooperate fully and suggest the following procedure.

(1) For Panagra representative to start negotiations to buy out Sedta through some third person probably Lucindo Almeida<sup>13</sup> in which Government will assist. If this plan is unacceptable or if the negotiations should fail the following alternative is suggested.

(2) For Panagra to make Ecuador formal proposals as indicated in recent telegrams and immediately initiate services paralleling those of Sedta for authorization which the Ecuadoran Government will promptly grant whereupon latter will bring pressure to bear, for example, by permitting Panagra to carry air mail within Ecuador. Dr. Tobar<sup>14</sup> believes Panagra should have this right exclusively for the same period that Sedta has enjoyed the monopoly. In addition pressure will be applied on grounds of technical violations of Sedta contract but of these there are few. Only violations so far known are Sedta's failure to construct hangar and to establish repair shops but it claims war interrupted shipment of hangar.

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<sup>12</sup> Carlos A. Arroyo del Rio.

<sup>13</sup> A prominent Ecuadoran banker.

<sup>14</sup> Julio Tobar Donoso, Ecuadoran Minister for Foreign Affairs.

However, there exists here a definite disposition, still more noticeable than when Campbell left, to find some reasonable way for terminating Sedta violations. Even so we must recognize that as Sedta was probably established for political and propaganda purposes its German subsidy may be continued.

Minister of National Defense points out that but 30 days remain before Congress meets; that in the light of present conditions Ecuador cannot afford to proceed unjustly against Sedta but with Panagra to take the initiative they will do their best and that when Sedta sees the drift it will probably yield.

Plaza desires to avert misunderstanding with Panagra so [he] mentioned that immediate services to be undertaken were [to] Guayaquil, Salinas, Quito, also probably Loja, and, with very little work, Manta; other stops to be scheduled as landing fields are fixed by Panagra.

I recommend that if Panagra is prepared to follow either proposal and start service in time to get the benefit of pressure by those now in office who offer to help that Mr. Campbell return here forthwith. Definite consideration must be given to method of financing Sedta elimination. The Government is unable to assist with funds. Should the Department desire to offer financial assistance to the Government of Ecuador for elimination Sedta, please so advise.

LONG

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822.796/184 : Telegram

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

WASHINGTON, July 10, 1940—7 p. m.

92. Your 140, July 6, 9 a. m. As indicated in the Department's no. 89 of July 6, 4 p. m., the elimination of Sedta is the *sine qua non* of our proposal, so that any acceptance by the Ecuadoran Government would of course require that that Government itself arrange specifically for such elimination.

With respect to your statement that the Ecuadoran Government desires Pan American-Grace services completely planned before actual elimination of Sedta, Pan American-Grace has indicated to the Department that it will be able to substitute for Sedta services without interruption in services, to all points at which satisfactory ground facilities now exist, if the Ecuadoran Government will designate a date on which it should do so. (Please see also paragraph 2 (a) of Department's telegram no. 87.<sup>14a</sup>)

HULL

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<sup>14a</sup> Dated July 3, 7 p. m., p. 835.

822.796/192 : Telegram

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

QUITO, July 13, 1940—2 p. m.

[Received 9 p. m.]

155. After a long conference with President-elect who arrived Quito yesterday, he states that he favors introduction of services by Panagra as outlined by the Department: That he is not in favor of arbitrary cancellation of any contract but thinks that study might reveal violations by Sedta. Investigation is being made now. Please refer to my telegram No. 144, July 9, 6 p. m. and 146, July 10, 10 a. m.<sup>15</sup>

In any event the question of financing the elimination remains.

LONG

822.796/204 : Telegram

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

QUITO, August 8, 1940—6 p. m.

[Received August 9—10:43 a. m.]

179. Foreign Minister informed me he had not conferred with our officials at Habana <sup>16</sup> regarding Sedta. He asked what reply had been made to intimation that a credit be made to Ecuador for eliminating Sedta. I replied none. He agrees with Minister for National Defense that the better way would be for Panagra to come here immediately, get its authorization for local mail and service, inaugurate same and Ecuadoran Government will collaborate towards elimination of Sedta which ought not to take more than 4 months. He added same results might be obtained after inauguration of Arroyo but it would be easier to have preliminary steps taken now with those familiar with negotiations.

In response to my request Dr. Tobar indicated that as soon as Panagra service was installed, or before, if this was certain to be done, no objection would be raised to placing Sedta on blacklist but this action under present conditions might have unfavorable reaction.

Kindly instruct me if any further action by the Legation is desired.

LONG

822.796/204 : Telegram

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

WASHINGTON, August 10, 1940—3 p. m.

108. Your 179, August 8, 6 p. m. For your strictly confidential information the Department hopes to have arrangements effected in

<sup>15</sup> Latter not printed.<sup>16</sup> At the Second Meeting of the Foreign Ministers of the American Republics, July 21-30, 1940; see pp. 180 ff.

a few days so that adequate funds will be available for the liquidation of Sedta and the solution of other phases of the general problem. . . . I expect to summon the Ecuadoran Ambassador within the next few days and to have a frank discussion with him<sup>17</sup> . . . pointing out that this Government is cooperating wholeheartedly with Ecuador as evidenced by numerous projects for the execution of which our assistance has been obtained. We feel, particularly in view of this cooperation and the very cordial relations existing between the two Governments, as well as the national defense factors involved, Ecuador should be willing to do its part.

As soon as funds are definitely available, we shall telegraph our ideas concerning the next steps to be taken.

WELLES

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822.796/214a : Telegram

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

WASHINGTON, August 30, 1940—6 p. m.

126. 1. On the clear understanding that the Ecuadoran Government will take prompt and effective steps for the elimination of Sedta, following the establishment by Panagra of a service duplicating that now provided by Sedta, this Government is now prepared to authorize Panagra to establish such a duplicate service as outlined in paragraph 5 following and to underwrite all the initial expenditures and probable initial operating losses in connection with the new service. In order that there may be no misunderstanding on this score, it is suggested that you discuss the situation with the President-Elect, as well as with such other officials as you deem necessary, and obtain from them a clear commitment (which need not however in our opinion be in writing) so that you feel satisfied they intend to see the matter through to actual elimination of Sedta, as well as to facilitate the inauguration of operations by a Panagra subsidiary as outlined in paragraph 6 of this telegram.

2. The new service provided by Panagra would be authorized by this Government with the clear understanding that the Ecuadoran Government would undertake to grant no further aviation concessions or franchises except to citizens of the American republics or to organizations owned, operated and controlled by such citizens.

3. It would of course be provided also that present Panagra cabotage and other contractual rights in Ecuador would be maintained.

4. The method by which elimination of Sedta will be effected must, of course, be left to the decision of the Ecuadoran authorities. In the

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<sup>17</sup> The Assistant Chief of the Division of the American Republics (Briggs) spoke at length with the Ecuadoran Ambassador (Alfaro) on August 24 on Mr. Welles' behalf.

event funds are required for this purpose, such funds as may be necessary, after an accurate determination of the value of Sedta assets, will be made available by this Government through the new national company as outlined in paragraph 6 of this telegram, without cost to the Ecuadoran Government.

5. The service provided by Panagra would comprise a trip at least once a week in each direction between Esmeraldas, Quito, Manta, Salinas, Guayaquil, Cuenca and Loja, or such other points as now served by Sedta and to which the Ecuadoran Government may desire service, in addition to the present international service three times a week in each direction between Quito and Guayaquil. Rates for the new service would be no higher than the scheduled Sedta rates as of July 1, 1940. As soon as the organization and operating contract outlined in paragraph 6 of this telegram are established, services would be instituted between those of the cities mentioned in this paragraph where adequate ground facilities now exist, and service would be instituted to the rest of the cities mentioned as soon as satisfactory ground facilities could be provided. Panagra would cooperate with the Ecuadoran Government to the end that such ground facilities may be promptly established.

6. The new Ecuadoran domestic services would be provided by Panagra through the organization of an air transport company which it would incorporate in Ecuador and which would perform the services by the arrangement of an operating contract with Panagra so that the service would actually all be performed by Panagra but under the insignia of the Ecuadoran national company. For your confidential information, in order to take advantage at first of the proviso in the last sentence in Article 20 of the Sedta 1938 contract, it would seem advisable to emphasize the Panagra identity of the new Ecuadoran subsidiary company; but as explained in the last sentence of section 2 (a) of the Department's telegram no. 87 of July 3, this company might in due course be developed into an Ecuadoran-controlled air transport company through purchase of controlling interest by the Ecuadoran Government and/or Ecuadoran nationals. The attitude of the Ecuadoran Government toward this possibility will determine whether you consider it advisable to discuss it at this time.

7. You should emphasize to the Ecuadoran authorities again that Panagra has offered, in connection with the operation of the new Ecuadoran domestic services, to provide facilities for training Ecuadoran mechanics and technicians.

8. With general reference to all of the foregoing, it may be stated for your strictly confidential information that Panagra has indicated an interest in undertaking, in addition to the foregoing and as a direct Panagra operation, a fourth trip per week in each direction from

Guayaquil and Quito to Cali and Panama. The Civil Aeronautics Board has indicated that it is favorably disposed toward this additional service but has not yet given formal approval to the service mentioned in this paragraph, so you should not mention it to the Ecuadoran authorities at this time.

HULL

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822.796/224 : Telegram

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

QUITO, September 19, 1940—3 p. m.  
[Received September 20—1:10 a. m.]

207. Department's No. 126, August 30, 6 p. m. At an interview yesterday morning President Arroyo and Foreign Minister Tobar expressed approval of Panagra authorizing representative to obtain permits under Panagra contract for itself or Ecuadoran subsidiary to establish and maintain local services which would duplicate those Sedta now renders at rates no higher than those of Sedta as of July 1.

President Arroyo and Foreign Minister Tobar are in sympathy with the objectives sought and agreed to the provisions set down by the Department.

With regard to the elimination of Sedta they had the following comments to make:

The Sedta contract was signed under dictatorship and Ecuador has now a constitutional government which cannot violate existing contracts. President and Foreign Minister offer forthwith to study Sedta contract seeking method for accomplishing elimination legally. President and Foreign Minister favor Panagra establishing service as soon as possible and recognize that Sedta had unjustly enjoyed a monopoly for internal air mail. This injustice will be rectified by them when granting Panagra or subsidiary special rights to operate internal service and it was thought that by starting such service Panagra would get fair share of business thus increasing losses of Sedta which with indirect pressure that might be applied would facilitate reaching an agreement to liquidate Sedta the funds for which Ecuador counts on receiving from our Government.

President and Foreign Minister thought words used to safeguard issuance other aviation concessions or franchises inadequate: They agree proposed new Ecuadoran company should have protection and thought an exchange of notes might establish this fact.

The substance of the foregoing has been approved by Dr. Tobar.

I believe that President and Foreign Minister have now given as clear a commitment on the elimination of Sedta as can be obtained



and that the present is a propitious moment for a competent negotiator to proceed here to carry on the negotiations on behalf of Panagra.

Amplified report follows by air mail <sup>18</sup> leaving September 21.

LONG

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822.796/241 : Telegram

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

QUITO, October 14, 1940—3 p. m.

[Received 10:15 p. m.]

232. Referring to my telegram No. 231, October 13, 7 p. m.<sup>19</sup> At noon today the Foreign Minister told me that he, his legal adviser and the President of the Republic thought the proper procedure was to authorize Panagra to perform local services. He said that Ecuador would grant the necessary operating permit as soon as application is received.

The Minister for Foreign Affairs said there was no reason why legal steps to form local company could not be taken at once. Panagra operating permit for the internal service could be transferred to local company whenever convenient. He added that his Government could not readily grant operating permit directly to a local company while the Sedta contract was in force.

Does the Department approve above procedure?

LONG

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822.796/244a : Telegram

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

WASHINGTON, October 17, 1940—8 p. m.

152. In conference today with the Department, Panagra officials agreed to the following plan, the various phases of which will be undertaken concurrently as far as possible:

(1) Inauguration of a weekly service from the Canal Zone to Cali, Quito, Esmeraldas, Manta, Salinas, Guayaquil and return, as soon as approval of Civil Aeronautics Board, Post Office and Ecuadoran Government is obtained. Applications should be acted upon by the United States departments in time to permit service to begin within a few days.

(2) Panagra will also serve Cuenca and Loja and will, if necessary, purchase special type aircraft (such as Lockheed Model 10-E) for this service. Panagra will send plane to Ecuador at once to survey routes, airports, and other facilities and will proceed immediately to carry out entire program. Operating personnel and equipment will

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<sup>18</sup> Despatch No. 1267, September 19, 1940, not printed.

<sup>19</sup> Not printed.

be regularly quartered in Ecuador. Further indication as to date when service can be established will be furnished you in the next few days.

(3) Panagra will immediately undertake in cooperation with the Ecuadoran government such enlargement and improvement of the airports at places mentioned as may be necessary or desirable. Panagra airport engineer is now in Ecuador making survey for this work.

(4) Panagra will immediately undertake negotiations with the Ecuadoran government for the establishment of a national company for the purpose of taking over the interior services in Ecuador.

(5) Panagra agrees to the principle of providing a low-cost passenger and freight service which will meet the needs of Ecuador.

The foregoing has been read to and approved by Mr. Roig<sup>20</sup> and Mr. Harris.<sup>21</sup> Please communicate to Campbell as well as to Foreign Minister.

HULL

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822.796/247 : Telegram

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

QUITO, October 26, 1940—4 p. m.

[Received October 27—8:10 p. m.]

248. Vidal<sup>22</sup> arrived here Thursday. He and Colonel Flores Guerra<sup>23</sup> saw President Friday. This morning applications for passenger, express and mail internal aviation service were approved and permits granted.

Monday Vidal hopes to have received reports regarding present condition of all the air fields to be served. Information regarding each will then be cabled New York and service will be inaugurated to points having airports upon receipt of instructions from Panagra.

Meanwhile a situation has arisen that may make difficulties. Sedta has submitted contract to carry all Ecuadoran mail by air up to 250 kilos per trip (also to increase the number of trips) for about \$2,000 per week and estimates attached to draft contract that a profit would become available to the Government on this service. Vidal is cabling details to his people and requesting permission to make a proposal . . .

Should Panagra, New York, authorize and Vidal make air mail proposal and Ecuador decline, then it would be necessary to go more deeply into this problem. Sedta air mail negotiators are proving themselves very skillful. Details Sedta proposed contract were obtained secretly and we are requested to avoid mention thereof to Alfaro, at least for the present.

LONG

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<sup>20</sup> H. J. Roig, president of Pan American-Grace Airways.

<sup>21</sup> Harold Harris, a vice president of Pan American-Grace Airways.

<sup>22</sup> Gustavo Vidal, a vice president of Pan American-Grace Airways.

<sup>23</sup> Panagra representative in Quito.

822.796/247 : Telegram

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

WASHINGTON, October 28, 1940—4 p. m.

162. Your 248, October 26, 4 p. m. The Department assumes that the Ecuadoran Government would not enter into any new agreement with Sedta in view of its assurance to this Government to eliminate Sedta. This Government is, of course, willing to assist Panagra in providing air mail and other services at as low a cost as is consistent with sound and continuing operations and the Department is confident that proposals which are being made by Panagra will, all things considered, be advantageous to the Ecuadoran Government.

HULL

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822.796/251 : Telegram

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

QUITO, October 31, 1940—3 p. m.

[Received 10:38 p. m.]

253. My telegram No. 248, October 26, 4 p. m. As was expected, the Sedta is actively doing all it can to build up public opinion against competitive internal air service. It is important that inauguration by Panagra begin without loss of time. Their plane is at Guayaquil awaiting orders. President of Ecuador asked this morning when service would start. He hoped it would be as soon as possible.

Could Department kindly wire me or have Panagra New York office cable Vidal when service may begin.

LONG

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822.796/251 : Telegram

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

WASHINGTON, November 1, 1940—7 p. m.

169. Your 253, October 31, 3 p. m. Final clearance to inaugurate service will probably be given tomorrow by Civil Aeronautics Board and other interested agencies. Roig so advised today and agreed to telegraph Campbell and Vidal to leave nothing undone to get the most effective service possible under way immediately. Roig asked Department's view concerning publicity to be given new service and agreed to consult with Department before issuing any releases, in addition to having Vidal and Campbell obtain your approval for publicity releases.

Please keep Department fully advised by telegraph.

HULL

822.796/258 : Telegram

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

QUITO, November 6, 1940—7 p. m.  
[Received November 7—10: 38 a. m.]

256. Arrangements had been practically completed for the inauguration of Panagra's internal service on November 8 when the Minister of National Defense informed Vidal that the Government desired "moral guarantees" from the United States Government that the new service would be permanent in character. The Minister of Foreign Affairs called me to his office this morning to impart the same information and a similar proposal was made by the President to Vidal this morning.

The Foreign Minister was temperate but insistent on this position explaining that were Panagra service to be suspended for any reason after the elimination of Sedta, leaving Ecuador without any aviation service, the administration would be subjected to such criticism that might result in the overthrow of the present Government. While I am fully aware of the difficulty of giving anything in the nature of a "guarantee" that Panagra services will be permanent I am inclined to sympathize with the point of view of the Ecuadorean Government.

I have endeavored to convince the Foreign Minister that the whole course of the negotiations leading up to the establishment of a new service constitutes in itself a guarantee of our good faith and pointed out that we on our part had not insisted on any written promise with regard to the prompt and effective elimination of Sedta. I also offered to furnish him with a personal note expressing my own conviction that both Panagra and the Department of State are acting in entire good faith but he has insisted that I communicate with the Department to receive its authorization to furnish written assurances with respect to our position in the matter.

The following text of the proposed note in the premises which the Foreign Minister assures me will be entirely acceptable to his Government is submitted for the Department's consideration and approval:

"Excellency: In accordance with authorization received from my Government I have the honor to inform Your Excellency that, motivated by a sincere interest in the maintenance of adequate internal communication services in Ecuador, the Government of the United States will in collaboration with the Ecuadorean Government exercise its good offices to the end that Pan-American Grace Airways or an Ecuadorean subsidiary thereof, continue to operate a domestic aviation service in Ecuador during the remaining years of Panagra's present contracts and in the event that at any time for unforeseen reasons the company or subsidiary referred to should be obliged to suspend such internal aviation services my Government will exercise

its best offices to the end that a reliable aviation company owned and operated either by citizens of the United States or by citizens of one of the other American Republics will continue to provide Ecuador with adequate internal aviation services. Such assurances are contingent upon the exclusion from Ecuador of any aviation company not wholly owned and effectively controlled by citizens of the American Republics.

Please accept Excellency the renewed assurances of my highest consideration."<sup>23</sup>

LONG

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822.796/258 : Telegram

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

WASHINGTON, November 9, 1940—4 p. m.

171. Your 256, November 6, 7 p. m. Department approves your proposed note to the Ecuadoran Government and you are authorized to present it. It is suggested that the following wording of the final sentence might be more effective :

Such assurances are contingent upon the exclusion from Ecuador of any aviation company not substantially owned and effectively controlled by native-born citizens of the American republics.

HULL

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822.796/264 : Telegram

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

QUITO, November 14, 1940—9 p. m.

[Received November 15—10 : 50 a. m.]

261. Department's telegram No. 171 of November 9, 4 p. m. Moral assurance note presented with wording of final sentence changed as Department suggested.<sup>24</sup>

Publicity being released tonight.

Service will be inaugurated tomorrow morning and contracts regarding airports and air mail should be signed in a few days. Vidal thinks all details now clearly understood hence improbable that any important differences can arise which cannot be readily settled here.

LONG

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<sup>24</sup> Formal approval of this understanding was given by Ecuador on November 27, 1940.

INTEREST OF THE UNITED STATES IN THE ESTABLISHMENT AND DEVELOPMENT OF CERTAIN AMERICAN PROJECTS IN THE GALÁPAGOS ISLANDS<sup>25</sup>

822.623/26

*Memorandum by Mr. Robert F. Woodward of the Division of the American Republics*<sup>26</sup>

[WASHINGTON,] April 25, 1940.

In a letter of May 6, 1939, to the President signed by Mr. Welles,<sup>27</sup> it was stated that the Department understood that . . . the President favored a joint international arrangement for administering the Islands as a wild life reserve. The President endorsed this understanding, which incidentally contemplated the possibility of constant vigilance on the Islands by an international joint patrol.

With a view to going forward with this project on a somewhat modified basis, three meetings have recently been held between Dr. Wetmore of the Smithsonian Institution and officers of the Department concerning the practicability of the financing, constructing and staffing by this Government of a wild life preservation station and zoological laboratory on the Galápagos Islands. Dr. Wetmore has indicated that he believes scientists in general would concede that the project would serve a very commendable purpose, well worth the expenditures which he estimated would be required—approximately \$40,000 initial expenditure and approximately \$22,000 annual expenditures. Dr. Wetmore believes these funds might be included in the regular budget of the Smithsonian Institution, subject to the approval of the Budget Bureau and the Congress.

The discussions with Dr. Wetmore have coincided with plans for a meeting of an International Committee for the Preservation of Wild Life, to be held in Washington in May, 1940 at the same time as the Scientific Congress.<sup>28</sup> This Committee is to discuss the terms of a proposed general Inter-American Wild Life Convention. It was suggested, in the course of the conversations, that a convenient approach to arrangements with the Ecuadoran Government concerning the matter might be effected through inclusion in the Wild Life Convention mention of a general clause providing for agreements between any two or more countries for the mutual preservation of certain species.

<sup>25</sup> For previous correspondence on the Galápagos Islands, see *Foreign Relations*, 1939, vol. v, pp. 633 ff.

<sup>26</sup> Addressed to the Secretary of State and the Under Secretary of State (Welles).

<sup>27</sup> *Foreign Relations*, 1939, vol. v, p. 633.

<sup>28</sup> Eighth American Scientific Congress, held in Washington, May 10-18, 1940.

The conversations with Dr. Wetmore have also included mention of possible cooperation from the United States Naval base at Panama in furnishing transportation of personnel and supplies to the Islands, periodic medical service, two-way radio communication, and possibly the use of an airplane for observation of widely separated regions where infractions of the Ecuadoran preservation regulations may occur. Any mention of such naval cooperation would, of course, depend upon Ecuadoran reaction to the general plan.

It is now considered advisable to await the meeting of the Committee for Preservation of Wild Life, at which time the United States Delegation would suggest the inclusion of the general clause mentioned without reference to the particular project of the Galápagos. The whole program presupposes a cooperative attitude on the part of the Government of Ecuador, and it will be essential for a complete understanding to exist between the two Governments. The matter has not yet been discussed with any representatives of the Government of Ecuador, but it would seem that this should be done soon, if the program is approved. Possibly the best time would be shortly after the Meeting of Experts scheduled for May 13-16.

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822.623/27

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

[WASHINGTON,] April 26, 1940.

MR. DUGGAN: You will remember that the President's conception of an international arrangement covering the Galápagos Islands was the setting up of a trust under the Pan American Union, the trust to be administered by representatives of the twenty-one American republics; the purpose of the trust being technically to preserve the natural flora and fauna on those Islands. The constitution of such a trust implied necessarily the purchase of the Islands from the Government of Ecuador inasmuch as it is of course clear that the Government of Ecuador would not relinquish her sovereignty, or agree to an abatement of her sovereignty, unless she received compensation in return. The President stated to me in principle that if he felt that public opinion at the time was favorable, he would recommend the purchase of these Islands by the United States for the purpose of then turning over the territory in question to the inter-American body above mentioned. It was agreed that pending a settlement of the Peruvian-Ecuadorian boundary dispute,<sup>29</sup> it would be unwise for this Government to take any initiative in the matter inasmuch as Peru would

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<sup>29</sup> See *Foreign Relations*, 1939, vol. v, pp. 141 ff.

undoubtedly fear that the receipt by Ecuador of several millions of dollars for the Islands would mean that Ecuador would invest the money in armaments and provoke a controversy over the boundary.

I do not know whether the Government of Ecuador would agree to vesting any jurisdiction or any real authority in the individuals who might be sent down to the Galápagos Islands by the Smithsonian Institution under the arrangements you describe. If it were understood that these individuals were solely observers, I can imagine the possibility of reaching an agreement, although I am convinced that the Government of Ecuador will not be in the slightest degree interested in this plan unless it could be envisaged as a step towards the purchase of the Islands, and for the reasons indicated above I do not think it would be a wise move at this time. In any event, I do not believe that it would be possible to conceive of reaching any agreement on this matter before the dates mentioned in your memorandum.

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822.6372/5

*The President of the Export-Import Bank (Pierson) to the Secretary of State*

WASHINGTON, June 24, 1940.

MY DEAR MR. SECRETARY: The Export-Import Bank of Washington has received an application from Commander Paul F. Foster, United States Navy, Retired, for a loan with which to exploit sulphur deposits which are alleged to exist on Albemarle Island—one of the Galápagos group owned by the Republic of Ecuador.

Although Commander Foster's application contemplates the eventual expenditure of \$2,000,000 for the construction of wharves, warehouses, living quarters, supplies, radio facilities, mining machinery and equipment, and land rentals—the immediate request is for funds required to investigate the mineral and other income-producing possibilities of Albemarle Island. It is estimated that this will require the expenditure of approximately \$125,000.

We are advised that Commander Foster is in a position to obtain an option to lease the island from Sr. Carlos Gil, an Ecuadoran citizen, who claims title thereto by virtue of long, uninterrupted possession; and that permits to extract existing minerals have been or will be received from the appropriate agency of the Ecuadoran Government.

Before any affirmative action is taken upon Commander Foster's application, formal assurances should be received from the Ecuadoran Government that the investigation and possible exploitation of min-



eral and other resources of Albemarle Island are with the knowledge and approval of that government; that Sr. Gil has authority to enter into the proposed lease; and that permission will be given to carry on such activities including the construction of wharves, roads, dwellings, landing fields, radio stations and such other facilities as may be required.

Sincerely yours,

WARREN LEE PIERSON

822.6372/8a

*The Department of State to the Ecuadoran Embassy*<sup>31</sup>

MEMORANDUM

The Federal Loan Agency of the Government of the United States has received an application from a United States citizen for a loan to be used in carrying out an investigation of the possible existence of sulphur deposits and other resources on Albemarle Island of the Galápagos Islands, with a view to the eventual development of such resources on a large scale, possibly including wharves, roads, dwellings, landing fields, radio stations and such other facilities as might be required. The applicant has indicated that the properties developed would be leased from the private owner or owners, and that permits to extract minerals would be requested from the appropriate agency of the Government of Ecuador.

Before giving consideration to this application, the Federal Loan Agency wishes to be advised whether the Government of Ecuador would approve in general the possibility of the activities outlined, and whether the Government of Ecuador would recognize the lease by private Ecuadoran citizens of properties on Albemarle Island for the purposes mentioned.

822.623/25

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

No. 313

WASHINGTON, August 26, 1940.

SIR: There is enclosed a copy of the "Draft Convention and Report of the Governing Board of the Pan American Union on Nature Protection and Wild Life Preservation in the American Republics", published by the Pan American Union in June 1940. The report of the Committee of Experts contained therein was approved by the Governing Board of the Pan American Union at its meeting on June 5, 1940, and the Governing Board decided to have the convention opened for signature at the Pan American Union on October 12, 1940.<sup>32</sup>

<sup>31</sup> Handed to the Ecuadoran Ambassador on July 1. The Ecuadoran Government gave its approval on July 19, 1940.

<sup>32</sup> For text of convention signed at Washington, October 12, 1940, see Department of State Treaty Series No. 981, or 56 Stat. (pt. 2) 1354.

The draft convention has aroused interest among scientists and scientific institutions in this country as offering a basis for cooperative action among the American Republics in taking practical measures for the preservation of wild life in the western hemisphere. Among the species of animal life of particular interest to scientists are those which are found on the Galápagos Islands. It appears that many of the animal species found on these islands are unique in that they exist nowhere else in the world, and that their extinction would be an irreparable loss to science. Among the interesting fauna now found on the islands mention may be made of the tortoises, land iguanas, marine iguanas, sea lions, Galápagos finches, mocking birds, doves, Galápagos hawks, owls, albatrosses, flamingos, and the Galápagos ducks.

In view of the rarity of these and other species found on the Galápagos Islands the Smithsonian Institution has manifested an interest in conducting further research with regard thereto, and has expressed a desire to cooperate with the appropriate authorities of the Ecuadoran Government in pursuing this important scientific research. If the Government of Ecuador is agreeable to this proposal, the Smithsonian Institution on its part would be prepared to finance the establishment of a small scientific laboratory on the Galápagos Islands, to acquire and maintain there proper laboratory equipment and supplies, and to assign to this work two or three scientists and laboratory assistants at its own expense.

Please inquire of the appropriate authorities of the Ecuadoran Government if a cooperative undertaking of this character would be of interest to it, and whether it would be prepared to accord facilities in order that the project might be carried out successfully. If the proposal is agreeable in principle to the Ecuadoran Government, the Department will gladly assist in working out further details between the Ecuadoran Government and the Smithsonian Institution.

Very truly yours,

For the Secretary of State:

A. A. BERLE, JR.

822.014G/471

*The Secretary of the Navy (Knox) to the Secretary of State*

WASHINGTON, October 19, 1940.

MY DEAR MR. SECRETARY: You will remember at the Cabinet meeting Friday, the President suggested I get a clearance from your Department on the matter of the Galápagos Islands.

The suggestion made was that an arrangement be had under which a landing field and an anchorage for flying boats be established there and paid for out of the funds set up for that purpose.

I shall be very glad to have your Department indicate whether it is agreeable to you for these negotiations to be initiated.

Yours sincerely,

FRANK KNOX

822.014G/471

*The Under Secretary of State (Welles) to the Secretary of the Navy  
(Knox)*

WASHINGTON, October 24, 1940.

MY DEAR MR. SECRETARY: I have received your letter of October 19 with regard to the matter of the Galápagos Islands.

I have consulted again with the President concerning this question and he tells me that the sole transaction which he had in mind when he spoke of the matter at the last Cabinet meeting was the arrangement which is now being negotiated by Secretary Jones<sup>34</sup> and the Export-Import Bank with former Commander Foster. This is technically a commercial project. Captain Callaghan, the President's Naval Aide, can give you full information regarding the details of this project.

Believe me

Sincerely yours,

SUMNER WELLES

822.623/30 : Telegram

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

QUITO, December 5, 1940—3 p. m.

[Received 8:19 p. m.]

277. Reference Department's instruction 313, August 26. In a note dated December 4 Minister for Foreign Affairs gives approval to proposal of Smithsonian Institution for the establishment of a research laboratory on the Galápagos Islands. The Ecuadoran Government requests in addition that a small meteorological station be made a part of the laboratory.

Text of the note<sup>35</sup> will be forwarded in air mail pouch leaving here December 7.

LONG

<sup>34</sup> Jesse Jones, Secretary of Commerce.

<sup>35</sup> Not printed.

**INSISTENCE BY THE UNITED STATES THAT CERTAIN ECUADORAN  
TRADE RESTRICTIONS BE IN CONFORMITY WITH THE TRADE  
AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR<sup>36</sup>**

622.116/115 : Telegram

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

WASHINGTON, April 11, 1940—8 p. m.

18. Your despatch 925, April 2.<sup>37</sup> As in the case of the increases in freight rates on imported flour discussed in your despatch 607, August 14, 1939 and the Department's telegram 42 of August 23,<sup>38</sup> it is clear, particularly from the language of the circular of the Minister of Agriculture, that the purpose of the action taken by the Government is to restrict the sale of imported flour. The effect, so far as concerns American flour, is effectively to impair a trade agreement concession by limiting the sale of that product to a relatively small area near Guayaquil. The action taken, therefore, would seem to fall within the meaning of Article XVII.

You should call the Foreign Minister's attention to that Article, noting that the action taken appears to fall within the terms thereof, and informing him of this Government's concern as to the possible effects on our trade, particularly if the higher freight rates are to remain in force for a considerable period. You should inquire regarding the length of time it is proposed to maintain the higher rates, and express the hope that the regular rates will be restored within a short time. In this connection, endeavor to ascertain the period estimated to be necessary to dispose of stocks of domestic flour.

As mentioned previously, please keep the Department informed briefly by telegraph of further developments.

HULL

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822.51/856 : Telegram

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

QUITO, April 25, 1940—10 p. m.  
[Received April 26—9: 50 a. m.]

31. Provisional President<sup>38a</sup> has just informed me that Central Bank will probably have to announce tomorrow or next day that it will temporarily suspend sale of dollar exchange to commercial banks.

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<sup>36</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 607 ff.; for text of agreement, signed at Quito, August 6, 1938, see Department of State Executive Agreement Series No. 133, or 53 Stat. (pt. 3) 1951.

<sup>37</sup> Not printed; the Minister reported the imposition by the Ecuadoran Government of transportation surcharges to limit the sale of foreign flour.

<sup>38</sup> Neither printed.

<sup>38a</sup> Andres F. Cordova.

Excessive imports during recent months have occasioned demand for dollar exchange in excess of its capacity; due in part to Ecuador's inability to sell its products.

Dr. Cordova apprehended that this announcement would produce economic panic, at least a run on sucre, with possible political disturbances of communistic character. He thought that situation might be partially relieved if the announcement could be made that exchange expert was to be offered to the Central Bank;<sup>39</sup> that economic adviser<sup>40</sup> would arrive to consult with Finance Minister; that cacao experiment would be undertaken and above all an announcement that construction of Pan-American Highway would be undertaken; if indeed any of these are true.

My letter of April 22<sup>41</sup> to Mr. Welles<sup>42</sup> gives only a partial outline of present emergency. Early telegraph reply will be appreciated.

LONG

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822.51/857 : Telegram

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

QUITO, April 26, 1940—11 a. m.

[Received April 27—2 : 50 a. m.]

32. In amplification my telegram No. 31, April 25, 10 p. m., during the past few days Provisional President and Foreign Minister<sup>42a</sup> have stressed their belief that excessive importations for [*from?*] our country since January 1, 1940 (when import control was lifted) are of such volume that Ecuadoran buyers may be unable to secure exchange to cover commitments within a reasonable time. Gold reserves said to be down to 32%, legal limit being 30%.

Importations are thought to have been due partially to war, fear that prices would rise and hopes of acquiring strong inventory position while deliveries were certain, also through fear that new restrictions might be imposed. Furthermore, claimed decline in exports accentuation trouble.

Consul Nester and Legation staff have been consulting with Foreign Office. Latter could not state extent of unexportable surpluses, hence that is being rapidly investigated.

We are informed that if something is not done to restore confidence in economic situation, by checking imports and helping to dispose of

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<sup>39</sup> In June 1940 Professor Frank Fetter was appointed technical adviser to the Central Bank of Ecuador.

<sup>40</sup> Mr. Harold Glasser of the Treasury Department was detailed as adviser to the Ecuadoran Ministry of Finance in July 1940.

<sup>41</sup> Not printed.

<sup>42</sup> Sumner Welles, Under Secretary of State.

<sup>42a</sup> Julio Tobar Donoso.

exports (Ecuador and the United States in part to stabilize sucre) it is feared that political situation will get out of hand.

The Provisional President suggested that an immediate temporary doubling of customs duties applicable to all countries would stop flood of imports. Dr. Cordova and Foreign Minister desire to know whether notice required under trade agreement could by mutual consent be dispensed with and double duties immediately applied.

If Department approves in principle believe provision could be made for non-application to any shipments for which ocean bill of lading has been issued as of announced effective date or previously; thereby reducing likelihood of refusal of merchandise on arrival and protecting exporter's interests.

LONG

822.51/858: Telegram

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

QUITO, April 27, 1940—11 a. m.

[Received 8:40 p. m.]

35. This morning's press announces that the Central Bank of Ecuador yesterday morning stopped selling exchange to commercial banks, but that it will take care of its own exchange requirements.

General Manager Central Bank states that notwithstanding nervousness the sucre did not plummet downward as expected but fluctuated about 15 points ending around 15.45. However, local banks refuse to sell dollars for less than 15.80.

LONG

822.51/857: Telegram

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

WASHINGTON, April 30, 1940—2 p. m.

23. Your 32 and 35, April 26 and 27. It is hoped that the Ecuadoran authorities will not take any precipitate action which would jeopardize the trade agreement or which would have the effect of causing the panic conditions they wish to avoid. The action suggested of doubling import duties, even temporarily, would be a clear violation of Article I of the trade agreement if applied to products imported from the United States included in Schedule I. The Department assumes that the Foreign Minister has reference to terminating the entire agreement when he speaks of the possibility of dispensing with notice required. Such action would be most unfortunate and would not seem necessary in order to meet a temporary emergency.

If the Ecuadoran authorities are absolutely determined to take some action to restrict imports other than permitting the sucre to depreciate, you may suggest the possibility of temporarily increasing import duties or imposing quotas on articles not included in Schedule I of the trade agreement. Such action would not contravene the agreement. It should only be suggested by you in order to prevent more drastic action.

If the Ecuadoran authorities should consider it necessary to restore quantitative import control, you should stress the importance of doing it in conformity with the provisions of the agreement, and if it should be proposed to limit imports of any Schedule I products, attention should be called to the requirement of written notice.

If the Ecuadoran authorities consider that the provisions of paragraph (a) of Article X of the agreement are too restrictive under present circumstances, you may state that this Government would be willing to consider the possibility of modifying that portion of the article.

Please continue to report new developments by telegraph.

WELLES

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822.51/865 : Telegram

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

QUITO, May 4, 1940—3 p. m.  
[Received May 5—7 : 35 a. m.]

38. After communicating to the Minister for Foreign Affairs substance of pertinent portions of the Department's telegram No. 23, April 30, 2 p. m., he stated that schedule I included most articles of which there had been excessive importations: Excluding them the plan for doubling duties would probably have little tendency to remedy situation. The Foreign Minister is studying the problem and will offer some other suggestions early next week.

Dr. Tobar recognizes that fluctuation of sucre should affect imports but wondered to what extent and asked if we might make a prediction. I told him I had no idea but would ask the Department. Confidentially he added that his Government is anxious lest the commercial credit reputation of Ecuador suffer due to inability of merchants to cover dollar obligations at increasing cost. Likewise they desire to protect American exporters but latter must realize that delays in payment are certain and possibly substantial losses unless some remedy not apparent to this Government at the moment can be found.

The Minister for Foreign Affairs in a friendly fashion stressed compliance of present administration with payments on temporary loan of last year from Americans in Ecuador, stating that he felt favorable decision regarding cacao program, allocation for segments of Pan-American Highway or other constructive purpose would be generally

beneficial and discourage the elements which seemed to delight in creating difficulties for the Provisional Government.

LONG

611.2231/435: Telegram

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

WASHINGTON, May 7, 1940—6 p. m.

27. Your despatch 968, April 26<sup>43</sup> and telegram 38, May 4. From the trade statistics included in your despatch 968, confirmed by information here on developments in our trade with Ecuador in recent months, it is realized that the Ecuadorans probably face a difficult situation. The Department will, accordingly, give sympathetic consideration to suggestions for remedial action which you report the Foreign Minister will offer this week.

If your opinion is requested as to the type of action to restrict imports which would be the least objectionable, you may inform the authorities that permitting the sucre to depreciate would seem to offer a natural corrective. In this connection, the Department is unable to estimate the extent of depreciation necessary to restrict imports substantially. This would depend in the last analysis upon the willingness or ability of Ecuadoran consumers to pay the higher costs of imported merchandise resulting from the lower value of the sucre in terms of foreign currencies.

If currency depreciation were not sufficient, increasing import duties on non-schedule articles might be an additional step, followed if necessary by quotas on non-schedule articles on a non-discriminatory basis. If any or all of these steps do not serve the purpose, we would be glad to consider such other measures as the Ecuadoran Government may wish to propose.

With reference to the concern expressed by Dr. Tobar about Ecuador's commercial credit reputation, you might suggest that the doubling of all import duties might have serious repercussions in that direction, since it might lead to cancellation of orders and delays in payment to an even greater extent than might be the case if one or more of the above-suggested measures were to be adopted.

WELLES

611.2231/438: Telegram

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

QUITO, May 9, 1940—11 p. m.

[Received May 10—10:10 a. m.]

46. After discussing with the Minister for Foreign Affairs the substance of Department's telegram number 27 of May 7, 6 p. m. it was

<sup>43</sup> Not printed.



apparent that he has no desire to terminate trade agreement but will make proposals under article XIII. However such proposals if applied probably would not materially restrict imports for several months and Ecuadoran Government anxious to avoid undue commitments by local merchants and probable resulting delays in payment to American exporters.

I suggest that Commerce Department warn exporters of existing situation indicating that owing to shortages in Ecuador's export crops and excessive imports during first 4 months of 1940 the sucre had weakened and it would seem wise to restrict credits and shipments to Ecuador for 2 or 3 months until availability of new crops relieve exchange situation. Source of this report should not be revealed.

After full discussion Minister Tobar approves this plan in the hope that it may check imports more quickly than proposals he will soon make.

LONG

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611.2231/439 : Telegram

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

WASHINGTON, May 16, 1940—5 p. m.

36. Your telegram 46, May 9 and despatch 1009, May 10.<sup>44</sup> You should inform the Ecuadoran authorities that it is this Government's understanding that the intention of Article XIII is to permit action by the Government of the country whose currency has appreciated in terms of the other country's currency, in order if necessary to restrict imports from the latter country, whose exports would tend to be stimulated at least temporarily by currency depreciation; and that, therefore, it is not believed the Ecuadoran Government can appropriately invoke Article XIII as a basis for action in the present circumstances.

You should make it clear, however, that it is not our desire to take advantage of a technicality to prevent the Ecuadoran Government from adopting necessary and appropriate measures to restrict imports within exchange availabilities.

Further instructions will be sent shortly, outlining additional suggestions as to how imports, including schedule products from the United States, may be controlled in a manner conforming to the provisions of the agreement.

HULL

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<sup>44</sup> Latter not printed.

611.2231/439 : Telegram

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

WASHINGTON, May 17, 1940—4 p. m.

39. Department's 36, May 16, 5 p. m. Since action in the present circumstances under Article XIII could not in our opinion appropriately be taken by the Ecuadoran Government, and since the Foreign Minister's proposal to collect specific duties on a basis fluctuating with the exchange rate would involve a formal modification of the agreement which it is believed neither Government desires, you may present the following as our suggestions regarding possible emergency action by the Ecuadoran Government:

If neither permitting currency depreciation, nor increasing duties on non-schedule products or imposing quotas on such products is considered sufficient to remedy the immediate situation, we would be prepared to consider sympathetically specific proposals by the Ecuadoran Government under the currency safeguard clause of paragraph 2 of Article VII. Such proposals if made should be embodied in a note from the Foreign Minister, which should state the compelling reasons for invoking the clause and specify the precise nature of the proposed action in regard to quotas on schedule products imported from this country. It would of course be helpful if the Foreign Minister included a statement that any quotas imposed would be relaxed and ultimately be abolished as soon as possible. Consideration of any such proposals would be expedited here.

As to the administration of quotas in accordance with the pertinent provisions of the agreement, it is believed that the most simple and equitable plan would be to establish for each product a global quota equal to a reasonable percentage of actual imports of such product in a mutually agreeable base period, and applicable to imports from all countries. The quota period would be not less than 3 months. A specific percentage share would then be allocated to the United States equal to our share of the total imports of the affected product during the base period or, if the Ecuadoran Government so desired in order to simplify quota administration, we would probably agree to dispense with the allocation of specific shares to the United States; in other words agree to unallocated global quotas. You should mention to Doctor Tobar that, if quotas should be imposed, we would probably not be disposed to accept a proposal for the reestablishment of the former system of permits to individual importers which proved so unsatisfactory.

Restriction of imports under such a plan as mentioned above could become effective 30 days after agreement between the two governments in regard to the proposed action.

The Department of Commerce has issued a statement, without reference to source of information, advising exporters to proceed cautiously in advancing further credits to Ecuadoran importers. The statement has received publicity in trade journals and other publications.

HULL

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611.2231/441 : Telegram

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

QUITO, May 20, 1940—10 a. m.

[Received 9 : 20 p. m.]

61. Department's telegrams 36 of May 16, 5 p. m., and 39 of May 17, 8 [4] p. m. We caught Dr. Tobar late yesterday just as he was departing for 2 days absence from Quito.

Proposals submitted were discussed but time was insufficient to reach satisfactory conclusions. There is apparently no particular objection to the quota idea but serious doubt as to how control could be effectively carried out. The Foreign Minister still wants to discuss temporary increases of specific duties applicable to items competing with Ecuadoran products whether in Schedule I or not, thus maintaining approximately the equivalent ad valorem duty in effect when agreement was signed.

The question will be further discussed on his return Wednesday. Airmail despatch covering interview leaves Tuesday.<sup>45</sup>

LONG

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611.2231/441 : Telegram

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

WASHINGTON, May 21, 1940—7 p. m.

44. Your 61, May 20, 10 a. m. You should point out to the Foreign Minister that there is no escape clause in the agreement which would permit even temporary increases in duties on schedule products and that, therefore, such action could not be taken without formal modification of the agreement which, as mentioned in our 39, May 17, would be undesirable and time-consuming. You should therefore discourage this idea.

The quota plan we suggested should be effective and should present no serious administrative difficulties. Following consultation with and agreement by this Government, it would be necessary only to decree that imports of certain products from all countries would be restricted for a minimum period of 3 months to specified amounts

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<sup>45</sup> Despatch No. 1024, May 20, not printed.

equal to reasonable percentages of actual imports of the restricted products during a mutually agreeable previous period. The aim would be to spread the import restrictions over various products to the extent necessary to bring total imports within probable exchange availabilities.

HULL

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611.2231/444 : Telegram

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

QUITO, May 31, 1940—7 p. m.

[Received June 1—12:52 a. m.]

83. Referring to the Department's telegram No. 39, May 17, 8 [4] p. m. and my despatch No. 1031, May 24,<sup>46</sup> the Ecuadoran Government in an effort to bring about a balance in its foreign trade proposes to restrict imports temporarily through customs surcharges on non-scheduled products and impose quota restrictions on those articles of the following tariff items listed in Schedule I: ex 13A hog lard; 30 canned sardines; 87 wheat flour; ex 277 prepared paint; 644 cash registers etc.; 650 sewing machines in this item only, 687 ABC passenger cars, 900 oil cloth, 1086B silk and rayon hosiery.

The basis for quotas proposed is as follows:

"50% of the average imports of a given article during the past 4 years will be taken as the basis of 1 year's quota. As the decree will provide for application of quotas for 6 months period the quota for this period will be 25% of said average."

In view of the critical situation could the original note from Ministry of Foreign Affairs dated May 9<sup>47</sup> be substituted for a new one of the same date incorporating these concrete proposals and thus permit the application of customs surcharges and quotas commencing on June 10.

The Legation's despatch No. 1046, May 30,<sup>47</sup> leaving air mail June 1, outlines the Ecuadoran proposal and contains statistics of imports under Schedule I during the past 4 years.

LONG

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• 611.2231/444 : Telegram

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

WASHINGTON, June 4, 1940—noon.

58. Your 83, May 31, 7 p. m. You may inform the Foreign Minister that we are willing to consider May 9 as the date of formal notice by

<sup>46</sup> Latter not printed.

<sup>47</sup> Not printed.

the Ecuadoran Government under the currency clause of Article VII of the agreement; likewise, that the manner and extent of the proposed restrictions on schedule products, which would of course apply to imports of the affected products from all countries, appear in substance to be satisfactory.

More detailed instructions cannot be sent until we receive your despatch 1046.<sup>48</sup> It is hoped that it may be possible to conclude arrangements so as to permit the imposition of restrictions beginning June 10.

HULL

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611.2231/445 : Telegram

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

WASHINGTON, June 5, 1940—5 p. m.

60. Your despatch 1046, May 30<sup>48</sup> and our telegram 58, June 4. The Department has examined the trade statistics in your despatch 1046 and considers that the proposed restrictions on the nine tariff items mentioned in your telegram 83<sup>49</sup> would be acceptable on the basis explained therein. Our calculations show that average annual imports during the last 4 years from all countries of those items amounted to 14,280,067 sucres, one-quarter of which would represent the total permitted imports for the 6-month period beginning June 10.

It is strongly suggested that the proposed restrictions be placed on a global basis for each item and not be allocated among individual supplying countries. This would be simple to administer and the Ecuadoran Government would thus achieve restriction of total imports without substantially affecting our trade position. For your own information this procedure would permit our exporters to obtain a share of permitted imports in line with current trade and shipping conditions.

We are agreeable to the quota restrictions being announced and becoming effective on June 10 and applying to goods in transit as well as to future shipments, provided we receive confirmation of the foregoing from you by June 8 in order to permit simultaneous announcement here on June 10. Our announcement will mention invoking of the currency safeguard clause of Article VII by Ecuador in view of the exchange emergency caused by export difficulties and recent excessive imports; consultation with and agreement by this Government regarding the proposed measures for a period of 6 months; set forth statistically the effect of the proposed restrictions and the manner in

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<sup>48</sup> Not printed.

<sup>49</sup> Dated May 31, 7 p. m., p. 864.

which they will operate; and mention in general terms the proposed increases in duties on non-schedule products.

Regarding the latter question, we feel that there should be exemptions for goods for which export documents have already been approved by Ecuadoran consuls prior to or on the date of the decree imposing increased duties. Please telegraph full data on proposed duty increases, in order that this information may be given in detail to our exporters through the Department of Commerce.

HULL

611.2231/449

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

No. 1061

QUITO, June 7, 1940.

[Received June 12.]

SIR: In reference to the Department's telegram No. 60 of June 5, 5 p. m., I have the honor to report that when the message was decoded last evening, it was not possible to reach the Minister for Foreign Affairs, but Mr. Ricardo Ortiz, Director General of Commerce and Consular Affairs called at the Legation to discuss the points mentioned in the Department's telegram. Mr. Tewksbury<sup>50</sup> also attended this discussion and the conference this morning at the Foreign Office.

During the exchange of views last evening Mr. Ortiz appeared to be in entire conformity with the substance of the Department's telegram, but pointed out that the proposed changes in customs duties on non-schedule items were very extensive and would be far too long to cable. He was of the opinion that the effective date of both the decree covering quotas and that covering duty increases, could be delayed a few days to permit the material to be forwarded by airmail.

This morning in our conference with the Minister for Foreign Affairs and the Minister of Finance,<sup>51</sup> the substance of the Department's telegram was discussed in detail.

QUOTA RESTRICTIONS

It was definitely agreed that the quotas should be established on the basis of the volume of imports, either weight or units. A strenuous effort was made to have the Ecuadorean Government establish global quotas for each of the nine items, without allocating quotas for individual supplying countries. Both Ministers felt that this might give rise to complaints from other countries if, for instance, all of a given quota were filled by one country. After a complete discussion of the matter, it was agreed that the individual commodity quotas would be

<sup>50</sup> Howard H. Tewksbury, Commercial Attaché in Ecuador.

<sup>51</sup> C. D. Andrade.

divided in three units, each applicable for a two-month period. In case one unit could not be supplied by a given country in the specified two-month period, this would be divided among the other supplying countries in the succeeding period or periods.

Although this is not strictly as requested by the Department, it is believed that the provision for transferring unused quotas to actual supplying countries in subsequent periods will, to a large degree, protect the interests of American exporters. Both Dr. Tobar and Mr. Freile<sup>52</sup> felt that it would be advantageous to have imports low in July and August and let them increase in succeeding months if a given quota could not be filled. This was another argument on their part for assigning quotas to individual supplying countries.

In view of the additional work involved in arriving at quotas for individual countries, Dr. Tobar felt that the effective date should be advanced somewhat. He therefore suggested that this be fixed for June 15, and said that his Government would withhold announcement until that time and that it would be agreeable for the Department to make the announcement in the United States as of the same date.

Dr. Tobar has furnished us with a copy of the proposed decree establishing import quotas, a copy of which, with translation, is attached.<sup>53</sup> Both Ministers indicated that additional products, not appearing on Schedule I, of our Trade Agreement, might also be made subject to quota regulation, but that in that case the products would be covered in a separate decree.

Both Ministers stated that, with the advance in the effective date, it would probably be possible to complete the "regulations" for the administration of the decree in time to include the entire announcement at one time. Dr. Tobar offered to consult with us regarding the provisions of the regulations, which will include specific data regarding the exact quotas for the various products.

#### TARIFF CHANGES

With respect to the Department's request that details of the proposed tariff changes on non-schedule items be supplied by telegraph, it is found that these changes are so extensive that this is impractical. It was suggested this morning that if possible, the effective date of this decree be made to conform with the date of the decree covering quota restrictions. The Minister of Finance indicated that the President was very insistent that the duty changes be made effective immediately and that the plan had been to make this effective on June 10. He, however, agreed to discuss this matter with the President at noon to see if it could be made effective on June 15.

<sup>52</sup> C. Freile Larrea, Ecuadoran Minister of Public Works.

<sup>53</sup> Not printed.

Both Ministers were agreeable to the Department's suggestion that the duty changes should not apply to products on which the Consular documentation was made prior to, or on the effective date of, the decree.

The Minister of Finance furnished us late this afternoon a copy of the proposed decree modifying duty rates. This was received too late to make a translation or additional copies, and we are, therefore forwarding the only copy received. The decree provides both for increases and decreases in the rates of duty applicable to a large number of items in the tariff schedule. It will be noted that among the items included are several which appear in Schedule I of the Trade Agreement. Since there was no indication in the draft of the decree that exemption would be made in the case of increases to products imported from the United States, an attempt was made to see the Minister of Finance this afternoon.

As he was not in his office, we called on the Minister for Foreign Affairs, who informed us that the draft as supplied by the Minister of Finance did not include the general provisions of the decree, but that he had definitely seen the provision which safeguarded items appearing in Schedule I from any of the specified duty increases.

Dr. Tobar indicated late this afternoon that the decree changing the duty rates would probably also be made effective June 15. Therefore, no announcement should be made of these changes until we are able to notify the Department by telegraph definitely as to the effective date.

Respectfully yours,

BOAZ LONG

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611.2231/449 : Telegram

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

WASHINGTON, June 12, 1940—6 p. m.

68. Your despatch 1061, June 7. While we would much prefer quotas on a value basis, and the Ecuadoran Government would thus know more precisely the limitation on imports in relation to the exchange situation, we are willing to agree to restrictions on a quantitative basis.

Also, we are willing to agree to a division of the 6-month period, but the minimum period should be 3 months (see paragraph numbered 2 of Article VIII of agreement) rather than 2.

We are prepared, on receipt of word from you, to issue announcement here on June 15 or later, of both quotas and duty changes. Detailed statistics regarding quotas should be sent as soon as possible, but if not received prior to announcement, latter will be issued in general terms, and details published subsequently by Commerce.



Regarding possible quotas on non-schedule products, the authorities should keep in mind provisions of Article VIII.

Please make sure decree regarding tariff increases exempts schedule products.

HULL

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611.2231/451: Telegram

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

QUITO, June 13, 1940—7 p. m.

[Received June 14—10:48 a. m.]

103. Referring to Department's telegram to American Consul General of June 7.<sup>54</sup> The Ecuadorean Government confirms statistics of value as shown.

Referring to Department's telegram number 68, June 12, 6 p. m. the Ecuadorean Government desires that quotas be on quantitative basis. Third paragraph decree has been changed to provide division of the 6 months period with minimum of 3 months rather than 2. Article VIII will be considered if quotas are later established on non-schedule products. The Minister for Foreign Affairs definitely states that decree regarding tariff increases will have provision safeguarding all products covered by trade agreements.

Both decrees covering the quota and tariff increases will be announced and effective June 15 and quotas will be established as follows, the first figure representing the total quota and the second that for the United States: conts [*sic*] item ex 13 A gross kilos 268,599; 112,844 item 30 legal kilos 128,633; 116,594 item 87 gross kilos 3,008,285; 2,501,372 item ex 277 gross kilos 23,995; 15,311 item 644 all sections gross kilos cash registers 257; 185 mechanical counters 144; 74 calculating machines 2,024; 1,695 parts 73; 72 item 650 units 495; 440 item 687 ABC units 52; 41 data on two remaining items to be supplied.

LONG

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611.2231/451: Telegram

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

WASHINGTON, June 15, 1940—1 p. m.

73. Your 103 and 105, June 13 and 14.<sup>55</sup> Announcement in general terms of quota restrictions on schedule articles and duty changes was issued by the Department this morning.<sup>56</sup>

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<sup>54</sup> Not printed.

<sup>55</sup> Telegram No. 105, June 14, not printed.

<sup>56</sup> Department of State *Bulletin*, June 15, 1940, p. 667.

Details will be published by Commerce as soon as possible. Please telegraph immediately data on items 900 and 1086*b*, and inform us whether statistics in your 103 are for 3 or 6 month quotas.

HULL

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622.116/119a : Telegram

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

WASHINGTON, August 12, 1940—6 p. m.

110. The Department has been informed that the Ecuadoran Consul in New York has been instructed to require exporters to present, beginning today, Ecuadoran import licenses as a requisite for certification of documents.

Please investigate and report by telegraph.

WELLES

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622.116/120 : Telegram

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

QUITO, August 15, 1940—midnight.

[Received August 16—5:32 p. m.]

183. Referring to the Department's telegram No. 110, August 12, 6 p. m., instructions have been given to Ecuadoran Consuls not to certify export documents without previous permission of Director General of Exchange Control. This is in line with exchange control regulations requiring advance authorization for the purchase of exchange to cover new imports. See article IV, Decree No. 130 reported in despatch No. 1153 of July 19.<sup>57</sup>

LONG

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622.116/120 : Telegram

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

WASHINGTON, August 17, 1940—11 a. m.

116. Your 183, August 15, midnight. Although it is understood that a few days' delay has been granted in the application of the instructions sent to Ecuadoran consuls, apparently all United States exports to Ecuador are being held up pending receipt of authorization from Ecuador. Please inform the appropriate officials that the new measure is being studied with reference to the pertinent provisions of the trade agreement. Unless you perceive objection, please request

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<sup>57</sup> Not printed.

that meanwhile the date of application of the measure be further postponed, both to permit authorizations to be transmitted to consuls and to give this Government an opportunity of informing exporters through the usual channels. A further postponement of 2 weeks from next Monday is therefore suggested, consular certification to be granted in the meantime without restriction as heretofore.

You should endeavor to secure agreement by the Ecuadoran Government to the foregoing, mentioning that this is a very reasonable request to avoid hardship to exporters and reminding the officials if necessary of this Government's recent cooperation with the Ecuadoran Government in the matter of import quotas.

Please amplify by telegram the information in your 183, with particular reference to the pertinent provisions of the trade agreement.

WELLES

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622.116/121 : Telegram

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

QUITO, August 19, 1940—6 p. m.

[Received 11:05 p. m.]

188. Reference to Department's 116, August 17, 11 a. m. The Minister for Foreign Affairs and the Director General of exchange control out of city. Matter will be further discussed tomorrow or Wednesday and indications are that application of exchange authorizations will be postponed for 2 weeks or longer.

LONG

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622.116/121 : Telegram

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

WASHINGTON, August 21, 1940—6 p. m.

118. Your 188, August 19, 6 p. m. According to our information, all shipments to Ecuador except government orders have been held up since Monday.<sup>58</sup> This situation is costly and confusing, and will become more so unless clarified promptly. Please emphasize the seriousness of this situation in accordance with Department's 116 August 17 and endeavor to persuade the Ecuadoran authorities to issue instructions to consuls to certify shipments as heretofore pending clarification of the whole matter.

WELLES

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<sup>58</sup> August 19.

622.116/122 : Telegram

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

QUITO, August 23, 1940—6 p. m.  
 [Received August 24—9: 55 a. m.]

191. In reference to the Department's telegram number 118, August 21, 6 p. m., the Commercial Attaché and I have just had a long discussion with the Minister for Foreign Affairs and the Director of Exchange Control Commission who regret that it was not possible to give exporters advance notice regarding exchange permits for certification of export documents. The Foreign Minister will telegraph Ecuadoran Consuls for lists of exporters who have submitted documents from August 9 to date with a view to studying means of minimizing any losses suffered by them as a result of these shipments.

Both pointing [*pointed?*] out that excessive shipments have been received which did not have previous authorization for exchange as provided by law. These are especially heavy from Japan and to grant an exemption from the regulations would result in further congestion of customs with merchandise for which there would be no guarantee that exchange could be granted. They explained that the measure was actually a protection to exporters since payment was thus guaranteed. Many shipments now being held up were presumably ordered in violation of the requirement that authorization for exchange be obtained in advance. If the Department's proposal to delay application of requirements for 2 weeks were accepted it would, according to Ecuadoran officials, defeat the purpose of the exchange control and probably it would be difficult or impossible to obtain exchange to cover payments with consequent heavier losses to exporters than those from charges now accruing at seaboard.

Exporters should be notified to require notice of confirmed credit from Central Bank or copy of authorization for exchange prior to making any shipment to Ecuador, presenting same with documents for consular certification.

LONG

622.116/122 : Telegram

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

WASHINGTON, September 3, 1940—4 p. m.

128. Your 191, August 23, 6 p. m. An analysis by the Department of the Ecuadoran control system under discussion reveals, to the extent that applications for exchange for American products are refused or delayed, an apparent conflict with the provisions of Article

X of the trade agreement. The agreement contemplates the granting of exchange for all permitted imports from the United States without delay or restriction, any necessary control of the inflow of such imports to be exercised by means of quotas established and administered in accordance with the provisions of Articles VII and VIII.

Please bring the foregoing to the attention of the appropriate officials, referring to the discussion some weeks ago leading to our acquiescence in the imposition of quotas on schedule products, and to the increases in duty on a number of other items, and state that it was our understanding that those measures would be sufficient to relieve the exchange situation; that although our attitude of sympathy with Ecuador's exchange difficulties, as shown in those discussions, remains unchanged, we naturally regret the adoption of any measures which conflict with the agreement.

You may say, further, that in view of the exchange difficulties we are not disposed at present to invoke formally the trade agreement provisions mentioned above for the purpose of claiming exemption for American products from the present regulations. However, we trust that steps will be taken at an early date to bring the Ecuadoran regulations into harmony with the trade agreement provisions, and we will be glad to consider sympathetically any proposals which the Ecuadoran officials may wish to submit with this in view.

Pending further discussions, please keep the Department currently informed regarding the administration and effects of the control system on our trade. Also, amplify the final paragraph in your 191. Are the authorization documents to be transmitted to exporters by importers directly, or by the Ecuadoran Government to consuls, or by what other method?

For your own information, the Department is considering the possibility of revising the exchange control article of the agreement with a view to giving it more flexibility. Please ascertain discreetly, without revealing the purpose in mind, whether such a change could be effected in Ecuador without congressional action.

HULL

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622.116/128 : Telegram

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

QUITO, September 12, 1940—5 p. m.

[Received 9:11 p. m.]

203. Referring to Department's telegram No. 128, September 3, 4 p. m. During long conference with the Minister for Foreign Affairs and Minister of Finance<sup>58a</sup> it was learned that the latter is sub-

<sup>58a</sup> Vicente Illingworth.

mitting recommendation to Congress that he be authorized to alter exchange control regulations. When authorization is granted he states he will attempt to bring these into line with the provisions of the trade agreement though he maintains that the requirement of authorization for exchange is a safeguard to American exporters and will be retained. The appointment of new Director General of Exchange Control was announced today who is believed to be more liberal and reasonable.<sup>59</sup>

To avoid delays in certification exporters should present copy of authorization for exchange with export documents; insisting that Ecuadoran importer supply this authorization before despatching shipments.

Revision of any article of the trade agreement may be made by the executive but would require approval of Congress if in session otherwise approval of National Economic Council.

Detailed report of the conference being forwarded by air mail.<sup>60</sup>

LONG

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#### EXPORT-IMPORT BANK LOAN TO ECUADOR FOR ROAD DEVELOPMENT AND OTHER PROJECTS

822.51/877 : Telegram

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

QUITO, May 31, 1940—5 p. m.  
[Received June 1—12:49 a. m.]

82. I have just received a call from the President who says that the labor unions have been well organized and are making a united front demand for a raise in wages due to the depreciation of the sucre from April 24 to date from 15 to 19 to the dollar.

If Dr. Cordova does nothing he fears that an attempt will be made to overthrow the Government, backed in part by laborers who really seek to reduce the cost of living, but workers are directed by agitators.

The President left me a memorandum in Spanish a translation of which reads as follows.

“Ecuador urgently needs at present a million dollars in order to arrange its internal economy. Although the March cacao crop was a failure it appears certain that this will be compensated in December. It is necessary to pay commercial creditors of the United States for merchandise orders placed without considering the loss of that March crop.

The Government of Ecuador does not desire to issue any decree artificially regulating the situation but prefers that payments be made in

<sup>59</sup> After the exchange control system became fully effective, the Ecuadoran Government abandoned the use of quota restrictions on December 15, 1940.

<sup>60</sup> Despatch No. 1256, September 13, not printed.

the normal manner abroad without however being a drain on the gold reserves of the central bank; for which reason it desires this loan whether it be given to the Government or to the central bank with the guarantee of the Government, which would pay to the central bank all of its receipts of foreign exchange originating from the consular invoice fees deducting only that part necessary for the payment of salaries of the diplomatic personnel, which is small. President Cordova has personally visited the Legation to make this proposal since he fears that the exaggerated rise of the dollar may bring on political difficulty which would be hard to control. President Cordova believes that many people have purchased dollars in order to speculate and believes that the announcement that the Export-Import Bank is studying the possibility of making available this million dollars and that the notice be published in the press will oblige the actual holders of dollars in the country to offer them for sale normalizing the situation probably without the necessity of having to use all of the loan."

The Minister for Foreign Affairs told me that the President was under great pressure to declare a moratorium or to take other radical steps but feeling present emergency will be relieved if the next cacao crop is good as indicated; also consular tax produces around \$700,000 annually, that it would be better to seek a loan. If there is any probability thereof announcement would gratify President and might help exchange. Actual funds might be made available after Fetter's<sup>61</sup> arrival assuming that he will fly down about June 14.

LONG

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822.51/884 : Telegram

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

WASHINGTON, June 4, 1940.

59. The following was released today by the Federal Loan Agency :

"Federal Loan Administrator, Jesse H. Jones, today announced that the Export-Import Bank of Washington had approved a loan to Ecuador in the amount of \$1,150,000 for the following purposes :

1. Approximately \$900,000 primarily for the acquisition of United States products and services to be used in the construction of highways, preference to be given to highways which will complete an international highway through Ecuador.

2. Approximately \$200,000 for the purchase of railway locomotives and cars manufactured in the United States.

3. Approximately \$50,000 to aid Ecuador in research and distribution of disease-resistant strains of cacao and for other agricultural experimentations. This project is to be developed in cooperation with the United States Department of Agriculture."

Details will be sent you by air mail.

HULL

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<sup>61</sup> Frank W. Fetter, detailed as adviser to the Central Bank of Ecuador.

822.51/882 : Telegram

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

QUITO, June 6, 1940—5 p. m.

[Received 9 : 15 p. m.]

90. The Provisional President last night expressed appreciation of our Government's confidence in his administration as evidenced by export-import credit.

Dr. Cordova and the Minister for Defense <sup>62</sup> believe that the highway construction work ought to be done by a responsible foreign preferably American company with most positions given to Ecuadorans and Ecuadoran engineers cooperating.

Despatch by air mail.

LONG

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**AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR FOR A  
MILITARY AVIATION MISSION, SIGNED DECEMBER 12, 1940**

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 189, or 54 Stat. (pt. 2) 2437.]

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**AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR FOR A  
NAVAL MISSION, SIGNED DECEMBER 12, 1940**

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 188, or 54 Stat. (pt. 2) 2429.]

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<sup>62</sup> Galo Plaza.



**GUATEMALA**

**SUPPLEMENTARY EXTRADITION CONVENTION BETWEEN THE  
UNITED STATES AND GUATEMALA, SIGNED FEBRUARY 20, 1940**

[For text of the convention, signed at Guatemala City, see Department of State Treaty Series No. 963, or 55 Stat. (pt. 2) 1097.]

## HAITI

### FINANCIAL RELATIONS BETWEEN THE UNITED STATES AND HAITI

838.001—Vincent, Stenio/197 : Telegram

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

PORT-AU-PRINCE, April 30, 1940—2 p. m.  
[Received 6:40 p. m.]

52. The Acting Fiscal Representative <sup>1</sup> brought to my attention on Saturday the request of President Vincent for an extraordinary credit of 10,000 gourdes for travelling expenses. In view of the serious financial plight of the Haitian Government the Acting Fiscal Representative recommended against it on the grounds that the time had come for strict economy and that his [apparent omission] to the 1922 bondholders prevented his approving extraordinary credits for such purposes. Particularly since President Vincent has made no refund of the obviously unexpended balance of the extraordinary credit of \$20,000 for his trip to the United States in December; I heartily concurred and promised my support.

The Acting Fiscal Representative following a conversation with the Minister of Finance <sup>2</sup> yesterday has now reversed his position for the reason that the Minister of Finance on the basis of an implied agreement of the credit by De la Rue <sup>3</sup> before his recent departure for the United States had assured President Vincent of approval. This agreement if given was without consultation with or approval by the Legation in conformity with the long standing procedure.

In the light of our several recent discussions on procedure and the necessity for economy, and since the fiscal representative is urging an additional Export-Import Bank credit of \$3,000,000 to alleviate the Haitian financial situation which he has so pessimistically painted, it is difficult to see why he failed to quash this request at the outset when the opportunity was afforded him. In this connection, I reported in my confidential letter Number 211 of April 23 <sup>3a</sup> that De la Rue had been seeking to have the Legation bear the brunt of refusals or actions on matters unpleasant to the Government of Haiti. He desired

<sup>1</sup> Presumably Rex A. Pixley, Deputy Fiscal Representative in Haiti.

<sup>2</sup> Montrosier Déjean.

<sup>3</sup> Sidney de la Rue, Fiscal Representative in Haiti.

<sup>3a</sup> Not found in Department files.

that the Legation discuss such matters with President Vincent and, failing an agreement, he would act as mediator, suggesting a compromise. On several occasions I pointed out that this was "putting the cart before the horse," and that exactly the opposite procedure was desired since the consideration of first importance is the maintenance of good relations between the Government of Haiti and the Government of the United States rather than between the Government of Haiti and the Office of the Fiscal Representative.

From the foregoing, it is clear that the Legation is faced with a situation in which the Office of the Fiscal Representative now recommends the approval of an extraordinary credit for presidential travel on the basis of a *fait accompli*. I am opposed to this sort of procedure as I am opposed to the waste of government funds. At the same time, I feel that it is incumbent upon me for obvious reasons to prevent the Legation from bearing the onus of this or similar refusals. Under these and with great regret I have approved the credit.

May I suggest that the Department discuss this whole matter with De la Rue at its earliest convenience, meanwhile giving me the benefit of its views by telegraph on the policy questions involved.

MAYER

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838.51/3931

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

No. 398

WASHINGTON, May 7, 1940.

SIR: The Department has received your telegram No. 52 dated April 20 [30], 1940, 2 p. m. with reference to the request of the Haitian Government for an extraordinary credit of \$2,000 for the traveling expenses of the President of Haiti. Your action in advising the Acting Fiscal Representative that you perceive no objection to the granting of the request is approved.

It may be useful at this time, however, to clarify the Department's understanding with respect to the procedure which should be used in connection with requests for credits of this kind.

When the Fiscal Representative is approached by the Haitian Government with a request for an extraordinary or supplementary credit, the Department believes that he should refrain from approving or disapproving the request until the Legation has been consulted and his recommendations vouchsafed to you. Should the Legation's views coincide with those of the Fiscal Representative, the latter may then inform the Haitian Government accordingly. In no case should the Fiscal Representative let it appear to the Haitian Government, however, that the Legation's approval or disapproval of the credit has been sought nor should he give any indication to the Haitian Government what the views of the Legation have been.

In case the recommendations of the Fiscal Representative are at variance with the view of the Legation, the Department's views may be sought. Similarly, however, no indication should be given the Haitian Government of any divergence of views, nor should any intimation be given that the Department's decision has been sought.

In each case, therefore, the Fiscal Representative's approval or disapproval of any given credit should appear to the Haitian Government as coming from him alone.

The Department understands that this is the system which has long been in successful operation and believes that it should be continued.

Please invite the attention of the Fiscal Representative to the appropriate parts of this instruction.

Very truly yours,

SUMNER WELLES

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838.51/3935a

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

No. 401

WASHINGTON, May 10, 1940.

SIR: Mr. Sidney de la Rue, the Fiscal Representative at Port-au-Prince, has requested the Department to give consideration in the near future to an increase in the credits already extended by the Export-Import Bank to the Haitian Government.<sup>4</sup> Mr. de la Rue bases his request on statements regarding certain aspects of the economic situation of Haiti which appear unpromising.

The Department, in order to give adequate consideration to this matter, has relatively urgent need of a complete, careful study of Haiti's economy. It is requested that the Legation, in cooperation with the Fiscal Representative's Office, prepare such a study terminating with a summary of the facts and a reasoned expression of opinion as to whether or not, from all points of view, additional credits are indispensable.

Following this basic report, it will be appreciated if carefully studied monthly reports may be submitted on this subject in order that the Department may have constantly available politico-economic information on which to base policy.

So far as possible, the Department desires that these studies should present facts and that every effort shall be made to sift and evaluate the information from which conclusions are drawn.

While it is assumed that your first report will be somewhat longer than the monthly reports submitted subsequently, it will be appreciated

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<sup>4</sup> A loan of \$5,000,000 granted to Haiti to assist in a program of public works.

if they may be as concise as may be consistent with a full and adequate presentation of the subject.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

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838.51/3942 : Telegram

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

PORT-AU-PRINCE, May 20, 1940—1 p. m.  
[Received 5:05 p. m.]

65. The report requested in the Department's telegram No. 68, May 14, 4 p. m.<sup>4a</sup> is being prepared. Meanwhile I submit the following.

I believe that a decision on further financial assistance to Haiti must await the course of events on the continent which will have so decisive an influence on the future of our hemisphere. If it is true, as I believe is the case, that the most effective protection of our hemisphere is to be taken on the European continent and that the best defense of Brazil, for example, is defeat at Berlin, then Allied success or failure in destroying the German menace would determine to a very great degree the military, political and economic policy to be followed in this hemisphere. Should Germany win, we cannot now foresee to what lengths we might have to go in competition with Germany to maintain our position among, and the independence of, the American Republics.

I do not anticipate any critical reverse in Haiti's financial situation during the next few months since the great bulk of the crops had been marketed before the recent developments in Scandinavia and the low countries.<sup>5</sup> However, the loss of those markets and the trend to even lower world prices of Haitian export commodities create financial and fiscal problems, the full import of which cannot be determined until there has been clarification of the European situation. No improvement in present conditions would require some additional credit facilities for Haiti, whereas a worsening of those conditions would necessitate proportionately greater economic and financial aid.

In these circumstances, it is suggested that while we continue to study the matter closely and from every angle, De la Rue be told that a decision regarding additional financial help for Haiti must be deferred for the present, except that the moratorium on the amortization of the 1922 loan <sup>6</sup> will be continued, this time without token pay-

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<sup>4a</sup> Not printed.

<sup>5</sup> The invasion of Norway, Denmark, the Netherlands, and Belgium by Germany. See vol. I, pp. 136 ff. and pp. 184 ff.

<sup>6</sup> See *Foreign Relations*, 1922, vol. II, pp. 472 ff.

ment, and that the interest on the Export-Import Bank credit will be reduced from 5 to 4%.

I am moved to make this suggestion also by the belief that the present pressure on the Department for additional credit for Haiti is partly a scheme to facilitate President Vincent's continuation in office.

MAYER

838.51/3943½

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

[WASHINGTON,] May 24, 1940.

MR. WELLES: Mr. de la Rue informed me that it was impossible for him to draw up his budget for the fiscal year October 1, 1940–September 30, 1941, unless he knew whether this Government proposed to grant further Export-Import Bank assistance to Haiti. Moreover, he wanted to have the Department's approval in requesting the support of the Foreign Bondholders Protective Council for a further extension of the moratorium which terminates September 1 of this year.<sup>7</sup>

I told Mr. de la Rue, therefore, as I had previously, that we had requested that a full and complete study of Haitian finances be made by the Legation in conjunction with his office; that pending the submission of that report and its study by the Department, I did not see how this Government could undertake to decide the questions he was agitating.

Mr. de la Rue at first based his argument for additional credits on the depressive effects which, he says, are apt to follow the cessation of Export-Import expenditures in Haiti. I pointed out that more than half the credit of \$5,000,000 is still unspent and only a little more than one year of the three-year program remains to run. His attention was invited to the fact that, whereas average monthly expenditures to date have been \$125,000, there remains an average of \$175,000 per month for the rest of the period which is substantially that of the fiscal year 1940–41.

Mr. de la Rue then shifted his attack to the uncertainty of coffee prices as a result of the war. In this respect, Haiti's prospects seem (with our present information) to be little if any worse than are those of other coffee producing countries.

I said to Mr. de la Rue that since the moratorium did not expire until September 1, I saw no reason for not waiting at least until midsummer before taking this up since the negotiations could be consummated within a week if previous negotiations were any example.

<sup>7</sup> See *Foreign Relations*, 1939, vol. v, pp. 646 ff.

Mr. de la Rue stated that while he did not agree with some of my tentative conclusions, he was perfectly willing to wait for a few weeks with regard to the moratorium, as well as with regard to the consideration of Haiti's general financial picture, although he requested that the Legation be urged to expedite its report. In requesting Mr. Mayer to hasten his report as much as possible consistent with sound study, I think we must realize that we cannot expect to reach conclusions of too categorical a nature until the developments in Europe are better known.

LAURENCE DUGGAN

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838.51/3944 : Telegram

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

PORT-AU-PRINCE, May 31, 1940—3 p. m.  
[Received 5:05 p. m.]

80. In view of the uncertain revenue situation and acting upon the recommendation of the office of the Fiscal Representative, the Haitian Government reserved today the right to reduce the salaries of Government employees beginning June 1 in the absence of a substantial improvement in fiscal revenues. The Legation approved the recommendation in the hope that economies in other expenditures will be encouraged and therefore a reduction in salaries will not be necessary.

A reduction in salaries may cause serious repercussions on the political situation and Haitian-American relations since the responsibility therefor will be ascribed unfairly to the United States. In these circumstances I have reserved the right to reexamine the situation before any reduction is ordered.

MAYER

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838.51/3945 : Telegram

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

PORT-AU-PRINCE, June 5, 1940—noon.  
[Received 7:30 p. m.]

83. For Duggan. Reference my telegram 65, May 20, 1 p. m. While Haiti's future is extremely obscure, I submit that there is no immediate emergency, that a crisis is unlikely to develop within the next three months and that because of world conditions beyond Haiti's control the future is so unpredictable that it would be impracticable and unwise at this moment to attempt to determine the amount and especially the character of the assistance that Haiti may require.

Haiti has two major problems; how to increase revenues and how to dispose of the coffee crop.

With regard to the first problem, revenues as of May 31 were 258,000 less than budgetary estimates. However, this is more than offset by last year's operating surplus of \$310,000. Since the cash position of the Government is strong and the liquid position of the national bank has never been better the fiscal problem does not demand immediate solution.

The second problem is more serious because the exporters are unwilling to sell the remaining 8,000,000 kilograms of coffee at less than \$6 per 50 kilograms, approximately 15 per cent higher than New York quotations. The exporters are trying to force the Government to reduce the export duty and indirectly are responding to German propaganda that an early German victory will provide higher markets shortly. Lower exports of coffee to May 31 are responsible for a decrease of \$254,000 in export duties. The Department will recognize the urgency of moving the balance of the coffee which the French failed to purchase so that the export duties may be collected and a reasonable price may be paid to the peasant for the new crop beginning in September. If the price offered is too low the peasant will simply refuse to pick the crop.

As to measures that might be taken immediately to ameliorate the situation I recommend, (1), an immediate study of ways and means of moving the coffee crop; (2), the reversal of the previous decision of De la Rue so that the rate of expenditure of the remaining 2,000,000 of the Export-Import Bank credit may now be accelerated to the rhythm of last fall; parenthetically we understand that that rate represents the maximum which it is practicable to pump into Haitian public works without a very radical change in our policy; (3), the Haitian Government to take over communal revenues resulting in an annual net gain to the Treasury of approximately \$250,000; (4), the reduction from 6 to 4% of the interest rate of the 1922 bonds saving approximately \$170,000, and the elimination of the token amortization payment, \$20,000; (5), the reduction from 5 to 4% in the interest rate on the Export-Import Bank credit more than \$30,000; (6), a comprehensive recommendation for increasing internal revenues.

While the Legation is fully aware of the beneficial effects on Haitian economy in general of the expenditure here of additional Export-Import Bank funds, it must be emphasized that the anticipated worsening of Haitian fiscal conditions may easily require a direct loan to provide free funds for operating expenses. Therefore, it would seem that the efforts of De la Rue should be directed toward finding and tapping additional resources of the character above described, possibly supplemented by further direct assistance from the United States Government.

In the circumstances I suggest :



(1st) that I be instructed to call upon President Vincent and assure him of our keen interest indicating that we are giving the matter our closest attention and expect shortly to be able to make concrete suggestions.

(2d) that accompanied by Sparks<sup>8</sup> I come to Washington the end of the month for several days so that the Department may obtain a comprehensive view of the whole situation and determine the action to be taken.

MAYER

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838.51/3945 : Telegram

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

WASHINGTON, June 6, 1940—6 p. m.

81. Your 83, June 5, noon. Mr. de la Rue has informed the Department that Haiti requires no additional assistance during the present fiscal year and that he will be able to draft a satisfactory budget provided that he can be assured of an average Export-Import expenditure of \$160,000 a month during the 1940-1 fiscal year. Under these circumstances, the Department agreed in principle to whatever increase in the Export-Import credit may be necessary to permit the J. G. White program<sup>9</sup> to continue through September, 1941 at the rate indicated. The amount will be decided upon August 1 next.

You may so inform President Vincent saying at the same time that in view of the world coffee situation the Department trusts that the Haitian Government will be willing to effect such economies as the present situation will probably require in all coffee countries.

HULL

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838.51/3951 : Telegram

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

PORT-AU-PRINCE, June 11, 1940—1 p. m.

[Received 5:36 p. m.]

88. With reference to the Department's telegram No. 81, June 6, 6 p. m., subsequent to the meeting at the Department, De la Rue informed Pixley that the reduction of the Export-Import Bank interest rate to 4% would be announced shortly; that a \$250,000 project at Port-au-Prince in addition to J. G. White work had been arranged; that he wished to step up *at once* the rate of expenditure of the Export-Import Bank credit to \$160,000 per month and that he and "the chief" would shortly settle the whole matter between them. He instructed Pixley

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<sup>8</sup> Edward J. Sparks, Second Secretary of Legation.

<sup>9</sup> A program of public works in Haiti.

to request President Vincent to turn over the communal funds which President Vincent flatly refused to do.

Since this is quite different from the Department's telegram No. 81, June 6, 6 p. m., I shall much appreciate any light the Department may be able to throw on this matter.

The timing of immediate collateral help to Haiti such as recommended in my telegram No. 83, June 5, noon and apparently in large measure desired by De la Rue is important with regard to any negotiations on cooperation which may be undertaken shortly. In any event it would be embarrassing if the substance of the first paragraph of the Department's telegram No. 81, June 6, 6 p. m. were conveyed at this time to President Vincent only to learn later that De la Rue had reported to him the several other collateral aids mentioned above.

MAYER

838.51/3951 : Telegram

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

WASHINGTON, June 13, 1940—7 p. m.

88. Your 88, June 11, 1 p. m. The Department is not prepared at this time to go further with President Vincent than was indicated in its no. 81 of June 6, 6 p. m. Mr. de la Rue has been informed accordingly, and has been requested so to advise Pixley.

For your confidential information, the Department hopes that the Export-Import Bank will shortly reduce its interest rate on the Haitian credit from 5% to 4%. Mr. de la Rue was advised in strict confidence that it appeared likely that \$250,000 in addition to J. G. White credits now provided for might be spent on the improvement of air facilities in Haiti during the next year. You should caution Pixley against revealing this information to anyone.

The Department perceives no objection to stepping up present White expenditures to the rate of \$160,000 per month.

It was not the Department's understanding that de la Rue or Pixley would demand the communal revenues but that in reviewing the whole situation with the President and in line with the last paragraph of the Department's telegram under reference would later suggest this as one of the several economies which should be made.

Mr. de la Rue has informed the Department that he has not communicated with President Vincent or with anyone in Haiti other than Pixley regarding the conference on June 6.

HULL

838.51/3955 : Telegram

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

PORT-AU-PRINCE, June 17, 1940—1 p. m.

[Received June 17—1 p. m.]

96. Department's 89, June 13, 8 p. m.<sup>11</sup> In conformity with a recent telephone conversation I suggested to President Vincent in a conversation this morning at which Pixley was present to resume construction at the \$160,000 per month rate. President Vincent enthusiastically approved.

MAYER

838.51/3964a : Telegram

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

WASHINGTON, June 26, 1940—6 p. m.

97. Your 100, June 22, 2 p. m.<sup>12</sup> Lescot<sup>13</sup> has also informed the Department that Groven has offered a loan to the Haitian Government of \$3,000,000 guaranteed by the communal revenues.

Please inquire of President Vincent whether the Haitian Government has in mind an operation of this kind. If his answer is in the affirmative, please invite his attention to the provisions of Article XVII of the accord of August 7, 1933<sup>14</sup> and say that the Fiscal Representative would be obliged to withhold his accord since the ordinary revenues of Haiti after defraying the expenses of the Government are inadequate to assure the final discharge of such an obligation.

Should the President's answer be in the affirmative, you may also consider that this is an appropriate time to go at length into the economic situation of the country. You may say that this Government is giving attentive consideration to the problems which have arisen in this hemisphere as a result of the closure of European markets for agricultural products and that Haiti will, of course, benefit by any plan which may be evolved. Meanwhile, the coffee situation presents a serious problem for Haiti which may call for severe retrenchments

<sup>11</sup> Not printed.<sup>12</sup> Not printed; this telegram informed the Department that a Mr. Eugene Groven "is endeavoring to arrange in New York with Swiss and Dutch interests for a loan to the Haitian Government of \$4,500,000 . . ." (811.111 Groven, Eugene).<sup>13</sup> Elie Lescot, Haitian Minister in the United States.<sup>14</sup> *Foreign Relations*, 1933, vol. v, pp. 755, 759. Article XVII reads: "Without the accord of the Fiscal Representative no new financial obligation will be assumed unless the ordinary revenues of the Republic, after defraying the expenses of the Government, shall be adequate to assure the final discharge of such obligation."

in Haitian government expenditures and the mobilization of all possible revenues. You may say that the Department has only recently indicated its sympathetic interest in the problem by assuring the continuation of the White program throughout the fiscal year 1940-41 at the rate of \$160,000 a month. In addition, the Export-Import Bank has now agreed to reduce its interest rate beginning June 30, 1940 from 5 to 4 percent. It is hoped that the amount of the token amortization payment may be reduced when the next moratorium agreement has been reached. You may add that Haiti will be kept in mind in connection with any defense projects which may become necessary, the expenditures for which might benefit Haiti's economy.

On the other hand, however, the Department hopes that the Haitian Government will cooperate by organizing its communal revenues in a manner which will provide for their efficient administration and will be willing to apply the increased returns which might be produced to essential government expenditures until world conditions in general, and Haiti's financial situation in particular have returned to normal. You may add that, in order to balance the Haitian budget, other economies—possibly a cut in government salaries—may have to be envisaged.

If, for any reason, you feel that the time is inopportune to take the steps mentioned above, please report by telegraph.

HULL

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838.51/3967 : Telegram

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

PORT-AU-PRINCE, June 29, 1940—1 p. m.  
[Received 5:30 p. m.]

101. Department's No. 97, June 26, 6 p. m. and my despatches Nos. 896 June 19, 901 June 22, 903 June 24 and 904 June 25 on the same subject.<sup>15</sup>

During a recent conversation with President Vincent I inquired into the proposed Groven loan. While attempting to play it down President Vincent admitted that preliminary discussions had taken place and had resulted in an exchange of letters. He indicated his desire to use the communal funds for a loan of this character saying that he had discussed this frequently with Mr. De la Rue who was thoroughly conversant with his ideas.

President Vincent left the middle of the week for a stay of some 10 days or 2 weeks in the north. The Minister for External Affairs<sup>16</sup> has joined him. In the circumstances and in order to make sure that the Department's point of view is clearly on record I am sending a

<sup>15</sup> Despatches not printed.

<sup>16</sup> Léon Laleau.

private letter to President Vincent in the sense of paragraph 2 of the Department's no. 97, June 26, 6 p. m.

With regard to a discussion of the economic situation with President Vincent as suggested in paragraph 3 of the Department's telegram under reference I recommend that this might better await the conclusion of the proposed consultations of the American Republics, the receipt and study by the Department of the basic report now in process of preparation by the Legation, and the general discussion on this subject planned to take place at the Department toward the end of July.

In order that our aid to Haiti may be most effectively assembled and coordinated with efforts which in turn the Haitian Government itself will have to envisage and execute I recommend that the Department withhold publication of a reduction of the interest rate on the Export-Import Bank credit and of token amortization payment on 1922 loan and all other aids of this nature excepting the increase in the White program already notified to the Haitian Government until after an opportunity for consideration of the whole subject in July.

The same reasoning applies to the organization and employment of communal revenues discussion of which I believe should also be deferred as indicated.

MAYER

710. Consultation (2)/221½

*The Haitian Minister (Lescot) to the Under Secretary of State  
(Welles)*

[Translation]

WASHINGTON, July 1, 1940.

DEAR MR. UNDER SECRETARY OF STATE: I am taking the liberty of sending you herewith the facsimile of a letter received last Saturday.

I am taking the liberty of calling your attention to the several points which are the subject of this correspondence. I should be very grateful if you would grant me an interview during the next few days, so that I may give you complete information and certain explanations which will enable you to understand fully the meaning of the step which I am requested to make.

Thanking you in advance [etc.]

ELIE LESCOT

[Enclosure—Translation]

*The President of Haiti (Vincent) to the Haitian Minister (Lescot)*

[PORT-AU-PRINCE,] June 26, 1940.

MY DEAR LESCOT: The news of the coming meeting in Habana of the Conference of Foreign Ministers<sup>17</sup> has brought to us, as to all the

<sup>17</sup> See pp. 180 ff.

other American States, and particularly to the small countries, no longer merely hopes, but the conviction that something beneficial and substantial will come out of it for us.

On the basis of certain declarations made by Mr. Welles to the Inter-American Financial Committee of Washington, Dennis has already made some suggestions as to what we could ask for and obtain as a result of our participation in this Conference. He particularly envisaged a reduction from 6 to 3% in the rate of interest on the debt, a new trade agreement with the United States which, by facilitating the entry on the American market of certain Haitian products besides coffee and bananas, could re-establish to our benefit the import and export trade of the two countries and, finally, a revision, economically more favorable, of our customs tariff which, until now, has been established on a purely fiscal basis and has always been a cause of discouragement for our agricultural and industrial production. It is, if you remember, the same plan which I outlined in my last talk over the radio. We are therefore of the opinion that, in addition to whatever may be done to alleviate, if only partially, our unemployment situation, such as the projects connected with continental defense which were discussed with the last mission, we shall derive from all this some benefits to the national economy itself. And it is particularly such benefits that would fulfill the true needs of the country.

It is reported that De la Rue will arrive in the near future and that he has a brilliant plan whereby a budget can be drawn up, that is by the elimination of the communes, which are constitutional and traditional institutions, so that their meager resources may be added to the funds of the State. For great financiers, nothing could be simpler. When Government revenue goes down, you either reduce the wages of public employees or take over communal taxes such as those applying to the issuance of identity cards or to vehicular traffic and, if the receipts continue to diminish, then you just appropriate the communal revenue. Should this prove to be insufficient, then you eliminate half or three-fourths of the public officials, particularly the higher ones, such as the Ministers abroad—the Legation in Washington being probably the only one to be retained—and even some Ministers in Haiti, as the only useful post, which can take care of everything, is that of the Fiscal Representative.

News of this plan has not yet been made public; should it become known, it would cause considerable outcry, and Mr. Welles should be told at once that in the present circumstances the results would be most regrettable. Moreover, in my opinion it would be impossible to carry out such a plan, as it would require a revision of the Constitution, and I cannot imagine any Chamber or Senate willing to assume

the responsibility for the suppression of the communal system in Haiti.\*

I should remind you here of the request for a financial expert—who would be entirely independent of the Fiscal Representative and who would be attached to the President of the Republic—to collaborate in certain financial measures which might be studied to advantage, in agreement with the Government, and which would deliver us from these petty financial schemes which have contributed no little to bring about our present situation.

I am leaving tomorrow for the Artibonite, the North and North-west; I shall try to write while I am gone.

Sincerely yours,

STENIO VINCENT

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710. Consultation (2)/465a

*The Department of State to the Haitian Legation*

MEMORANDUM

The Government of the United States is sincerely desirous that something "good and substantial" will result for all countries from the Habana Conference. It trusts, however, that the Haitian Government will not wish to predicate its participation in the Conference on the attainment of the points raised by Mr. Dennis.

With regard to lowering the interest rate on Haiti's outstanding indebtedness, this Government has never interposed any objection to any legitimate refunding operation by which Haiti would benefit; in fact, it would welcome the opportunity thereby afforded of divesting itself of any responsibility for the collection and disbursement of the Haitian customs revenues. In case money were found with which to call these bonds, it would be unwilling again to assume the same commitment for any new bonds which might be issued by Haiti. Thus the Haitian Government is, of course, entirely free to endeavor to effect any refunding operation which it can arrange.

It may also be pointed out that the service on the Haitian debt has already been substantially reduced by the suspension of amortization payments, except for a small token payment.

With regard to the suggestion that the United States reduce its customs duties on a number of articles of Haitian origin, Mr. de la Rue has submitted a list of such articles to the Division of Commercial Treaties and Agreements which is now studying the question.

In so far as concerns the Haitian customs tariff, it is true that this has been established largely on a fiscal basis. The Department feels sure that any concrete proposal for changes in the customs tariff which

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\*Mr. Pixley spoke to me, although in passing, of this incredible plan of seizing communal funds for the benefit of the State. [Footnote in the original.]

the Haitian Government may desire to submit will be examined attentively by the Fiscal Representative.

Mr. de la Rue and the Department have been giving serious thought to the Haitian budget. It is believed that the former has reached no conclusion regarding the specific ways, if any, in which Haitian revenues may be increased and expenditures diminished. Since he will wish to begin the preparation of his budget about August 1, he should be in a position to present his ideas to President Vincent at about that time.

President Vincent has already been informed of this Government's willingness to continue J. G. White expenditures throughout the next fiscal year at the rate of \$160,000 a month.<sup>18</sup> He has also been advised that funds will be spent on the improvement of air facilities. It is indeed possible that other ways of aiding Haiti can be found as we go along. Moreover, the general question of measures of economic co-operation among the American republics will be taken up at the Habana meeting.

With regard to President Vincent's wish to have a financial adviser, the Department is unable to comprehend the President's wishes since the Fiscal Representative is supposed to perform the very functions which it would appear the President seems to have in mind for the financial adviser.

WASHINGTON, July 19, 1940.

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838.51/3979

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

No. 939

PORT-AU-PRINCE, July 22, 1940.

[Received July 29.]

SIR: With reference to the Department's telegram No. 97 of June 26, 6 p. m., 1940, concerning the loan to the Haitian Government guaranteed by the communal revenues offered by Mr. Eugene Groven, alias Gross, and to the Legation's telegram No. 101 of June 29, 1 p. m., 1940, reporting that I had sent a private letter to President Vincent in the sense of paragraph two of the Department's telegram No. 97 in order to make sure that the point of view of the Department might be clearly on record, I have the honor to transmit herewith a copy of that letter dated June 29, 1940, together with a copy and English translation of the personal letter of July 12, 1940, in which President Vincent made reply to my observations.<sup>19</sup>

It will be observed that President Vincent takes the position that his Government has not had for discussion any firm proposal made by

<sup>18</sup> See telegram No. 88, June 11, 1 p.m., from the Minister in Haiti, p. 885.

<sup>19</sup> Neither printed.



Mr. Groven nor has it been confronted with the necessity of taking any decision which might be contrary to the provisions of the Accords between Haiti and the United States.

President Vincent then proceeds to interpret Article 17 of the Accord of August 7, 1933, in so far as it concerns the *ordinary revenues* of the Republic and the so-called *communal revenues*. He asserts that the communes, pursuant to the Constitution and Haitian tradition, "are entities governed by bodies which have an administrative and financial existence entirely separate from that of the Government which exercises solely the simple right of control over the operation of their budgets". (The President explains that the word "control" is used in its French sense). In this connection the Deputy Fiscal Representative has expressed the opinion that under the new Haitian Constitution the communes no longer enjoy the autonomous character which they had under the provisions of the old Constitution. In these circumstances, it would appear to be no violation of a constitutional provision if the Haitian Government decided to exercise complete control over the collection and expenditure of these revenues.

President Vincent also observes that subsequent to the Accord of August 7, 1933, several of the communes have been authorized to contract loans by virtue of special enabling legislation. He also points out that the Fiscal Representative has never made any observation on this subject "because he has never thought that such operations could constitute a violation of an Accord" which refers to ordinary Government revenues and makes no mention of communal revenues.

While it would now appear that President Vincent is convinced that Mr. Groven is not in a position to obtain a loan in the amount of \$4,500,000 on the basis of the net proceeds from communal revenues, it is thought that it would be inexpedient to allow the statements contained in his letter of July 12, 1940, to stand unchallenged. While under Article 9 of the Contract of October 9 (6), 1922,<sup>20</sup> the Haitian Government agreed to create "a first charge upon all its internal revenues and customs revenues" to secure and guarantee the payment of the principal and interest of the bonds, and while no specific mention is made in the said contract of revenues collected and expended by the communes, it must be recognized that a dollar loan of the amount discussed between President Vincent and Mr. Groven could, under present financial and fiscal conditions in Haiti, impair if not destroy the guarantee of the Haitian Government as expressed in the said Article 9. It is quite obvious from the survey of Haitian

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<sup>20</sup> Copy of contract transmitted to the Department by the Financial Adviser to the Government of Haiti, in a letter of October 7, 1922, *Foreign Relations*, 1922, vol. II, p. 515. For text of contract, see *Le Moniteur*, October 30, 1922.

economic, financial and fiscal conditions now under preparation by the Legation that Haiti now finds itself in a position where its international balance of payments may be unfavorable notwithstanding the new funds which are being made available under the Export-Import Bank credit. If this trend continues or becomes aggravated, which might very well be the case in view of the exceptional decline in export values and the closure of Haiti's markets in Europe, the situation would be immediately rendered more critical if a loan arrangement such as that contemplated were in effect. In this connection it must be borne in mind that the communal revenues are exclusively in local currency and a loan arrangement of the type discussed would necessitate the conversion of the net proceeds into dollars which, in the absence of a material improvement in world conditions, might well exhaust the small foreign exchange availabilities of Haiti.

Respectfully yours,

FERDINAND L. MAYER

838.51/3979

*The Acting Secretary of State to the Chargé in Haiti (Bacon)*

No. 451

WASHINGTON, August 9, 1940.

SIR: Reference is made to the Legation's despatch no. 939 dated July 22, 1940 enclosing copies of an exchange of personal letters between the Minister and the President of Haiti relating to the communal revenues.

In reply to President Vincent's letter dated July 12, 1940, you are authorized to transmit to him a personal letter as follows:

"My dear Mr. President:

"Mr. Mayer asks me to say that he has read with interest your letter dated July 12, 1940 in reply to his of June 29, 1940 with reference to the communal revenues of Haiti. Lest silence on his part might indicate that he entirely agrees with the analysis which you were so good as to send him, he has asked me to send you his personal opinion on this subject.

"Mr. Mayer finds no reference in the present Haitian Constitution to autonomy of the Haitian communes. On the contrary, it is provided in Article 46 that the communal administrations are under the control (whether in the French sense or otherwise) of the Executive Power which would seem to indicate that they have lost the autonomous character which they enjoyed under previous constitutions. The communes could hardly contract loans without the approval of the Executive Power by which they are controlled.

"Moreover, Mr. Mayer finds no prohibition in the Constitution which would prevent the Executive Power from decreeing, or the Legislative Power from legislating, that the communal revenues were henceforth to become part of the revenues of the State, and the communal expenses part of the budgeted expenses of the State.

"Similarly, there appears to be no prohibition in the Constitution which would prevent the communes, even granted they were autono-

mous, from reimbursing the State in full measure for the cost of services rendered them by the State as, for example, police, construction and maintenance of roads, streets, parks, etc. Likewise, there appears to be no provision of the Constitution which would prohibit the State from assuming the expense of maintaining such services as fire departments, the upkeep of markets, hospitals, etc.

“Mr. Mayer wishes me to add his kind regards and good wishes for Your Excellency’s health and welfare.”

Should you receive a reply to your communication, you will, of course, report its content to the Department.

Very truly yours,

SUMNER WELLES

838.51/3999a

*The Acting Secretary of State to the Chargé in Haiti (Bacon)*

No. 453

WASHINGTON, August 10, 1940.

SIR: Upon the return of Messrs. Sparks and de la Rue to Haiti, they are requested jointly to seek an interview with President Vincent and to discuss with him in detail the Haitian economic, financial and fiscal situation.

President Vincent should be informed that careful and sympathetic consideration was given during recent conferences in the Department to the problems which Haitian economy faces as a result of the decrease in commodity prices and the closing of European markets to Haitian agricultural products. He may be assured that Haiti will benefit from any improvement which it may be possible to bring about in coffee prices, as well as from any plan which will insure disposal of agricultural surpluses in this Hemisphere. Thus, while these plans have not as yet been fully developed, Haiti is assured in advance of its full share of the benefits of any general plans which it might prove desirable or necessary to elaborate.

Meanwhile, the exigencies of the present situation and particularly the drafting of the Haitian budget for 1940-41 have given the Fiscal Representative and the Department cause for considerable concern. It is evident that, barring an immediate improvement in the general world economic situation and especially in the coffee situation, the present Haitian fiscal year will close with the cash position reduced to a level at which the continuance of the essential services of the State will be imperiled.

Immediate steps will therefore be necessary pending general improvement or the putting into effect of special emergency measures. For the loyal and effective carrying out of these recommendations which have been carefully and sympathetically developed, the Department confidently counts upon the cooperation of President Vincent and

his Government. The urgent need is to increase revenues available to the State and reduce, wherever possible, budgetary expenditures.

President Vincent has already been informed of the willingness of the Export-Import Bank to increase its credit to Haiti by \$500,000, should that be desired by the Haitian Government. This permits the assurance that expenditures of the J. G. White Engineering Corporation in Haiti during the 1940-41 fiscal year will average at least \$160,000 per month. The President's attention should be invited to the fact that, now that equipment has in the main been already purchased, a larger proportion of the expenditure will immediately benefit the Haitian State and people.

In addition, President Vincent may be informed that the Export-Import Bank has been pleased to consent to a reduction of the interest rate on the Haitian credit as of July 1, 1940 from five percent to four percent.

Messrs. Sparks and de la Rue may likewise inform M. Vincent that the Department will interpose no objection if the Haitian Government should, on the occasion of its application for a renewal of the present moratorium on amortization charges on its outstanding debt, request the elimination of the token amortization payment now being made.

In strict confidence, the President may likewise be advised of the likelihood that, with the approval of the Haitian Government, the United States may be prepared to spend in the neighborhood of \$250,000 in the improvement of air facilities in the Republic.

These new sources of revenue will, it is hoped, go far to ameliorate the present situation, provided the Haitian Government itself is willing to cooperate, as in some respects it has already given evidence of its preparedness to do. Thus, the reduction in Government salaries, already partially in effect, if brought to the level of approximately ten percent, will entail savings of consequence to the budget. The Department appreciates highly the steps which President Vincent has already taken in this direction.

Without in any way imperiling the present structure of the Haitian Garde, there should be recommended to President Vincent a plan whereby new enlistments in the Garde d'Haiti, as they occur, should be at a rate of pay somewhat lower than now prevails. Thus, it is confidently believed that sufficient new recruits could be obtained, for example, for twenty gourdes per month instead of fifty gourdes, and that re-enlistments could be maintained if an additional five gourdes per month were paid for each re-enlistment thereafter. This saving to the State in the course of several years would be substantial.

The President's attention should also be invited to the fact that, in the present circumstances, ample justification can be found for the elimination of such international payments as those of the quota for

the League of Nations, which is necessarily inactive at present, and for such organizations as the Society for the Protection of International Works of Art, et cetera.

Messrs. Sparks and de la Rue should thereupon refer to the very important source of revenue which is inherent in the so-called communal revenues. They should say, in the first place, that neither they themselves nor any of those who participated in the recent conferences felt that the Communes of Haiti should be permanently deprived of the fiscal management of their own affairs unless that is desired by the Haitian Government. It was appreciated that communal revenues provide local administrations with funds with which ordinary political purposes of the commune are carried on. Moreover, it was conceded that, irrespective of the Constitutional provision (Article 46) which placed the control of the Communes under the State, there should be no recommendation that these revenues should be permanently fiscalized into the revenues upon which the service of the debt and the Haitian budget depend. In the present emergency, however, it should be most heartily recommended to President Vincent that temporary measures be taken, whether by decree or by legislation, which would permit for the time being the State, through the Internal Revenue Service, to collect all the communal revenues and to disburse the expenses of the Communes in accordance with the plan which the Fiscal Representative will develop. It is believed that, while the State might exercise a most generous attitude toward the legitimate needs of the Communes, this temporary control by the State of collections and expenditures might well result in the more effective use of the money spent and at the same time bring to the aid of the State's financial situation in this emergency substantially increased revenues. The Department will not oppose, when conditions improve, the defiscalization of the communal revenues and the return to any system of communal fiscal control which may then be thought desirable. Messrs. Sparks and de la Rue should urge this measure upon the President.

The Legation will, of course, report the result of the conversation here outlined. While Mr. de la Rue has been granted authority to speak in a preliminary fashion with the Foreign Bondholders Protective Council and to outline the present situation which may later counsel a reduction in the interest rate on the outstanding 1922 bonds from six percent to four percent, no suggestion of this sort should be made for the time being to President Vincent or the Haitian Government. On the contrary, the definition of this project should be delayed pending further development of the situation.

Very truly yours,

SUMNER WELLES

838.51/4018 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, September 6, 1940—4 p. m.

[Received 7:02 p. m.]

147. Referring to the Department's instruction No. 453, August 10, President Vincent has taken the position that a reduction in the base pay of new enlistments in the Guard would be inopportune and that the utilization of communal revenues for budgetary purposes would be unconstitutional and politically inexpedient. He declares that the means of balancing the budget must be sought elsewhere and expresses the belief that this can be done by a greater reduction in salaries and other budgetary expenditures. The National Assembly has approved the reenactment of current budget and has granted special powers to the executive to make the reductions and adjustments that may be necessary.

The Fiscal Representative is canvassing the situation informally with the Finance Minister but he points out that budgetary reductions will not be sufficient for the purpose and that new revenues must be found immediately to compensate in part the shrinkage due to the inability to move coffee.

An air mail report will reach the Department Monday morning.

SPARKS

838.51/4025

*The Chargé in Haiti (Sparks) to the Secretary of State*

No. 989

PORT-AU-PRINCE, September 6, 1940.

[Received September 9.]

SIR: I have the honor to enclose herewith a copy of the letter<sup>21</sup> relative to the Haitian Communes and communal revenues which I addressed to President Vincent in compliance with the Department's instruction No. 451 of August 9, 1940, together with a copy of the reply and English translation which the President made under date of August 30, 1940.<sup>21</sup> An examination of the President's lengthy memorandum reveals an endeavor to demonstrate:—

1. That by law and tradition the Haitian Communes are autonomous;
2. That enabling legislation to utilize communal revenues for budgetary purposes would be unconstitutional;
3. That for political reasons no one in or out of the Government would be prepared to propose and approve such legislation; and
4. That, if 1,250,000 gourdes of the communal revenues were utilized to help balance the national budget, the remaining revenues would be insufficient to cover the operating expenses of the Communes.

<sup>21</sup> Not printed.

The President declares, therefore, that the means of balancing the budget must be found elsewhere and that he feels that this can be accomplished by a greater reduction in salaries and other appropriations.

The President also discusses at some length and concludes that a loan to the Communes, the service on which would be paid from the communal revenues, would not be contrary to the provisions of Article 17 of the Accord of August 7, 1933, and that it would not be necessary to obtain the accord of the Fiscal Representative. It is felt that the best reply to this assertion of the President would be on purely economic grounds, as set forth in the Legation's despatch No. 939 of July 22, 1940, namely, that the communal revenues are in local currency which would have to be converted into foreign currency for the service on a foreign loan of the Communes, and that this exchange operation would completely exhaust the limited foreign currency availabilities of the country which today, because of the drastic shrinkage in Haitian export values, are not believed to be sufficient to service in full Haiti's existing commitments abroad. Further arguments which might be used to refute the position taken by President Vincent are contained in the opinion rendered by the Legal Adviser of the Office of the Fiscal Representative, a copy of which with English translation, together with the covering letter from the Fiscal Representative, are enclosed.<sup>22</sup>

In the latter part of the Memorandum President Vincent asserts that the improvement of sanitary and other conditions in the Communes is essential in the general public interest and in the development of the Haitian tourist trade. He states that these improvements will cost approximately \$3,500,000, but that the Communes individually are financially unable to assume this obligation. It is for this reason that the Government is interested in obtaining the necessary funds, and President Vincent proposes the consolidation of the communal revenues and the earmarking of a part thereof for the service of the loan. He concludes that, since he is convinced that the American Government will support this proposal, he has instructed the Haitian Minister in Washington to present it and discuss the terms with the Export-Import Bank. This matter is discussed more fully in my despatch No. 990 of September 7, 1940.<sup>23</sup>

There are two matters in the President's memorandum of August 30th which deserve special attention. On page 5 at the bottom and at the top of page 6 of both the original French and the translation the President states that Mr. Mayer admits the constitutional principle of autonomy of the Communes. This is not correct. Apparently the

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<sup>22</sup> None printed.

<sup>23</sup> *Infra*.

President is referring to the fourth paragraph of the letter sent to him pursuant to the Department's instruction No. 451 of August 9, 1940, in which it is stated ". . . prevent the Communes, even granted they were autonomous, . . ." <sup>24</sup>

The second statement the President makes which is not in strict accordance with the facts is found in the two paragraphs beginning on the lower part of page 6 and continuing on page 7 of both the original French and the translation, where he says that, as a result of the long discussion between him, Mr. de la Rue and myself, he finally convinced us, Mr. de la Rue and myself, of the constitutional obstacle to transferring communal revenues to the Treasury.

Respectfully yours,

EDWARD J. SPARKS

838.51/4026

*The Chargé in Haiti (Sparks) to the Secretary of State*

No. 990

PORT-AU-PRINCE, September 7, 1940.

[Received September 9.]

SIR: With reference to my despatch No. 968, of August 22, 1940,<sup>25</sup> reporting the conversation with President Vincent on August 19, 1940, relative to the Haitian economic, financial and fiscal situation, I have the honor to transmit herewith a copy of a letter of the Fiscal Representative dated September 2, 1940, enclosing a copy of a personal letter which President Vincent addressed to him in response, in particular, to the memorandum of our conversation, a translation of which was furnished the Department as enclosure No. 1 to my despatch under reference.<sup>26</sup>

An examination of the communication of President Vincent to the Fiscal Representative reveals that he is prepared to accept most of the recommendations and even to increase the percentage reduction in salaries should circumstances require. However, the President offers objections to the recommended reduction in the base pay of new enlistments in the Garde and to the use of the communal revenues for budgetary purposes.

The question of the Communes and the communal revenues is discussed in detail in my despatch No. 989 of September 6, 1940. In brief, President Vincent takes the position :

- (1) that enabling legislation to utilize the communal revenues for budgetary purposes would be unconstitutional; and
- (2) that for political reasons no one in or out of the Government would be prepared to propose and approve such legislation.

<sup>24</sup> Omissions indicated in the original despatch.

<sup>25</sup> Not printed.

<sup>26</sup> None printed.



Therefore, the means of balancing the budget must be sought elsewhere. The President adds that the Government believes that these funds "can be found more easily by a greater reduction in the amounts provided in the budget for the current fiscal year for salaries, wages and all other appropriations".

With regard to the recommended reduction in the base pay of new enlistments in the Garde, President Vincent expresses the opinion that especially now no change of this nature should be made in the organization of the Garde which is exactly the same as when it was turned over to Haiti by the United States Marines. The President refers to the recent increase in the base pay of the American soldier and declares that the Government would not be prepared, in the interest of maintaining public order, to adopt the measure proposed. Furthermore, the Government believes that it would be extremely imprudent, even dangerous, to reduce any of the allotments accorded the Garde. He then asserts that it is the imperative obligation of the Government in the present difficult times to insure more than ever domestic tranquility and to contribute eventually to the defense of the American Continent.

It would seem that the reduction in the base pay of new enlisted men in the Garde and the utilization of the communal revenues for budgetary purposes involve questions of major political importance in Haiti, and that President Vincent has been prompt to anticipate unfortunate political repercussions if these measures were adopted. As concerns the Garde, it is public knowledge that the stability of the Government would be endangered if the Garde were unduly dissatisfied. The communal revenues, on the other hand, furnish important political funds to a myriad of small politicians scattered throughout the country. Their fiscalization must necessarily deprive these politicians of their use and since they can not be replaced from other sources resentment against the Government would be immediately engendered. The Department is aware that the saving on the salary adjustments in the Garde would probably amount to less than \$8,000 next year. The net proceeds from the communal revenues are estimated by the Fiscal Representative to be no less than \$250,000 per annum, but the fact cannot be escaped that these must be collected by the Fiscal Representative, and that the resentment of the local politicians would undoubtedly be directed against the American Government. In these circumstances it is the opinion of the Legation that it would be unwise to press on these two points, particularly when President Vincent has in effect volunteered to make the necessary reductions in the budget.

It will be observed that the Fiscal Representative in his communication to me of September 2, 1940, takes the position that it is essential

to obtain the communal revenues, since "the question of reduction in expenditures by the Haitian Government, at the moment, is of considerably less immediate importance than the question of finding funds with which to maintain essential governmental services, including interest payments, during the next two or three months". While I am inclined to agree with the Fiscal Representative as to the necessity of obtaining new funds to replace or augment diminishing government revenues, I am not prepared, because of the meager information available as to the amount and particularly the time when communal revenues are collected, to subscribe to an opinion that these revenues would be of such importance during the emergency of the next two or three months, to warrant our insistence upon their use for budgetary purposes in the face of the opposition of the Haitian Government and the political repercussions which President Vincent anticipates.

The Fiscal Representative exhibits great concern over budgetary prospects for the present and following few months. In the enclosure to his letter estimating the fiscal condition as of September 30, 1940, he shows an indicated cash deficit of 611,849 Gourdes. I specifically requested him to submit recommendations as to the best method to deal with this cash deficit situation.

The Government has in bonds 405,000 Gourdes but in the present emergency it would be ruinous to attempt to convert these into cash. If the bonds are not cashed, it would appear that the Government could then have recourse to a part of the non-fiscal accounts, the minimum balance in which is said to be about 450,000 Gourdes. However, it would seem that the best immediate solution would be recourse to the National Bank which, fortunately, is in a very liquid position. The Fiscal Representative has consulted the officers of the Bank and a maximum overdraft of 750,000 Gourdes is suggested, but they would not be prepared to increase the overdraft beyond that amount. In fact, it would appear that to attempt any larger overdraft would be unwise, since the position of the Bank would be weakened immediately by the simultaneous withdrawal of deposits which undoubtedly would take place.

Therefore, it would seem that the means are available to deal with the anticipated adverse situation at the end of this month. In October and the following months, if there is not a decidedly favorable movement in coffee, Haiti will indeed be faced with a most critical situation. It is believed that this can be tempered partly by further drastic reductions in budgetary expenditures. The Fiscal Representative, however, is indeed dubious that these reductions could be sufficient to compensate the even more drastic shrinkage in Government revenues. Should the situation develop to that extreme—as it will

in the absence of a favorable movement of Haiti's principal export crop—we must then be prepared, if we are to assist Haiti through an emergency in which its own efforts would be insufficient, to supply the funds for financing surplus coffee and even possibly free funds.

With regard to the proposal made by President Vincent in his lengthy memorandum on the Haitian communes and the communal revenues (see my despatch No. 989, September 6, 1940) for a loan of \$3,500,000 by the Export-Import Bank to the Haitian communes, which loan would be serviced by earmarking a part of their consolidated revenues, I shall make no indication to President Vincent pending the Department's instructions. However, I submit for the consideration of the Department that sooner or later a Haitian Government will endeavor to arrange a loan on this basis. Also, the proposal for a loan might furnish a vehicle through which the Department, if it were prepared to furnish additional finances to this country, could do so in a normal manner. On the other hand, the Fiscal Representative is convinced that it is inopportune to consider seriously the proposal of President Vincent and that he would be most reluctant to see communal revenues pledged or used in any way except as a contribution to the national treasury. (See copy of letter of Fiscal Representative, September 5, enclosed herewith.)<sup>27</sup> While I share these views in principle, I am not prepared at this time to recommend the rejection of the proposal.

Respectfully yours,

EDWARD J. SPARKS

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838.51/4006 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, September 12, 1940—3 p. m.

147. Your despatches 966 and 968, August 19 and 22, 1940.<sup>28</sup> The Department has taken note of the efforts now being made by the Haitian Government to meet the grave fiscal and economic difficulties with which it is faced. In this connection it is felt that all the officers and employees in the Office of the Fiscal Representative should participate in the general reduction of governmental expenditures.

The Department feels that reductions in such salaries on a scale similar to those made by the Government (i. e. 5 per cent when the salary does not exceed 100 gourdes per month, and 10 per cent if it exceeds 100 gourdes), would, under the circumstances, be eminently proper. It is further recommended that such action by the Fiscal Representative should also encompass a substantial reduction in all

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<sup>27</sup> Not printed.

<sup>28</sup> Neither printed.

allowances, travelling and other expenses which are paid to the officers and employees of the Office of the Fiscal Representative.

Will you please bring the foregoing recommendations to the attention of the Fiscal Representative. The Department will be pleased to consider the comments of the Fiscal Representative as to the precise means by which these reductions can best be effected, as he may wish to initiate any measures taken in this matter by volunteering to make the reductions during such time as the present acute fiscal situation may continue.

If the question should arise, you may inform the Haitian Government that this Government is agreeable to an exchange of notes supplementing those of December 30 and 31, 1933,<sup>30</sup> which would specify the salary and expenses of the Fiscal Representative.

HULL

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838.51/4020 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, September 13, 1940—6 p. m.

148. Your 151, September 9 and 152, September 11.<sup>30</sup> Will you please take the first opportunity to inform President Vincent that the American Government and its officials have consistently manifested a friendly willingness to consider a modification of the agreement signed at Port-au-Prince on August 7, 1933 which would include measures for the protection of the rights of the holders of the 1922 bonds. Intermittently since 1933, particularly in 1936 and 1937, this Department and the Legation at Port-au-Prince have carefully and repeatedly canvassed the situation with a view to negotiating a new arrangement with the Haitian Government.<sup>31</sup> During that time various plans were submitted to the Haitian Foreign Office. To the most recent of the proposals advanced by this Government, no reply was received. The Department thereupon came to the conclusion that the Haitian Government was not seriously interested in carrying on the negotiations. The Department continues to stand ready to consider at any time whatever proposals the Haitian Government may make, although the present financial crisis in Haiti, for the alleviation of which this Government continues, as is well known to the President, to explore additional avenues of assistance, will render difficult the negotiation of a satisfactory instrument.

HULL

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<sup>30</sup> Neither printed.

<sup>31</sup> See *Foreign Relations*, 1936, vol. v, pp. 599 ff. and *ibid.*, 1937, vol. v, pp. 526 ff.

838.51/4031 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, September 13, 1940—4 p. m.  
[Received 8 : 30 p. m.]

153. With reference to the Department's telegram No. 147, September 12, 3 p. m., the Fiscal Representative states that he and the other officers and employees of his service and the customs service voluntarily submitted to the present salary reduction as they had already done on two previous occasions. He adds that with this saving and other substantial economies the balance in the 5% operating fund with accruals at present rates will permit these services to continue without further economies for at least 5 months.

However, what concerns the Fiscal Representative is not the present rate of salary reduction but the rate that would be necessary if new revenues are not found to replace the shrinkage occasioned by the inability to market coffee and an effort is made to balance the budget solely by this means. His preliminary calculations indicate that this percentage might have to be as much as 25 to 35% for all Government services. He declares that while it has been his policy voluntarily to accept for his services the same reduction applied to other Government services he would not be prepared to accede to such a large reduction since it would completely disrupt his services.

SPARKS

838.51/4036 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, September 18, 1940—noon.  
[Received 1 p. m.]

158. Referring to the Department's telegram No. 148, September 13, 6 p. m. President Vincent discussed the matter at great length yesterday and I believe that I convinced him that the present is inopportune to negotiate a satisfactory instrument. However, he objects to the conclusion of the Department that the Haitian Government "was not seriously interested in carrying on the negotiations" and stated his intention to reply to this statement.

Details by air mail.

SPARKS

838.51/4045

*The Chargé in Haiti (Sparks) to the Secretary of State*

No. 1017

PORT-AU-PRINCE, September 23, 1940.

[Received September 27.]

SIR: With reference to my despatch No. 1011 of September 18, 1940,<sup>35</sup> and to my telegram No. 158 of the same date, concerning the reactions of President Vincent to the views expressed by the Department in its telegram No. 148, September 13, 6 p. m., 1940, I have the honor to forward herewith a copy of the memorandum, with English translation,<sup>35</sup> which President Vincent handed to me on Saturday morning. As pointed out in my despatch No. 1016, September 23, 1940,<sup>35</sup> President Vincent made no comment in handing me the memorandum.

It will be noted that the President does not share the opinion of the Department that the Haitian Government was not seriously interested in continuing the negotiations with a view to terminating the financial control. In referring to the correspondence exchanged at that time he expresses the belief that it clearly indicates that the Haitian Government did everything possible to terminate the financial control which, with the withdrawal of the Military Occupation, "has always constituted the principal desideratum of the Haitian people". He argues that the correspondence proves that there existed a difference of opinion on questions of detail of the Banque Nationale, and he asserts that one of the essential aims of the purchase of the bank had been to substitute the Office of the Fiscal Representative by a Special Office established in the bank which would be charged with receiving the revenues of the Government, putting aside the funds necessary for the service of the loans, and effecting the payments provided for in the loan contracts.

The President is of the opinion that past delays have been due only to mutual misunderstanding and, now that the attitude of the Haitian Government has been clearly explained, he is pleased to know that the American Government is ready to enter into agreement with the Haitian Government for the strict application of Article XIII of the purchase-contract of the Banque Nationale. As will be seen from the memorandum which I left with President Vincent on September 14th, a copy of which is enclosed herewith,<sup>35</sup> no grounds were given for such assumption.

The President concludes with the thought that the application of Article XIII of the contract of July 1, 1935, "is one of the most effi-

<sup>35</sup> Not printed.

caacious means of continuing to explore 'additional avenues of assistance' with the great generosity which the American Government offers." <sup>36</sup> He adds that it has been the predominant concern of the Haitian Government always to meet the American Government in these "avenues which are certainly the sure way for this inter-American mutual assistance so highly conceived by President Roosevelt to strengthen and develop more and more the solidarity and unity of the nations of this hemisphere in the face of the great problems susceptible of affecting so profoundly their common economic and political existence."

Respectfully yours,

EDWARD J. SPARKS

838.51/4043 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, September 25, 1940—4 p. m.

[Received 6:05 p. m.]

161. The Fiscal Representative reports that Mackey <sup>37</sup> telephoned this morning that coffee prices declined further as a result of a report to the effect that Brazil plans to dump its best stocks of coffee on the American market and that, therefore, he could not recommend that Haiti should attempt to sell for the present. In view of terms of development the Fiscal Representative recommended to the Haitian Government to begin immediately negotiations with the American Government for a loan of 1½ to 2 million dollars to finance the new coffee crop. The Minister for Foreign Affairs has just handed me a note in this sense.

SPARKS

838.51/4060 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 3, 1940—7 p. m.

[Received 10:10 p. m.]

165. President Vincent informed me this morning that the budget will be balanced by a horizontal salary reduction of 25 percent. However, the reduction in the salaries of diplomatic and consular officers will be only 10 percent, whereas the monthly salaries of the enlisted personnel in the Garde of 100 gourdes or less will be restored in full. Appropriations other than those for personnel will be reduced 20 percent while those abroad 10 percent.

<sup>36</sup> See *Foreign Relations*, 1935, vol. iv, pp. 703 ff.

<sup>37</sup> C. A. Mackey, coffee importer, New York City.

The President inquired if comparable reductions could be made in the salaries and wages of employees of the J. G. White Engineering Corporation on the grounds that they are in fact Haitian Government employees. These savings would be utilized for additional public works. He also inquired whether reductions could be made in the service of the Fiscal Representative explaining that he desired to avoid setting up privileged classes among Haitian Government employees. When I pointed out that it would appear that he had already done so by exempting the enlisted men in the Garde he immediately adduced numerous political reasons in support of that action.

It is my understanding that the American personnel of the J. G. White Engineering Corporation would not consent to a reduction and would seek more gainful employment in the United States. It is suggested that Mr. Day<sup>38</sup> be consulted.

The Fiscal Representative states that he voluntarily imposed a reduction of 10% in salaries in order to keep within his operating funds which he proposes to continue and that he is not prepared to require further sacrifice upon the part of his men. In support of this position he outlined in detail what he considers to be the failure of President Vincent to effect economies, to dismiss personnel who perform no services for the Government or to eliminate unnecessary personnel paid from supply and operation appropriations whereas he asserts that the operating costs of his services have been substantially reduced. He adds that the Accord of 1933 specifically provided for the present situation by granting independence to the Haitian Government and to his services in the expenditure of their respective funds. He concludes that the foregoing is known to his employees and that if their salaries are further reduced their morale and efficiency would be seriously impaired if not destroyed.

SPARKS

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838.51/4061 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 4, 1940—1 a. m.

[Received 3 p. m.]

167. With reference to my despatch No. 1029, September 28.<sup>39</sup> The Fiscal Representative informed the Minister of Finance that 200,000 gourdes could be added to the estimate of revenues if the French commercial treaty<sup>40</sup> were cancelled. The budget as finally drafted

<sup>38</sup> Ralph R. Day, General Manager, J. G. White Engineering Corporation project in Haiti.

<sup>39</sup> Not printed.

<sup>40</sup> Commercial Convention, with Protocol, between France and Haiti, signed at Paris, June 24, 1938. For text, see *Le Moniteur*, July 11, 1938, p. 451, and August 8, 1938, p. 515.



does not include this additional revenue. The Finance Minister declared to the Fiscal Representative that the Minister of Foreign Affairs tenaciously opposed, pending the outcome of his negotiations with the French Government which apparently are only for the purpose of suspending the treaty.

SPARKS

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838.51/4060 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 5, 1940—1 p. m.

160. Your 165, October 3, 7 p. m. The Department has given unremitting attention to the fiscal and financial situation of Haiti and to the numerous appeals for aid of different kinds which have been advanced by the Haitian Government. It has come to the inescapable conclusion that the fiscal situation should first be regularized and that thereafter attention should be given to the other ways in which this Government may be of assistance. You should therefore seek an interview with President Vincent and hand him a note as follows:

“Excellency:

“I have the honor, pursuant to the instructions of my Government, to invite Your Excellency’s recollection of a conversation which took place on (date) between Your Excellency, the Fiscal Representative and me during which suggestions were put forward as to the ways and means in which my Government believed that it could assist the difficult fiscal situation of Your Excellency’s Government and suggestions were made as to ways and means whereby the Haitian Government could itself make contributions toward the solution of the difficult problems faced by the Republic of Haiti.

“The suggestions as to the assistance which my Government was prepared to render have been accepted by Your Excellency’s Government; no action has been taken by Your Excellency’s Government with respect to two of the suggestions then advanced by which the Haitian Government itself might assist in ameliorating the situation. These were (1) the fiscalization of the communal revenues and (2) the reduction of the pay of new enlistments in the Garde d’Haiti so as more nearly to conform with the rates of pay for semi-skilled labor existing in that country.

“My Government has read with interest and with sympathy the various arguments which have been advanced in opposition to these suggestions, but it remains unalterably convinced that, if put into effect, they would not only relieve materially the present fiscal situation for the time being but benefit the economy of the Republic.

“Your Excellency will recall that, with respect to the communal revenues, the suggestion of my Government was that their fiscalization be for a temporary period only, and that no objection would be interposed by my Government should Your Excellency’s Government desire to return to the present system when the financial condition of the country shall have improved.

"I am instructed by my Government once more to request Your Excellency's Government to give urgent and careful consideration to these suggestions in the hope that once the fiscal situation has been regularized, attention may be given to the further assistance that may be rendered by this Government in solving the economic problems with which Your Excellency's Government is faced.

"My Government, I may add, notes with approval the contribution to the fiscal situation which Your Excellency's Government has made by reducing Government salaries by 5 to 10 percent. It has also been apprised of Your Excellency's willingness, in lieu of the adoption of the suggestions discussed above, to increase these reductions to the neighborhood of 25 percent. While the spirit which prompts Your Excellency to consider this project is appreciated, my Government cannot, of course, say whether such drastic reductions are desirable at present. It confidently believes, however, that the fiscalization of the communal revenues and a reduction in the pay of new enlistments in the Garde, carried out with the Haitian Government's sympathetic approval and cooperation, are measures that will benefit notably the present fiscal situation, and make possible the further examination of the economic problems which face the Government of the Republic.

"Accept, Excellency, etc."

As you will observe from the foregoing, the Department is not prepared to suggest at this time more than a 10 percent cut in Haitian Government salaries and does not believe that the Fiscal Representative's Office should accept at this time a greater reduction than 10 percent which is understood to be now in effect. The question of a similar reduction in the salaries of the J. G. White personnel is being taken up with the Company and you will be informed in due course of the result.

HULL

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838.51/4061 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 7, 1940—7 p. m.

161. Your 167, October 4. You are requested to bring to the attention of President Vincent the estimate of the Fiscal Representative that 200,000 gourdes of additional revenues could be added to the budget following the immediate cancellation of the Franco-Haitian commercial Convention.

You may add that the Department fails to understand the reluctance of the Haitian government to terminate this agreement, when it is obvious that France is at present unable to purchase Haitian coffee or other exports.

In view also of present conditions in Europe, there appears to be no likelihood that trade channels between France and Haiti will be reopened in the foreseeable future.

HULL

838.51/4064 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 7, 1940—6 p. m.

[Received 10:20 p. m.]

171. With a view to forestalling the promulgation of the budget reported in my telegram No. 168, October 4, 7 p. m.<sup>41</sup> before President Vincent was aware of the Department's views expressed in its telegram 160, Oct. 5, 1 p. m. I presented the note Sunday morning.

Vincent declared that he had given the fullest consideration to the drastic salary reductions versus the temporary fiscalization of the communal revenues and that he was convinced that the former is by far the lesser of the two evils. He explained that the Government employees naturally would not regard the reductions with favor but that they would be able to get along on the lower salaries and therefore he had opposed any separations from the service. He added that as a matter of fact the Government employees are more concerned over their inability to discount their October salaries because of the failure to promulgate the budget than they are over the salary reductions themselves. As concerns the enlisted men in the Garde he was equally convinced that because of their small salaries and the risks they run daily he must insure them stability.

With regard to the communal revenues he repeated the many arguments already considered by the Department. He anticipated that the fiscalization of their revenues would involve the separation from the service of 1500 to 1800 municipal employees who obviously are exclusively political appointees.

I emphasized that the Department "remains unalterably convinced" of the benefits that would be derived from the two suggestions and that I had been instructed once more to request him to give them urgent and careful consideration so that once the fiscal situation had been regularized attention might then be given to the further assistance that might be rendered by my Government. I requested Vincent to reconsider the requests in the light of the note which he agreed to do. He was to see me today but has not done so as yet.

Notwithstanding the foregoing this morning the Finance Minister requested the Fiscal Representative to give his accord immediately so that the budget might well be promulgated today to permit the discounting of salaries tomorrow. I reminded the Fiscal Representative that he had included in his estimate of ways and means an item of approximately 2,000,000 gourdes to be derived from the coffee financing provided by the American Government. I added that I could offer him no assurance on that item until I was informed that the

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<sup>41</sup> Not printed.

Department is prepared to accede to the request for this financing already formulated by the Haitian Government through this Legation.

The Finance Minister emphasized the urgency of promulgating the budget and he offered to increase to 50% the rate of salary reductions. It was explained that the American Government had made two suggestions in the very hope that drastic reductions would not be necessary. The Finance Minister has not been aware of this attitude and he has now returned to the President in an endeavor to persuade him to accede.

SPARKS

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838.51/4065 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 7, 1940—7 p. m.  
[Received 9:54 p. m.]

172. Referring to my telegram No. 171, October 7, 6 p. m., in view of the tenacious opposition being offered by President Vincent to the fiscalization of the communal revenues and by way of compromise if it should prove necessary I strongly recommend and the Fiscal Representative fully concurs that I be authorized to suggest to President Vincent to require the communes to turn over to the Treasury during the existing emergency 50% of their revenues, collection to be made by the Internal Revenue Service. This was suggested by him as the basis for a communal loan (my despatch No. 989, September 6).

SPARKS

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838.51/4077 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 9, 1940—7 p. m.  
[Received 10:36 p. m.]

175. Referring to my telegram No. 171, October 7, 6 p. m., President Vincent handed me today a very lengthy note in which he endeavors with old and some new arguments to establish the impossibility of fiscalizing the communal revenues.

He declares that it would be extremely imprudent to decrease the pay or to establish any difference of pay in the enlisted personnel of the Garde which would certainly be exploited by unscrupulous politicians. With elections about to take place the Government must guard against confusion and anarchy and is obliged to insist that no modification be made in the pay of the Garde.

He declares that while it would be better if the budget could be balanced by other means a drastic reduction in salaries is the most practicable and the least hazardous.

He concludes that the Haitian Government has set forth its viewpoints with the utmost confidence that the American Government will give them every consideration.

President Vincent also handed me a long *aide-mémoire*. He asserts that the failure to discount the October salaries is causing more anxiety than the drastic reduction itself. He suggests that if the bank discounted up to 50% the situation [apparent omission] eased pending a definitive agreement.

The President declares that every possible precaution has been taken to keep the Garde aloof from politics although not always with success, witness the Calixte affair.<sup>42</sup> He suggests that should certain politicians exploit Garde salary reductions disorder and anarchy might result which the Government must prevent. He proceeds to foresee a state of anarchy ideal for subversive activities which in present world conditions could not be regarded indifferently and perhaps the American Government might find itself confronted with the cruel necessity of reoccupying Haiti.

He concludes that the question resolves itself into a choice between two sacrifices. The Haitian Government which believes itself in a better position to know which is the less perilous has decided after careful consideration upon a 25% salary reduction.

A careful consideration of these two lengthy documents and the oral statements leads me to believe that President Vincent is unwilling to renounce to very substantial political and other advantages now derived by his Government from the communes or to risk any possible dissatisfaction in the Guard which might alter the very loyal support he now enjoys. These two factors are essential to insure in the contemplated elections the success of the candidates which he may support. In these circumstances I am not sure that he would accept the compromise suggested in my telegram 172, October 7, 7 p. m., although he could not advance constitutional objectives inasmuch as he has already imposed a 10% assessment.

Rush urgent telegraphic instructions are requested as to the position I have taken with the Fiscal Representative as set forth in the penultimate paragraph of my telegram No. 171, October 7, 6 p. m., as well as to whether or not he should interpose any objection to the bank's discounting up to 50% of the salaries.

SPARKS

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<sup>42</sup> Col. Demosthenes Petrus Calixte, Commandant of the Haitian Guard, was dismissed by the President of Haiti in January, 1938, for alleged political activity.

838.51/4078 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 10, 1940—noon.

[Received 2:35 p. m.]

176. At the request of President Vincent the Cabinet resigned this morning.

The Minister of Finance informs the Fiscal Representative that the crisis resulted from a disagreement over the reply which President Vincent made yesterday to the Department's telegram No. 160, October 5, 1 p. m., the Cabinet having taken the position that something constructive must be done in view of the unalterable conviction of the American Government on communal revenues. President Vincent is reported to have reproached the Cabinet for even suggesting an agreement since they knew that the communal funds are absolutely necessary for the forthcoming elections. He was particularly bitter against Laleau and criticized his actions at Habana and elsewhere.

The Minister of Finance is reported to have added that the drastic salary reductions cannot work and that the Government employees are dissatisfied but that the President does not understand.

SPARKS

838.51/4078 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 11, 1940—6 p. m.

166. Your 175, October 9, 7 p. m., and 176, October 10, noon. The Department believes that it is essential that a budget be promulgated at once in order that the salaries of Haitian Government employees may be paid or discounted and to clear the atmosphere. It will obviously not be possible during the next few days to prepare a reasonably accurate budget which would be in balance without including an item of anticipated proceeds of a loan related to coffee. Inclusion of such an item could not be approved at this time by the Department although this Government and the Inter-American Financial and Economic Advisory Committee are devoting every effort to the conclusion of broad coffee arrangements.<sup>43</sup>

You are accordingly instructed to inform the President that the Department because of the special circumstances existing has modified its views with respect to the fiscalization of the communal revenues and the reduction of the pay of new enlistments in the Garde d' Haiti, as set forth in the note which you delivered to the President

<sup>43</sup> See pp. 380 ff.

on October 6, pursuant to the Department's no. 160, October 5, 1 p. m. You are further instructed to enter into a special agreement, in accordance with Article XIII of the Accord of August 7, 1933, whereby there may be promulgated a budget temporarily unbalanced by an amount not to exceed 2,000,000 gourdes. You should make it absolutely clear that this unbalance shall be of a temporary character only, pending the conclusion of the current coffee discussions in the Inter-American Financial and Economic Advisory Committee.

HULL

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838.51/4119

*Memorandum by Mr. Emilio G. Collado of the Division of the American Republics to the Under Secretary of State (Welles)*

[WASHINGTON,] October 11, 1940.

MR. WELLES: M. Dennis came to the Department by appointment originally made with Mr. Duggan and spoke with Messrs. Bursley,<sup>44</sup> Barber<sup>45</sup> and Collado. He stated that he had just been appointed Minister of Finance<sup>45a</sup> and that he was leaving Washington Monday evening for New York, to sail for Haiti on Thursday. He requested that an appointment be arranged, if possible, with Mr. Welles prior to his departure.

M. Dennis stated that before leaving he wished to ascertain the status of the items brought up in the memorandum presented to Dr. Berle<sup>46</sup> at Habana by the Haitian delegation. There followed a brief discussion in which M. Dennis was informed that study of the possibility of revising the trade agreement was moving forward and that the Department had recently requested the Legation at Port-au-Prince to obtain additional information regarding the particular types of a number of products in which Haiti might be interested. M. Dennis was also informed that with respect to coffee financing the problem was being actively considered both in the Inter-American Financial and Economic Advisory Committee as respects a coffee arrangement, and by this Government. Any plan for coffee would be worked out on a general basis rather than with any particular country. M. Dennis indicated that he understood this and merely hoped that the coffee arrangements, both the coffee agreement and a financing plan, could be speedily worked out. With respect to M. Dennis' inquiry regarding development credits, reference was made to the agree-

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<sup>44</sup> Herbert S. Bursley, Assistant Chief of the Division of the American Republics.

<sup>45</sup> Willard F. Barber, of the Division of the American Republics.

<sup>45a</sup> Fernand Dennis became Haitian Minister for Foreign Affairs and Finance on October 29, 1940.

<sup>46</sup> Adolf A. Berle, Jr., Assistant Secretary of State.

ment recently entered into to continue J. G. White operations in Haiti through the present fiscal year. With respect to the possibility of refunding the Haitian debt at a lower interest yield, M. Dennis was informed that the present situation of the United States money markets was not such as would make such a refunding practicable, and that such operations were not within the scope of the activities of the Export-Import Bank. There followed some discussion of the rate of interest. At the conclusion of the conversation M. Dennis was informed that we would quickly look further into all of the matters which he had brought up and would discuss them with him again Saturday morning.

The memorandum handed to Dr. Berle brought up six points:

1. *Development of agricultural production.* The Haitian memorandum speaks of the advisability of irrigation and technical assistance. Irrigation is being provided under the J. G. White contract, and technical assistance is being provided by the loan of Mr. Fennell of the Department of Agriculture.

2. *Public works.* The memorandum speaks of continued public works as being essential. The Export-Import Bank has agreed to continue to finance J. G. White expenditures through the end of the present fiscal year, September 30, 1941.

3. *Modification of the trade agreement with the United States.* This is being actively pushed. The Department on October 8 sent an instruction to Port-au-Prince for additional information regarding a number of the minor commodities mentioned by the Haitians.

4. *Loan for repurchase or conversion of the 1922 debt and reduction of the interest rate on the loan for public works.* The conversion of the 1922 debt in the money market is of course impossible. A loan by the Export-Import Bank to permit the repurchase of this debt might be within the terms of the recent amendment, but in any case would be contrary to the policy of the Bank. I do not believe that the Department should sponsor such a loan. With respect to the present external debt, the Department has already entered into an exchange of notes for a continuation of the moratorium on amortization, this time not even requiring a token payment. We have already approached Mr. Francis White with a hint that a reduction in the rate of interest from 6% to 4% may be essential, and Mr. de la Rue has so stated in a letter to the Council. The matter of this reduction should be pursued at once.

With respect to the rate of interest on the J. G. White contract, the Haitian memorandum requests a reduction to 3%. The Export-Import Bank has already agreed to reduce the rate of interest to 4% as of July 1. The Bank has sent such a modification of its contract to the J. G. White Corporation which has not yet replied. Mr. Arey told me this morning that he would request an immediate confirmation from the J. G. White Corporation. The Bank meanwhile is accruing interest on its books at the rate of 4%, but no further interest payments are due until January 15, 1941. Mr. de la Rue has been informed of the Bank's action in the matter. It is not evident from the reports submitted whether Mr. de la Rue has taken this reduction into account in compiling a budget although it is assumed that he has. In



the latter case the Haitian Government must have been informed. In any case there would appear to be no reason why they should not so be informed.

5. *Sugar.* The Haitian Government has requested an increase in the United States import quota on sugar. This is of course impossible.

6. *Coffee.* The question of coffee is only touched on in the Haitian memorandum. As mentioned above, we have informed M. Dennis that the problem is being considered actively, and that the Haitian request for coffee financing, which was made subsequent to the memorandum in question, is being considered in conjunction with the general problem.

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838.51/4119½

*Memorandum of Conversation, by Mr. Willard F. Barber of the  
Division of the American Republics*

[WASHINGTON,] October 12, 1940.

Participants: M. Fernand Dennis, Appointed Foreign Minister of Haiti,  
Mr. Bursley,  
Mr. Collado,  
Mr. Barber.

M. Dennis called to discuss the six points contained in his memorandum of July 24, 1940, presented to Mr. Berle at Habana. It may be pointed out that M. Dennis did not seem to be fully aware of recent developments in some aspects of the questions that have been under discussion by the two governments.

The conversation followed along the lines of Mr. Collado's memorandum of October 11:

1. *The development of agricultural production:* Assistance has been given through irrigation projects, feeder roads, and other activities of the J. G. White project. Also, the technical services of Mr. Springett, the coffee expert, and of Mr. Fennell, on loan from the United States Department of Agriculture, have been applied with what is thought to be considerable benefit.

2. *Public Works:* The Export-Import Bank has agreed to finance the J. G. White at a rate of \$160,000 per month through the fiscal year ending September 30, 1941.

3. *Modification of Trade Agreement:* A study is being made of the possibility of increasing the list of Haitian products to be added to the Trade Agreement. M. Dennis was informed that the note from M. Laleau, dated September 21, gave the impression that the Haitian government might be contemplating a termination of the Agreement. M. Dennis agreed that it would be difficult to continue discussions under such a lack of clear understanding of the intentions of the Haitian Government, and intimated that he would like to clear up that point, appearing to take the attitude that there is no intention to terminate the Agreement.

4. *Conversion loan*: Mr. Collado explained the difficulties in the financial markets regarding such a loan, as well as the policy of the Export-Import Bank in the use of its funds for such purposes. M. Dennis was shown the Agreement signed at Port-au-Prince on September 27, 1940, providing for a moratorium on the amortization payments on the outstanding debt. It was also explained that the interest rate on the Export Bank's credit for the J. G. White would be 4% (instead of 5%), such rate applying as from July 1, 1940.

5. *Sugar*. The difficult situation regarding sugar quotas was briefly explained to M. Dennis.

6. *Coffee*. The efforts of the Department to complete arrangements for a comprehensive coffee plan were described to M. Dennis who has attended a number of the meetings held by the Inter-American Advisory Economic and Financial Committee dealing with this subject. It was stated that the coffee problem was being approached from the point of view of arranging a marketing and financing schedule for all of the coffee countries, and that at the present time Haiti's difficulties would be considered, but that a decision would have to await the adoption of the comprehensive plan.

*Summary*: Copies of Executive Agreements and of the Trade Agreement were given to M. Dennis, who apparently did not have the documents. It was repeatedly stated that the Department would be very happy to consider with sympathetic consideration any further comments or suggestions that M. Dennis or the Haitian Government would wish to put forward.

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838.51/4078 Suppl. : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 12, 1940—1 p. m.

168. Department's 166, October 11, 1940. Please telegraph latest information on the political and budgetary situation so that it will be available to the Department prior to a conference scheduled with M. Dennis for October 14, at 10 a. m.

HULL

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838.51/4082 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 12, 1940—7 p. m.

[Received October 13—12:10 p. m.]

180. An examination of the pertinent Haitian laws reveals that the conclusion of the special agreement directed in the last paragraph of the Department's telegram 166, October 11, 6 p. m. would entail the revision of Haitian financial legislation which it is believed might be most inexpedient at this time.

The Fiscal Representative states that he could give his accord to a budget substantially the same as reported in my despatch 1041 of October 4<sup>47</sup> and to an estimate of ways and means the same as the one accepted by the Minister of Finance on October 3 without the consummation of, or commitment to, the financing of surplus coffee by the American Government. He believes that he could do so under article XII of the basic finance law which obliges and empowers the Minister of Finance to adjust expenditures to actual ways and means if at any time it should prove necessary.

Accordingly, it is recommended that the Fiscal Representative, in view of the change in Cabinet and the proposed cancellation of the French treaty, resubmit to the Minister of Finance for approval an estimate of ways and means under cover of a communication which would contain no inclination implied or otherwise of a commitment by the American Government to provide coffee financing.

President Vincent concurs with this procedure.

Authorization by telephone Monday<sup>48</sup> would be appreciated so that the budget may be promulgated and discounting of salaries commence Tuesday, October 13, 10 a. m.<sup>49</sup>

SPARKS

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838.51/4083 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 12, 1940—8 p. m.

[Received October 13—1:40 p. m.]

181. Department's telegram 168, October 12, 4 p. m. [1 p. m.] Please see my despatches 1055 and 1058.<sup>50</sup> I had a long conversation yesterday with President Vincent who was very concerned as to what the Department's reaction might be to his reply. He explained in considerable detail the situation of the communes with respect to their employees and works. The picture was indeed black and there appeared to be grounds that a most drastic fiscalization would be required to obtain an appreciable net financial gain to the State.

I was able to make the personal observation that while two points of view existed it did not appear that President Vincent was making a constructive effort to accomplish an amelioration of the present situation which the Department sought through its two suggestions. The President said that he desired to consider this observation and would see me today.

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<sup>47</sup> Not printed.

<sup>48</sup> October 14.

<sup>49</sup> Telegram is dated October 12, 7 p. m., but this is probably the time actually sent.

<sup>50</sup> Neither printed.

When I saw him this morning I refrained from mentioning Department's telegram No. 166, October 11 so that I might have the benefit of his reflections. He delivered me a long memorandum in which he suggests several possible measures augmenting Government revenues through the imposition or revision internal taxes and import duties. The Fiscal Representative expresses the opinion that some of these suggestions might be used to advantage. In leaving I informed the President that a telegram was being decoded when I left the Legation and that I would be pleased to arrange to see him in the afternoon if there were any new developments.

I conveyed this afternoon to President Vincent the substance of Department's telegram No. 166, October 11. He exhibited profound appreciation of the Department's comprehension of the difficult situation with which he is confronted. We discussed the possible means of promulgating a budget and he agreed with the recommendation contained in my telegram 180, October 12, 7 p. m. He confirmed that the French treaty would be canceled next week and that the expense of Springett and Mackey would be included in the budget.<sup>51</sup>

An opportunity was afforded me to state that it was my understanding that the enlisted men in the Garde had not raised objection to the existing 5% reduction and that he might find it desirable to confer with Major Armand as to their reactions. I added that if he continued to apply the reduction he would reduce at least in that degree the privileged position that they would enjoy vis-à-vis the officers. The President exhibited a sincere interest in this suggestion and I am hopeful of favorable results.

President Vincent is satisfied that he has the political situation well in hand. Complaints regarding the suspension of salary discounts have been effectively silenced. He renewed his assurances that the drastic reductions would be accepted with grace. October 13, 11 a. m.<sup>52</sup>

SPARKS

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838.51/4105

*Memorandum of Telephone Conversation, by Mr. Willard F. Barber  
of the Division of the American Republics*

[WASHINGTON,] October 14, 1940.

At Mr. Duggan's request, Mr. Collado telephoned Mr. Sparks regarding the promulgation of the Haitian budget, in accordance with the plan worked out by the Fiscal Representative, the Legation, and

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<sup>51</sup> Expenses connected with the marketing of Haitian coffee.

<sup>52</sup> Telegram dated October 12, 8 p. m., but this is probably the time actually sent.

President Vincent, described in the Legation's telegrams 180 and 181 of October 12.

Mr. Sparks said that the Fiscal Representative was ready to give his accord to the budget, which would not contain any items based on this Government's financing of the Haitian coffee crop. Mr. Collado agreed that this appeared to be the best solution, keeping in mind the various suggestions made by President Vincent to increase revenues and to reduce expenditures.

Under the circumstances, Mr. Sparks thought that the budget and the discounting of Government employees' salaries could be made effective on October 15.

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838.51/4083 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 15, 1940—7 p. m.

171. Your 180 and 181, October 12. Confirming the telephone conversation of October 14, with Mr. Collado, the Department perceives no objection to the granting by the Fiscal Representative of his accord to the budget. It is understood that the budget will not contain any item of anticipated proceeds from coffee financing. It is also understood that the budget will contain certain of the measures to augment revenues and to reduce expenditures mentioned in your 181.

Accordingly, the Department assumes that it will not be necessary to enter into the special agreement authorized in the last paragraph of the Department's 166 of October 11.

HULL

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838.51/4089 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, October 16, 1940—4 p. m.

[Received 6:30 p. m.]

185. Referring to the Department's telegram 171, October 15, the budget was approved yesterday and salary discounting began today.

By the inclusion of additional revenues and the imposition of a 5 percent reduction in the salaries of the enlisted personnel of the Garde it was possible to reduce the general budget reduction from 25 to 20 percent. A budget reduction of 10 percent will continue to be imposed on the officers and employees of the Office of the Fiscal Representative. Approval of the budget of the Internal Revenue Service required by article X of the 1933 Accord has been deferred for a few days at the request of the Minister of Finance pending further consideration of what would be an expedient rate of budget reduction.

SPARKS

838.51/4107a : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, November 1, 1940—5 p. m.

177. Minister Lescot was told in an informal conference that the Department would interpose no objections if the Haitian Government should present a request to the Foreign Bondholders Protective Council for a reduction in the interest rate on Haiti's dollar bonds from 6 percent to 4 percent.

Lescot indicated that he would inform his Government of this fact with a recommendation that a statement be prepared by his Government, presumably with the assistance of the Fiscal Representative, for submission to the Council.

HULL

838.51/4107b : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, November 8, 1940—7 p. m.

181. Chargé's personal letter to Duggan<sup>53</sup> and Department's telegram 177, November 1, 5 p. m. Department understands that the request of the Haitian Government will be for a temporary reduction for the period of this fiscal year.

HULL

838.51/4123

*The Secretary of State to the Chargé in Haiti (Sparks)*

No. 969

WASHINGTON, December 31, 1940.

SIR: Reference is made to the Legation's despatch no. 1047 dated October 7, 1940, with which there was transmitted *inter alia* the request of the Haitian Government<sup>54</sup> regarding a reduction in the rate of interest on the \$5,000,000 credit granted by the Export-Import Bank to assist in a program of public works undertaken by the Haitian Government.

There are enclosed for the information and files of the Legation two copies of a letter dated December 14, 1940, addressed to the Secretary of State by the President of the Export-Import Bank of Washington<sup>55</sup> indicating that the Executive Committee of the Bank has agreed to accept interest at the rate of four per cent (4%) per annum accruing subsequent to July 15, 1940. You are requested to send a note to

<sup>53</sup> Not found in Department files.<sup>54</sup> Neither printed.<sup>55</sup> Not printed.

the Foreign Office transmitting this information to the Haitian Government, with an appropriate expression of the willingness of this Government to give its assistance, whenever possible, in the solution of the economic difficulties with which the Haitian Government and people are unfortunately confronted.

You are also requested to inform the Office of the Fiscal Representative regarding the decision of the Export-Import Bank.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

**SUPPLEMENTARY AGREEMENT BETWEEN THE UNITED STATES AND HAITI PROVIDING FOR AN EXTENSION OF THE PARTIAL MORATORIUM OF JULY 8, 1939, SIGNED SEPTEMBER 27, 1940<sup>56</sup>**

838.51/4008 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, August 28, 1940—9 a. m.

[Received 11 : 30 a. m.]

139. A formal request has been received from the Haitian Government that the American Government consent to an [extension] for 1 year of the accord of July 1 [8], 1939.<sup>57</sup> Assurances are given that revenues in excess of the amount provided in the current budget will be applied for the amortization of the 1922 loan.<sup>58</sup> It is further requested that the Haitian Government be relieved of the token payment of 100,000 gourdes provided in the 1938 Accord.<sup>59</sup> The note with English translation will be forwarded in Friday's air mail.

While I believe de la Rue<sup>60</sup> should remain here, does the Department deem it necessary that he proceed to the United States to obtain the approval of the Foreign Bondholders Protective Council so that a new accord can be negotiated?

SPARKS

838.51/4016 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, September 25, 1940—7 p. m.

155. Your telegram 139, August 28 and your despatch 976 of August 29.<sup>61</sup> The Department has been informed by Mr. Francis White of the Foreign Bondholders Protective Council that the Council would not

<sup>56</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 646 ff.

<sup>57</sup> Department of State Executive Agreement Series No. 150; 53 Stat. 2402.

<sup>58</sup> See *Foreign Relations*, 1922, vol. II, pp. 472 ff.

<sup>59</sup> See *ibid.*, 1938, vol. v, pp. 573 ff.

<sup>60</sup> Sidney de la Rue, Fiscal Representative in Haiti.

<sup>61</sup> Latter not printed.

interpose an objection to the proposal of the Haitian Government that the Accord of July 8, 1939 be extended for one year, and that the token payment of 100,000 gourdes be omitted.

You are requested to acknowledge the receipt of Minister Laleau's <sup>62</sup> note of August 24, 1940 <sup>63</sup> and to state that you are authorized, and authorization is hereby given you, to sign a supplemental executive agreement extending the Accord of July 8, 1939 for one additional year, so that it would continue until September 30, 1941. It is recommended that the notes to be exchanged should be similar to those exchanged on July 8, 1939 with the omission of the phrase (b) referring to the token payment.

HULL

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838.51/4048 : Telegram

*The Chargé in Haiti (Sparks) to the Secretary of State*

PORT-AU-PRINCE, September 27, 1940—6 p. m.

[Received 9 : 03 p. m.]

162. In compliance with Department's telegram No. 155 of September 25, 7 p. m., 1940 supplemental executive agreement was signed today. Original and copies will be forwarded by air mail tomorrow.

SPARKS

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[For the text of the agreement, signed at Port-au-Prince, September 27, 1940, see Department of State Executive Agreement Series No. 183, or 54 Stat. (pt. 2) 2411.]

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**DESIRE OF THE HAITIAN GOVERNMENT TO MODIFY THE TRADE AGREEMENT BETWEEN THE UNITED STATES AND HAITI OF MARCH 28, 1935**

611.3831/255

*The Chargé in Haiti (Sparks) to the Secretary of State*

No. 1018

PORT-AU-PRINCE, September 23, 1940.

[Received September 26.]

SIR: I have the honor to enclose herewith a copy, with English translation, of the note from the Minister for Foreign Affairs, dated September 21, 1940, in which he expresses the desire of the Haitian Government to conclude a new trade agreement with the United States on the grounds that the present agreement <sup>64</sup> and the actual

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<sup>62</sup> Léon Laleau, Haitian Minister for Foreign Affairs.

<sup>63</sup> Not printed.

<sup>64</sup> Signed at Washington, March 28, 1935. For correspondence concerning negotiations, see *Foreign Relations*, 1935, vol. iv, pp. 642 ff.; for text, see Department of State Executive Agreement Series No. 78, or 49 Stat. (pt. 2) 3737.



economic needs of the country reveal that it would be particularly desirable to modify the existing agreement as soon as possible. The Foreign Minister refers to Article 14 of the trade agreement from which it may be interpreted that his present note is in the nature of a notice to the American Government.

Respectfully yours,

EDWARD J. SPARKS

[Enclosure—Translation]

*The Haitian Minister for Foreign Affairs (Laleau) to the American Chargé (Sparks)*

PORT-AU-PRINCE, September 21, 1940.

MR. CHARGÉ D'AFFAIRES: I bring to your attention, for all useful purposes, that the Government desires to conclude a new trade agreement with the United States.

The application of the one signed in Washington on March 28, 1935, and proclaimed by the Haitian Government on April 26 of the same year, as well as present economic needs have revealed that it would be particularly desirable that modifications be made thereto as soon as possible.

The Haitian Government proposes, consequently, to send instructions to its Legation in Washington, so that at an opportune moment, conversations may be instituted with a view to concluding a new accord envisaged in conformity with a Memorandum sent by the Department of State to the Haitian Legation in Washington<sup>65</sup> and transmitted to His Excellency the President of the Republic.

In asking you to note that this communication is inspired by Article XIV of the Agreement of March 28, 1935, I take [etc.]

LEON LALEAU

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611.3831/255 : Telegram

*The Secretary of State to the Chargé in Haiti (Sparks)*

WASHINGTON, October 30, 1940—6 p. m.

174. Please ascertain definitely, and preferably in writing, whether the statement made in the final paragraph of the note of September 21 from Laleau to you, enclosed with your despatch 1018 of September 23 and referred to on page 2 of your despatch 1062 of October 16,<sup>66</sup> was intended to be a formal notification by the Haitian Government of its intention of terminating the trade agreement 6 months from September 21. It is suggested that Dennis<sup>67</sup> be consulted on this

<sup>65</sup> *Ante*, p. 891.

<sup>66</sup> Despatch No. 1062, not printed.

<sup>67</sup> Fernand Dennis became Haitian Minister for Foreign Affairs and Finance on October 29, 1940.

point, as in conversations in the Department last week he stated that he did not believe that was the purpose.

Dennis was informed that pending completion of its investigation in connection with which further information was awaited from Port-au-Prince, the Department could not indicate the scope of any possible new trade agreement; it was felt, however, that no useful purpose would be served by a new agreement unless additional concessions of value could be included; if a new agreement were not feasible, it would not be to the advantage of either country to terminate the present agreement; if it should be found feasible to expand the present agreement, this could be done by a new or supplementary agreement and prior notice of intention to terminate the present agreement would be neither necessary nor desirable.<sup>68</sup>

HULL

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<sup>68</sup> In despatch No. 1103, November 13, 1940, the Chargé in Haiti reported that in reply to an enquiry the Haitian Minister for Foreign Affairs had sent him a memorandum dated November 7 saying that the Haitian Government in lieu of a formal denunciation of the trade agreement had only in mind its adjustment to the existing economic situation (611.3831/260).

## HONDURAS

### REPLY OF THE UNITED STATES TO THE HONDURAN CLAIM OF SOVEREIGNTY OVER THE SWAN ISLANDS<sup>1</sup>

811.0141 SW 2/172

*The Acting Secretary of State to the Honduran Minister (Cáceres)*

WASHINGTON, August 12, 1940.

SIR: I have the honor to refer to your note no. 85 of October 4, 1938,<sup>2</sup> which was acknowledged by this Department in its communication of October 25, 1938,<sup>3</sup> and to previous communications regarding the Honduran claim to the Swan Islands.

Since the receipt of your note of October 4, 1938 under reference, the appropriate officers of this Government have made a careful study of the arguments advanced therein in support of the Honduran claim to sovereignty over the Swan Islands, due consideration having been given at the same time to the statements contained in previous communications on the same subject from the Government of Honduras, namely, note of November 15, 1923, from the Honduran Foreign Office to the American Legation in Tegucigalpa<sup>4</sup> and note of December 12, 1935, from the Legation of Honduras in Washington to the Department of State.<sup>5</sup> The views of the Government of Honduras have been given the most careful consideration, and my Government feels it desirable to set forth below the conclusions reached after a careful review of the pertinent facts and circumstances.

There was enclosed with the note of the Honduran Government of November 15, 1923, to the American Minister in Tegucigalpa, the text of a Report on the Swan Islands, dated June 11, 1923,<sup>6</sup> made by a Commission which was appointed for that purpose under the provisions of the Legislative Decree No. 57, of February 23, 1922. In as much as the subsequent communications of the Honduran Government on the subject, namely, notes of December 12, 1925 [1935] and October 4, 1938 from the Honduran Legation in Washington to the Department of State, are based in large measure on the arguments

<sup>1</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 650 ff.

<sup>2</sup> *Ibid.*, 1938, vol. v, p. 650.

<sup>3</sup> Not printed.

<sup>4</sup> Not printed; for a brief summary of this note, see Green H. Hackworth, *Digest of International Law*, vol. I, p. 519.

<sup>5</sup> *Foreign Relations*, 1935, vol. iv, p. 750.

<sup>6</sup> *Las Islas del Cisne* (Tipo-Litografía y Fotograbado Nacionales, Tegucigalpa, 1926).

and data contained in that Report, an effort has been made to examine those data with a view to determining their pertinence to the point at issue, and to consider the arguments in the light of generally accepted doctrines of international law.

The Legation's note of October 4, 1938 states that titles of dominion and possession of Honduras over Swan Islands, as part of the territory comprising it (Honduras), descended from the time immemorial when Spain discovered and "took possession" of the said islands. The Honduran Report of June 11, 1923 states:

"It has been impossible to find exact documentary proof of the date of discovery of these islands or the name of their discoverer. But it can be safely stated that they were discovered in the same period as the Lesser Antilles, that is, before 1520."

From the fact that the early cartographers and navigators refer to certain islands called San Millán or Santanilla located in the approximate position of what are now known as the Swan Islands, it is only reasonable to assume that they were in fact seen by early explorers. No evidence, however, has been submitted that Spain ever took possession of the islands, as stated in the note of October 4, or that they were ever occupied or administered by that country.

Reference is made in various passages of the Honduran Report under discussion, to the fact that early cartographers included the islands of San Millán or Santanilla in their maps. No particular political significance may be attached to this fact and it has little or no bearing on the actual question of sovereignty. In this connection, your attention is called to the following statement with respect to the value of maps which was made by Secretary of State Fish in a communication to Stephen Preston, Minister of the United States to Haiti,<sup>7</sup> of December 31, 1872:<sup>8</sup>

"It is difficult to understand why the specification in or omission of Navassa from any maps ancient or modern, or a mere statement of the position of that island by geographers could give to any nation a right to sovereignty over it."

Additional evidence of the negative value of the mere fact of the inclusion of an island in maps, without any indication of its political status, is found in the award of the Arbitrator, Max Huber, a Swiss citizen, in the Palmas Island arbitration between the United States and the Netherlands,<sup>9</sup> who states:

<sup>7</sup> Actually Stephen Preston was the Haitian Minister in the United States.

<sup>8</sup> Not printed; see John Bassett Moore, *A Digest of International Law*, vol. 1, p. 266.

<sup>9</sup> For text, see Permanent Court of Arbitration, *Arbitral Award Rendered in Conformity with the Special Agreement concluded on January 23rd, 1925 between the United States of America and the Netherlands Relating to the Arbitration of Differences Respecting Sovereignty over the Island of Palmas (or Miangas), April 4th, 1928* (International Bureau of the Permanent Court of Arbitration).

“Any how, a map affords only an indication—and that a very indirect one—and, except when annexed to a legal instrument, has not the value of such an instrument, involving recognition or abandonment of rights.”

At various places in the Honduran Report of June 11, 1923, as well as the communications of the Honduran Government dated November 15, 1923 and October 4, 1938, it is stated that the Swan Islands are within territorial waters of Honduras. In both of the Honduran notes just referred to the statement is made that the map “The West Indies with the Gulf of Mexico and Caribbean Sea”, published in June 1892 by the United States Hydrographic Office placed the Swan Islands in the territorial waters of Honduras. In the Report and the 1938 note reference is also made to the *Central American and Mexican Pilot* (East Coast) published in 1920 by the United States Hydrographic Office and it is stated that the book declares the islands to be located in Honduran territorial waters. I am obliged to call to your attention that neither of these documents places Swan Islands in the territorial waters of Honduras, as stated.

The 1892 map without containing any indication whatever of sovereignty merely places the islands in their true geographical position in the Caribbean Sea outside of the Gulf of Honduras. This position, it will be noted, is nearly 100 miles off the closest part of the Honduran coastline. The only statement made on the map with respect to the islands is the parenthetical remark “flat and woody”.

Similarly the *West Indies Pilot* contains no statement regarding sovereignty over the islands. This publication is of course entirely non-political in character and is issued solely as an aid to mariners. It does not state that the islands are in the territorial waters of Honduras but merely states that the “islands are situated 98 miles northward of Patuca point, the nearest part of the coast”. It refers to the Swan Island Light maintained by the United Fruit Co. (an American company) and to the radio station also maintained by that company on Great Swan Island. It also refers to a settlement on the western island and to a flagstaff there and states that the inhabitants are engaged chiefly in the cultivation of coconuts. While it is not so stated in this publication the coconuts were cultivated by an American concern and the flagstaff was used to fly the American flag.

The Swan Islands are 98 statute miles from the nearest point on the coast of Honduras and over 128 statute miles from the nearest Bay Island, and this Government is aware of no principle of international law which would warrant the claim that they are within the limits of Honduran territorial waters. On the contrary, Swan Islands are situated in the Caribbean Sea outside the territorial waters of Honduras.

The Honduran Government has also advanced arguments asserting a claim to sovereignty over the Swan Islands on the grounds of contiguity, or adjacency to the mainland of Honduras, or to its island possessions. In all three of the Honduran communications under consideration, extensive discussion is devoted to this proposition.

It is pointed out that the constitutions of December 11, 1825 and February 4, 1848, in describing the boundaries of the State include the "islands adjacent to its coasts in both seas." From this, the assumption is drawn, which in the opinion of this Government is entirely unwarranted, that jurisdictional acts performed by officials of the Spanish Government, and subsequently by officials of the Honduran Government with reference to the North Coast of Honduras and what are known as the Bay Islands, constituted an exercise of sovereignty over the Swan Islands. The Swan Islands, it will be recalled, are even more remote from the Bay Islands than from the Honduran mainland. Nowhere is it shown that the various decrees and administrative acts cited included any specific reference to the Swan Islands. The apparent assumption of the Honduran Government that such acts and decrees were applicable to the Swan Islands is therefore difficult to understand.

With regard to the question of the extension of sovereignty to offshore islands on grounds of contiguity, it is desired to invite the attention of the Government of Honduras to certain opinions of authorities on international law on the subject. The arbitrator in the Palmas Island arbitration between the United States and the Netherlands states on page 39 of his decision :

" . . . Although States have in certain circumstances maintained that islands relatively close to their shores belonged to them in virtue of their geographical situation, it is impossible to show the existence of a rule of positive international law to the effect that islands situated outside territorial waters should belong to a State from the mere fact that its territory forms the terra firma (nearest continent or island of considerable size). Not only would it seem that there are no precedents sufficiently frequent and sufficiently precise in their bearing to establish such a rule of international law, but the alleged principle itself is by its very nature so uncertain and contested that even Governments of the same State have on different occasions maintained contradictory opinions as to its soundness. The principle of contiguity, in regard to islands, may not be out of place when it is a question of allotting them to one State rather than another, either by agreement between the Parties, or by a decision not necessarily based on law; but as a rule establishing *ipso jure* the presumption of sovereignty in favour of a particular State, this principle would be in conflict with what has been said as to territorial sovereignty and as to the necessary relation between the right to exclude other States from a region and the duty to display therein the activities of a State. Nor is this principle of contiguity admissible as a legal method of

deciding questions of territorial sovereignty; for it is wholly lacking in precision and would in its application lead to arbitrary results.”

On this subject, Westlake<sup>10</sup> states, page 166 [116]:

“If an island lies entirely outside the range of territorial water measured from the mainland or from any other island, the original acquisition of title to it or to any part of it must depend on the same principle as the original acquisition of title to a part of a continent.”

It is believed that reference may also appropriately be made to the statement in Moore’s *International Law Digest*, Vol. I, page 265, on contiguity:

“The question of a claim of title on the ground of contiguity ‘may be regarded as generally defined by the celebrated correspondence of Mr. Webster with the Peruvian Government, in 1852,<sup>11</sup> in the Lobos Islands controversy, in which Mr. Webster laid down the proposition that inasmuch as according to “the well-settled rule of modern public law, the right of jurisdiction of any nation whose territories may border on the sea, extends to the distance of a cannon-shot, or three marine miles from the shore, this being the supposed limit to which a defence of the coast from the land can be extended,” the whole discussion must turn upon this, viz: “The Lobos Islands lying in the open ocean, so far from any continental possessions of Peru as not to belong to that country by the law of proximity or adjacent position, has the Government of that country exercised such unequivocal acts of absolute sovereignty and ownership over them as to give her a right to their exclusive possession, as against the United States and their citizens, by the law of undisputed possession?” . . .’”

In the introduction to the Honduran Report of 1923, as well as in various passages of the body of the Report, and in the notes of 1923 and 1938 previously referred to, the statement is made that the Swan Islands form part of the archipelago of the Bay Islands. In these same documents references are made to administrative acts carried out by the Government of Honduras with respect to the Bay Islands as indicative of the exercise of sovereignty over the Swan Islands. Also, considerable weight is attributed to the Wyke-Cruz Treaty of November 28, 1859,<sup>12</sup> by which the Government of Great Britain undertook to withdraw from the Bay Islands, which it had previously occupied.

With regard to the geographical aspect of the question whether the Swan Islands can properly be included in the Bay Islands, it should be sufficient to point out once more that the Swan Islands are approxi-

<sup>10</sup> John Westlake, *International Law: Peace* (Cambridge, 1904), pt. I, p. 116.

<sup>11</sup> For full text of Webster’s note of August 21, 1852, see William R. Manning, *Diplomatic Correspondence of the United States: Inter-American Affairs, 1831-1860*, vol. x, p. 241.

<sup>12</sup> *British and Foreign State Papers*, vol. XLIX, p. 13.

mately 128 statute miles from the nearest of the Bay Islands. In so far as the Wyke-Cruz Treaty is concerned, Article I thereof states:

“ . . . Her Britannic Majesty agrees to recognize the islands of Roatán, Guanata, Elena and Barbareta and Morat, known as the ‘Bay Islands’ and located in the Bay of Honduras.”

The fact that the islands comprising the group known as the Bay Islands are specifically mentioned by name, and that no reference is made to the Swan Islands, is significant. *Expressio unius est exclusio alterius*. If Swan Islands had been considered as belonging to or forming part of the Bay Islands, they would have been specifically named. It cannot be admitted that they form a part of the Bay Island group. Consequently, it is not considered that references to acts or decrees applicable to the Bay Islands are of any value in the present discussion.

Similarly, references are made in the Honduran documents cited, to the provisions of Article I of the Clayton-Bulwer Treaty of April 19, 1850,<sup>13</sup> presumably in an effort to establish that the United States recognized by this instrument that the Swan Islands formed a part of the territory of Honduras. The only provisions of a geographical nature in this treaty are found in Article I, where reference is made to “Nicaragua, Costa Rica, the Mosquito coast, or any part of Central America”. Nothing is contained in the said treaty with respect to the boundaries or claims of any of the Central American countries, thus excluding any pertinence to the question at issue.

In the Honduran Report of 1923, after quoting the text of the Arbitral Award of the King of Spain of December 23, 1906,<sup>14</sup> in the boundary dispute between Honduras and Nicaragua, it is stated that: “This Award, which was accepted by both parties, therefore leaves the Swan Islands within the jurisdiction of Honduras . . .”. Again, in the 1938 note, it is stated in paragraph (*h*): “I should not fail to mention that the acts of sovereignty and jurisdiction of Honduras over the said Swan Islands are reaffirmed by administrative provisions passed on the recording of land titles by the Government of Honduras in 1907, in execution of the Award of His Majesty the King of Spain of December 23, 1906 . . . the Swan Islands thus remaining in Honduras, as is understood”.

A reference to the Award of the King of Spain is also made in the 1923 note. A perusal of the Award reveals that it refers solely to the land boundaries between Honduras and Nicaragua. It provides that:

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<sup>13</sup> Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 5, p. 671.

<sup>14</sup> *British and Foreign State Papers*, vol. c, p. 1096.



"The extreme boundary point on the coast of the Atlantic shall be the mouth of the river Coco, Segovia or Wanks in the sea near Cape Gracias á Dios, considering as the mouth of the river that of its principal channel between Hara and the island of San Pío where is found the said Cape, Honduras retaining the islets or keys existing within the said principal channel before reaching the bar, and Nicaragua keeping the south shore of the said principal mouth with the above mentioned island of San Pío and also the Bay and town of Gracias á Dios and the channel or inlet called Gracias which goes to the Bay of Gracias á Dios between the continent and the above mentioned island of San Pío.

"From the mouth of the Segovia or Coco the border line will follow the midstream or thalweg of this river upstream without interruption as far as the point of its confluence with the Poteca or Bodega and from that point the said border line will leave the Segovia River continuing along the midstream of this said tributary Poteca or Bodega and continuing upstream until its junction with the Guineo or Nomasli River.

"From this junction the border line will take the direction corresponding to the demarcation of the place of Teotecacinte in accordance with the delimitation made in 1720, ending in the Pass of Teotecacinte, in such manner that the said place remains wholly within the jurisdiction of Nicaragua."

The precise terms of the Award limit its effect to "the extreme boundary point on the coast of the Atlantic". It does not appear that the Award has any bearing on the question of the sovereignty over the Swan Islands.

The 1923 Honduran Note states:

"Even in 1912 the Government of Honduras was deeply interested in the administration of the Swan Islands but could do nothing in that respect at that time, nevertheless those islands were not outside the realm of law as the Civil Code, the Customs Code, the Police Regulations and the regulations governing control over ports contain provisions relative to permission to disembark only in ports opened for such purpose, and disembarking at other points of the coasts incur penalties for those responsible, except in special cases. In this sense disembarking on the aforementioned islands is prohibited."

Neither the texts of the laws and regulations referred to in the above quotation, nor of the administrative provisions passed on the recording of land titles by the Government of Honduras in 1907 in execution of the award of the King of Spain, have been furnished, and it is not shown that they specifically mentioned Swan Islands. It is probable that here, as elsewhere, it is merely assumed that they covered these islands. However, even if these various measures had in terms been made applicable to Swan Islands, such action would have had no validity since at the time the islands were under the sovereignty of the United States.

The 1923 note mentions and the Honduran report contains the text of a letter dated March 8, 1861 addressed by the Commandant at Trujillo to the firm of W. Guild and Company of Belize, in which the Commandant stated that he had information that guano existed in considerable quantities in "Santanillas" Islands; that to verify this he was sending a commission to examine them and that if the information turned out to be correct there would be another product to offer to the company. It does not appear that the matter was further developed with the company. While this letter would indicate that the Commandant thought that Santanilla (Swan) Islands were within the jurisdiction of Honduras, it would not, of course, have the effect of placing the islands under Honduran jurisdiction if, at the time, such jurisdiction did not in fact exist.

It is stated in paragraph (f) of the 1938 note that "It would be proper to note, among other acts of jurisdiction, that in March 1861, military authorities from Trujillo sent a commission to reconnoiter the Santanilla Islands, then so called, now Swan Islands . . .". Details of the expedition are not given. It cannot be conceded that a "reconnoitering" expedition would have any particular bearing on the question of sovereignty. Furthermore, at that time the islands were occupied by American citizens and had been for several years.

Elsewhere in the Honduran case references are made to concessions stated to have been granted to certain individuals for the exploitation of the Swan Islands, but there is no evidence that any of the alleged concessionaires actually occupied, or exploited, or even landed on the islands. In the 1923 note it is set forth that:

"According to the data of Major Edward A. Burke, who was in the employ of the Government of Honduras in 1903 and 1904, making investigations in the national archives, there existed in the years 1835 to 1837 a concession for the right to exploit mineral phosphates and guano for a certain number of years in the Swan Islands granted to an American company."

The 1923 Report states that the information concerning this concession was contained in a letter of August 15, 1921, from Major Burke to the Honduran Minister for Foreign Affairs. The authors of the report state that they were unable to find the documents to which Major Burke refers. The other concessions referred to, namely, one granted on September 1, 1854 to Augustin Follin for the purchase of unappropriated lands of the state, including those on islands, and another granted May 28, 1888, to Jacobo Baiz for the exploitation of guano on islands belonging to the state, do not name Swan Islands specifically, and the assumption that the concessions included the Swan Islands is not warranted.

The origin of the claim of Honduras over Swan Islands is based upon the assertion that they were discovered by early Spanish

explorers or navigators. As has already been noted, the Legation's note of October 4, 1938 states that "titles of dominion and possession of Honduras over the Swan Islands, as part of the territory composing it, descend from the time immemorial when Spain discovered and took possession of the said islands". The Honduran Government admits that the date of the discovery and the name of the discoverer are not known.

It is probable that the islands were first seen by Spanish subjects. However, no evidence has been submitted establishing that possession was ever taken of the islands. In fact it has nowhere been established in the Honduran presentation of the case that either Spain, Honduras, or any intervening government ever took possession, occupied, or exercised dominion over Swan Islands prior to the acquisition of sovereignty thereover by the United States. The Government of the United States cannot admit that sovereignty is acquired by discovery alone.

Not only do the modern authorities on international law recognize that discovery alone is not sufficient to confer sovereignty, but this was also recognized by earlier authorities.

Grotius in *Mare Liberum*, written in 1608, states that "to discover a thing is not only to seize it (*usurpare*) with the eyes but to take real possession of it. The grammarians accordingly use discover (*invenire*) and occupy (*occupare*) as having the same meaning. Natural reason, the precise words of the law, and the interpretation of scholars all show clearly that discovery suffices to give a title of lordship only when it is accompanied by possession".

Vattel states that "Thus, navigators going on voyages of discovery, furnished with a commission from their sovereign, and meeting with islands or other lands in a desert state, have taken possession of them in the name of their nation, and this title has been usually respected, provided it was soon after followed by a real possession."<sup>15</sup> (Underlining supplied.)

It is believed that it will be of particular interest also to consider the following statement made by King Charles I of Spain in a letter written in 1523 to D. Juan de Zuniga, "pues estaba manifiesto que hallar requeria aprension, y no se decia ser hallado lo que no fue tomado ni aprendido, aunque fuese visto ó descubierto" (*Colección de los viages y descubrimientos que hicieron por mar los españoles coordinada é ilustrada por D. Martín Fernandez de Navarrete; Madrid, Imprenta Nacional, 1837, Tome IV (Expediciones al Maluco, P. 316)*). ("it was thus manifest that to find required seizure, and that which was not taken or seized, was not said to be found, even though it were seen and discovered") (*Collection of voyages and discoveries made by sea by the Spaniards*, collected and illustrated by D. Martín Fernandez

<sup>15</sup> Emmerich de Vattel, *The Law of Nations* (Seventh American Edition, Philadelphia, 1849), p. 99.

de Navarrete; Madrid, National Press, 1837, Vol. IV (*Expedition to Maluco*, P. 316)). It is believed that great weight can properly be attributed to this declaration made by the Spanish Monarch at the very time when the Spanish explorations and discoveries were being carried out in the region where the Swan Islands are situated and during the epoch when it is contended by the Honduran Government that the islands were first discovered.

Attention is called to the arbitral decisions in the Clipperton Island case and the Palmas (or Miangas) Island case, respectively. Each of these cases involved issues substantially similar to those surrounding the case now under discussion with Honduras and in each instance discovery was alleged to have been made by early Spanish explorers. In each case the position was taken by the arbiter that discovery alone was not sufficient to establish sovereignty.

The first case involved a dispute between the Governments of France and Mexico to sovereignty over Clipperton Island. The arbitral award was rendered in Rome, January 28, 1931, by the King of Italy. The English text of this decision is printed in the *American Journal of International Law*, Volume 26 (1932), commencing on page 390. The arbiter decided that "the sovereignty over Clipperton Island belongs to France, dating from November 17, 1858". The decision contained the following statement:

"In law, it is opportune to examine, in the first instance, the principal thesis maintained by Mexico that Clipperton Island already belonged to her before France had proclaimed her sovereignty over the said island. If this claim should be recognized as founded, it would be necessary to conclude that the occupation of the said island by France was unlawful.

"According to Mexico, Clipperton Island, which had been given the name of the famous English adventurer who, at the beginning of the 18th century, used it as a place of refuge, was none other than Passion Island, called also Medano or Medanos Island, that this island had been discovered by the Spanish Navy and, by virtue of the law then in force, fixed by the Bull of Alexander VII, had belonged to Spain, and afterwards, from 1836, to Mexico as the successor state of the Spanish state.

"But according to the actual state of our knowledge, it has not been proven that this island, by whatever name one may call it, had been actually discovered by the Spanish navigators. That they might have known it before the log-books on board the French vessels *La Princesse* and *La Découverte*, dated in 1711, had identified and described it, is a conjecture more or less probable, but from which one cannot draw any decisive argument. However, even admitting that the discovery had been made by Spanish subjects, it would be necessary, to establish the contention of Mexico, to prove that Spain not only had the right, as a state, to incorporate the island in her possessions, but also had effectively exercised the right. But that has not been demonstrated at all. Mexico produces to support her thesis a geographical map printed from the Archives of the Mexican Society of Geography and

Statistics, where the island figures as comprised within the 'Political and Military Governments of Spain in North America.' But the official character of this map cannot be affirmed, because it is not certain that it was drawn by order and under the care of the state, or because the manuscript memorandum which one reads there, namely, that it was used at the Royal Tribunal of the Consulate of Mexico, does not confer official character upon it.

"Moreover, the proof of an historic right of Mexico's is not supported by any manifestation of her sovereignty over the island, a sovereignty never exercised until the expedition of 1897; and the mere conviction that this was territory belonging to Mexico, although general and of long standing, cannot be retained.

"Consequently, there is ground to admit that, when in November, 1858, France proclaimed her sovereignty over Clipperton, that island was in the legal situation of *territorium nullius*, and, therefore, susceptible of occupation."

The other case which was submitted to the Permanent Court of Arbitration involved a dispute between the Governments of the United States and the Netherlands to sovereignty over the Island of Palmas (or Miangas). The arbiter, Mr. Max Huber, rendered his opinion on April 4, 1928 awarding the island to the Netherlands. The arbiter in his decision in part stated that "the title of discovery . . . would, under the most favorable and extensive interpretation, exist only as an inchoate title, as a claim to establish sovereignty by effective occupation. An inchoate title, however, cannot prevail over a definite title founded on continuous and peaceful display of sovereignty". The English text of the opinion in this case is printed in the *American Journal of International Law*, Volume 22 (1928), commencing on page 867, and also in *The Hague Court Reports* (second series) of the Carnegie Endowment for International Peace, commencing on page 81 [83].

The Honduran Report of 1923, contains the following statement:

"Although the note of the American Legation of August 11, 1921,<sup>16</sup> says that American citizens discovered the Swan Islands and have remained in full possession since, the same note implicitly admits that the said islands do not belong to the United States since it is stated that 'in the opinion of this Government it would be very easy to arrive at a satisfactory settlement of the dispute between the two Governments if Honduras refrained from any attempt to take possession of the islands, thus maintaining for the present the *status quo*'. If the United States tried to defend the Swan Islands as being its own territory, it would not have offered the settlement that is found in the note."

Obviously, the proposal of this Government was made solely for the purpose of avoiding the development of a situation which might

<sup>16</sup> Honduras, *Memoria de la Secretaria de Estado en el Despacho de Relaciones Exteriores* . . . 1920-1921 (Tipografía Nacional, Tegucigalpa, 1922), p. 200.

affect adversely the harmonious relations of the two Governments, and it cannot be admitted that it implied an abandonment of the claim of this Government to sovereignty over the islands.

Paragraph (*j*) of the Legation's note of October 4, 1938 states:

"(*j*) Finally, referring to the view made public that the United States bases its sovereignty over the said Swan Islands on an opinion of the Department of Justice issued in 1925, I would take the liberty to indicate, without desiring to abuse Your Excellency's recognized kindness, that the Secretary of the Navy expressed the opinion on February 8, 1918 (Op. 216) that the United States had not acquired sovereignty of any nature over the said Swan Islands and that the law of August 19 (18), 1856, known as the Guano Island Act, which is invoked by the Opinion of 1925, only refers to discoveries of deposits of guano on islands, rocks, promontories, or keys which 'are not within lawful jurisdiction of any other Government, and are not occupied by the citizens of any other Government', wherefore, and in view of the facts noted above, the sovereignty of the United States could not be extended over the said Swan Islands."

The opinion of February 8, 1918, referred to in this paragraph of the note of October 4, 1938 was not as stated an opinion of the Secretary of the Navy but was one given by the Attorney General of the United States at the request of the Secretary of the Navy. It is printed in Volume 31, Opinions of the Attorney General, commencing on page 216. In giving this opinion, the Attorney General relied on the statement of facts, subsequently found to have been incomplete, as submitted to him and it was rendered without knowledge of the certificate of February 11, 1863 issued on behalf of the President of the United States by Secretary of State Seward pursuant to the provisions of the Guano Act of 1856. (The facts with regard to the issuance of this certificate are given elsewhere in this communication.) Speaking then, without knowledge of the issuance of the certificate, the Attorney General says:

"It nowhere appears, however, that any executive action was taken by the President or on his behalf, through the Secretary of State, at any time, which could be construed as an exercise of the discretion conferred upon the President by the Act of August 18, 1856, such as to amount to a declaration that the Swan Islands were considered as appertaining to the United States."

However, the Attorney General also said, after reviewing the history of the occupation of the islands by American citizens:

"These facts and circumstances are sufficient in my opinion to warrant the statement that no other country has any proper claim to these islands, and that the United States Government may at any time assert its sovereignty over them by appropriate action."

The matter was re-submitted to a later Attorney General whose attention was called to the certificate of Secretary of State Seward

of February 11, 1863. In an opinion dated June 24, 1925 (34, Opinions Attorney General, 507),<sup>17</sup> the Attorney General after reciting the history of the occupation of Swan Islands by American citizens and the pertinent actions of the Government of the United States with respect to the island held that "the dominion of the United States Government was extended over the Swan Islands by the President, as evidenced by the certificate of Secretary Seward, dated February 11, 1863, and that the sovereignty of the United States attached to said islands as of that date."

A copy of the opinion of the Attorney General of June 24, 1925 is attached as Annex A.<sup>18</sup>

The Act of Congress of the United States of August 18, 1856 (Chapter 164, 11 U. S. Statutes at Large, page 119), known as the Guano Act, which is also contained in sections 5570 to 5578 of the Revised Statutes of the United States and, as amended, is also printed in Title 48 of the U. S. Code, sections 1411-1419, provided the method by which jurisdiction may be acquired and the dominion of the United States extended over unoccupied and unclaimed islands containing guano deposits. It provides certain conditions which must be complied with by the discoverer of guano, or those claiming through him, and when such conditions have been complied with the President may in his discretion consider the same as appertaining to the United States.

For the information of the Honduran Government, the text of the Guano Act of 1856 is attached as Annex B. Section one of the act provides:

"Whenever any citizen of the United States discovers a deposit of guano on any island, rock, or key, not within the lawful jurisdiction of any other government, and not occupied by the citizens of any other government, and takes peaceable possession thereof, and occupies the same, such island, rock, or key may, at the discretion of the President, be considered as appertaining to the United States."

Following the passage of the Guano Act, a claim to Swan Islands was presented to the Department of State in a letter from Joseph W. Fabens, dated May 19, 1857, in which he stated that he had discovered deposits of guano thereon; that he and his associates were desirous of organizing a company to bring away the guano deposits on the islands referred to and inquired concerning the steps to be taken in order that he and his associates might be entitled to occupy the islands in question. The Secretary of State, under date of May 25, 1857, requested the opinion of the Attorney General as to the proper con-

<sup>17</sup> Also printed in *Foreign Relations*, 1927, vol. II, p. 532.

<sup>18</sup> Annexes not printed here.

struction to be placed upon the Act of August 18, 1856, particularly as to the time when and the extent to which alleged discoverers of guano may fairly request intervention of the President. The Attorney General in an opinion dated June 2, 1857 (9, Opinions Attorney General, page 30) enumerated the facts upon the establishment of which the President might consider an island as appertaining to the United States and protect the rights of the discoverer thereof. The opinion of the Attorney General was brought to the attention of Fabens, and on the 18th of June, 1857, Joseph W. Fabens and Charles Stearns wrote to the Department of State transmitting affidavits of George V. White and Samuel E. Stearns, together with an assignment of their rights in the islands to Fabens and Charles Stearns, and an associate, General Duff Greene. The affidavit of White, dated June 16, 1857, set forth that on the third day of April 1857 he had landed on Swan Island, where he had found "certain deposits of guano and accordingly took possession of the same in the name of the United States according to the provisions of the Act of Congress relative to guano discoveries." The affidavit of Samuel E. Stearns, dated June 17, 1857 corroborated the evidence submitted by George V. White. Subsequently Joseph W. Fabens, Charles Stearns and Duff Greene created a corporation under the laws of the State of New York by the name of the "Atlantic and Pacific Guano Company", in which company was merged all their rights, title, and interest in and to the Swan Islands and the guano deposits thereon. There are several reports in the Department's files showing that the company was engaged in shipping guano from the Swan Islands during the year 1858.

The Atlantic and Pacific Guano Company by deed of October 4, 1862, conveyed its interests in the islands to George I. Crooker, who, by deed dated October 6, 1862, conveyed the title thereto to the New York Guano Company, a corporation organized under the laws of the State of New York. Fabens and his wife quitclaimed their interest on November 24, 1862, to the New York Guano Company. The latter company in December 1862 presented its bond to the Department and asked for recognition under the Act of August 18, 1856. On January 31, 1863 the Department received from the New York Guano Company additional affidavits, maps, and papers in support of the company's claim. There was included an affidavit executed December 31, 1862 by Thomas P. Morgan, stating that in August 1858 he assisted Lieutenant George T. Sinclair, United States Navy, who was stated to have been detailed for the purpose by the Navy Department, and Thomas Walter, chemist, in making a survey of the Swan Islands and that Lieutenant Sinclair estimated the quantity of guano to be in excess of three million tons, yielding from forty to sixty-nine per cent of phosphate of lime. Included in the documents submitted were transcripts from the log of the schooner *Harry Maybee*, which had



been sent to the Swan Islands, in which there is contained a detailed account of the activities of the representatives of the Atlantic and Pacific Guano Company in extracting guano covering the period January 28, 1857, to March 18, 1858. Honorable William H. Seward, Secretary of State, under date of February 18, 1863, in response to a communication of February 10, 1863 from V. A. Baldwin, regarding the recognition of the claim of the New York Guano Company, stated as follows:

"I have to acknowledge the receipt of your letter of yesterday relative to the recognition of the claim of the New York Guano Company to the guano on Swan Islands and in reply to transmit herewith a certificate under the seal of the Department on the subject."

The certificate referred to, a copy of which is in the possession of the Department, reads as follows:

"To all to whom these presents shall come, Greeting:

"I certify that the New York Guano Company have filed in this Department satisfactory proof of their claim to the guano on great and little Swan Islands in the Caribbean Sea as the assignees of the original discoverers; have filed the bond, and taken the steps required by the Act of Congress of the 18th of August 1856 entitled 'An Act to authorize protection to be given to citizens of the United States who may discover deposits of guano.'

"In testimony whereof I have hereunto set my hand and caused the seal of the Department of State to be affixed at Washington, this 11th day of February in the year of our Lord eighteen hundred sixty-three."

The Supreme Court of the United States has held (*Jones v. United States*, 137 U. S. 202, 217, 222) that the act of the Secretary of State in issuing a proclamation (or certificate) of this nature is in legal contemplation the act of the President, under the first section of the Guano Act of 1856, and that the proclamation (or certificate) is considered as equivalent to a declaration that the President considered the island or islands covered thereby as appertaining to the United States.

Subsequently, the rights of the New York Guano Company were transferred to John M. S. Williams by deed of October 13, 1870; by Mr. Williams and wife to the Pacific Guano Company by deed of December 18, 1882, and by William E. Stowe and Charles E. Morrison, assignees and trustees for the benefit of the creditors of the Pacific Guano Company (under an assignment made by the Corporation to John C. Ropes on February 7, 1889) to Warren K. Blodgett, of Cambridge, Massachusetts, by quitclaim deed of December 4, 1895. Mr. Blodgett in turn conveyed his interests to the Albian Chemical Exporting Company of Boston by deed of July 1, 1902.

On March 14, 1904 there was filed with the Secretary of State the sworn statement of Alonzo Adams with regard to the abandonment of the Swan Islands on February 5, 1904 by the Albian Chemical

Export Company by whom he had been employed as manager on the islands and the repossession and occupation of the islands by him on the following day. On November 27, 1908 Adams conveyed his rights to the Swan Islands Commercial Company of Boston, Massachusetts, a corporation organized under the laws of the State of Maine. On May 1, 1922 the Department of State received from the firm of Dunbar, Nutter and McClennen of Boston, Massachusetts, a copy of a deed of conveyance by which the Swan Island Commercial Company assigned its interest in the island to the Swan Island Trustees.

In addition to the utilization of Swan Islands for the extraction of guano, the raising of coconuts and other purposes by the various owners referred to above, the records of the Department of State indicate that the Tropical Wireless Company, a subsidiary of the United Fruit Company, erected a wireless telegraph station on the islands early in 1908, which operated until 1927, when the wireless station was abandoned. It is understood, however, that the United Fruit Company has since that time regularly employed a caretaker to protect its property remaining on the islands.

Additional information with regard to occupation of the islands by American citizens is found in a letter of August 19, 1922, from Captain Martin Anderson of Brooklyn, New York, who stated that "In the year of 1887, month of July, I shipped as sailor in Mobile, Alabama, on the schooner *Moskito*, owned by a Boston company. We went to Swan Island with general cargo and provisions for the working men who worked on the island—300 men. The Island and schooner was owned by the Company and the American Flag was flowing on the island at that time Captain Adams of the *Moskito* was the superintendent in charge"; and in a letter dated August 31, 1922 from Mrs. Grace Rowley Parker, Bradentown, Florida, who stated "In February 1901, my husband, H. A. Parker (see *Who's Who in America*, 1910) and daughter landed at Swan Island—the western one. Captain Adams was there with eight colored men and the U. S. flag was flying. It was flying every day we were there, and it was Captain Adams' constantly expressed pride that he would hold the island for the United States."

In addition to the foregoing evidence of effective occupation of the Swan Islands by American citizens, there have been a series of acts and statements by the Government of the United States since the issuance of the certificate of February 11, 1863 which conclusively establish the animus of this Government to retain its sovereignty over the Swan Islands.

The Secretary of the Treasury issued, on February 12, 1869, Customs Circular No. 1, relative to the guano islands appertaining to the United States, which contained a list of such islands bonded under the Act of August 18, 1856, including the Swan Islands. The Customs Cir-

cular contained the statement that "as the laws of the United States forbid foreign vessels in engaging in the coasting trade and as commercial intercourse with these islands thus form a part of said trade, you are hereby requested to use all due diligence to prevent the infraction of any law or regulation upon that subject."

In a letter from the Treasury Department to the Collector of Customs at Key West, dated September 14, 1893 it was stated that the Treasury Department had considered the question of the liability to duty of tobacco imported from the Swan Islands and that the Solicitor of the Treasury Department had expressed the opinion that "as the said islands had been taken possession of under the provisions of Section 5570 Revised Statutes and the conditions of law complied with, they appertain or belong to the United States and are under its exclusive jurisdiction . . ." The Collector of Customs was authorized to admit tobacco grown on the islands free of duty.

It will also be of interest to the Government of Honduras to know that the Committee of Commerce of the United States Senate in considering a bill for the establishment of a lighthouse on the Swan Island submitted a report dated April 2, 1896,<sup>19</sup> in which it was stated in part:

"As to the political phase of the question: The Swan Islands are guano islands, and as such were the first islands taken possession of by citizens of the United States after the passage and under the provisions of the act of Congress in relation to such islands, enacted in 1856. The United States, through Mr. Seward, the then Secretary of State, proclaimed in February, 1863, that those islands were under the protection of the United States. In the technical phrase of the act they are 'islands appertaining to the United States;' and they have for forty years been owned and continuously inhabited and operated by citizens of the United States. They are now owned by Mr. Warren K. Blodgett, of Boston, Mass."

Vessels of the United States Navy have on a number of occasions carried out surveys of Swan Islands. The official records of this Government indicate that in May 1911 the U. S. S. *Paducah* surveyed the Swan Islands to determine their true geographic position, at which time a report was submitted with regard to the operation of a light which was located on one of the masts of the wireless station and on the location of a flagpole on the island. It was also reported by the commanding officer of this vessel that an American company had a resident manager residing on the island at that time. In addition, the U. S. S. *Hannibal* carried out survey operations in 1913 on behalf of the Hydrographic Office of the United States Navy. The island was again visited in 1920 by the U. S. S. *Ballard* which reported at that time that the island was occupied by eight radio operators, ten

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<sup>19</sup> Senate Report No. 606, April 2, 1896, 54th Cong., 1st sess.

laborers and a caretaker and his family, and that vessels of the United Fruit Company called at the islands every three weeks with stores and provisions for the personnel stationed there. In 1922 the U. S. S. *Hannibal* reported that a meteorological station was being operated by the radio personnel stationed on the island, furnishing daily weather reports. It was also reported that "the United States Weather Bureau has established the following benchmarks: (a) a cross chiseled on the top of the west corner of foundation of S. W. radio tower which is called the reference plan and is 27.52' above mean sea level; (b) flange of concrete forming N. W. corner of radio operating room nearly on a level with the ground—0.68' above (a)."

Another instance of the exercise of sovereignty by this Government over Swan Islands arose from a report received in September [April] 1911 from the then British Ambassador in Washington, Lord Bryce, that certain British subjects residing on Swan Islands had complained of ill treatment. At that time it was proposed by the British Government to send a warship to the islands for the purpose of conducting an investigation of the complaint. Following the discussion of the subject between the Department of State and the British Embassy, the British Government canceled its plan to send a vessel to Swan Islands and the Navy Department of the United States Government despatched the United States steamship *Wheeling* to the islands in October of the same year. The report of the commanding officer of the United States steamship *Wheeling* stated that the Swan Island Commercial Company was then occupying the islands and that Messrs. W. A. Brooks and W. Cole Adams resided on the islands from time to time, together with their families. The company was represented at the time of the visit of the U. S. S. *Wheeling* by a foreman who had under his charge a number of laborers. The American flag was found by the United States steamship *Wheeling* to be hoisted on the flagstaff on the islands. The report further stated that the company was planting the Western Island in coconut groves and coconuts were being exported on vessels of the United Fruit Company. In addition the company was exporting satin-wood. It was also found that the United Fruit Company maintained two American employees on the islands for the operation of its wireless station.

Following the establishment of the wireless station on the Swan Islands by the Tropical Wireless Company, the Weather Bureau of the United States Department of Agriculture established in June 1914 a meteorological observation station which was maintained until August 31, 1927 when its abandonment became necessary because of the closing down of the wireless station. The meteorological station was reestablished by the Weather Bureau in August 1928 through an arrangement with the United Fruit Company and was maintained until 1932 when it was again discontinued for administrative reasons.

As the Government of Honduras is aware, the station was again established in August of 1938 for the carrying out of meteorological observations during the hurricane season.

It is believed that the foregoing discussion has served to correct certain assumptions contained in the Honduran notes under reference, which appear to have been made with insufficient basis or justification. The geographic location of the islands is in itself a refutation of any Honduran claims based on the extension of territorial jurisdiction on the grounds of contiguity. The various administrative measures, treaties, decrees and concessions referred to in the Honduran notes contain no reference to Swan Island and therefore have no bearing on the question. No evidence has been submitted establishing that, prior to the extension of the sovereignty of the United States over Swan Islands, Spain, Honduras, or any intervening government ever took possession or exercised any act of dominion over the islands, or that the nationals of such governments ever occupied or used the islands. No basis is found in the case as presented for the claim of Honduras to sovereignty over Swan Islands.

The islands have been in effective use and occupation by American nationals since 1857 and have been under the dominion and sovereignty of the Government of the United States since February 11, 1863.

In the light of the attending facts in the case, the Government of the United States is impelled to reaffirm its title to sovereignty over Swan Islands and to deny that Honduras has a valid claim to sovereignty over the islands. With the complete knowledge of the facts, it is very earnestly hoped that the Government of Honduras will concur in the conclusions reached.

Accept [etc.]

For the Secretary of State :  
SUMNER WELLES

## MEXICO

### NEGOTIATIONS BETWEEN THE UNITED STATES AND MEXICO REGARDING A GLOBAL SETTLEMENT OF CLAIMS ARISING FROM MEXICAN LAND EXPROPRIATIONS<sup>1</sup>

812.52 Agrarian Commission/113a

*The Under Secretary of State (Welles) to the American Commissioner, Agrarian Claims Commission (Lawson)*

WASHINGTON, January 9, 1940.

SIR: There is enclosed for your information a copy of an *aide-mémoire* which I handed to the Mexican Ambassador<sup>2</sup> on November 24, 1939<sup>3</sup> in connection with my conversation with him on that day, regarding the inclusion in the settlement by the Agrarian Claims Commission, United States and Mexico, of the claims of American citizens who were stockholders in Mexican corporations whose lands were expropriated under the Mexican agrarian laws subsequently to August 30, 1927.

In a conversation with me on December 11, 1939<sup>4</sup> the Mexican Ambassador agreed, conditionally, to the procedure proposed in the *aide-mémoire*. On December 30, 1939, he agreed to that procedure.

I would therefore request that, at the earliest practicable moment, you confer with your Mexican colleague on the Agrarian Claims Commission, United States and Mexico, with a view to making suitable arrangements for him to examine the claims as rapidly as possible with a view to determining their proper amount.

It is the understanding that the claims will be individually examined by you and your Mexican colleague and that you will endeavor to agree upon proper appraisals as to the amount of losses or damages sustained by the claimants in each case and without regard to the technical points regarding liability which have been raised by the Mexican Government, such as the status of the claims of American stockholders in Mexican corporations, tax assessment valuations, et cetera.

The purpose of this arrangement is to lay the foundation for a settlement of these claims for a total sum, as is desired by the Mexican Gov-

<sup>1</sup> For previous correspondence concerning these claims, see *Foreign Relations*, 1939, vol. v, pp. 654 ff.

<sup>2</sup> Francisco Castillo Nájera.

<sup>3</sup> *Foreign Relations*, 1939, vol. v, p. 659.

<sup>4</sup> For memorandum of conversation, see *ibid.*, p. 664.

ernment, and as would be agreeable to the United States provided, of course, that such total sum were sufficient to cover a reasonable appraisal of the claims and not involve the scaling down of one class at the expense of another class or other classes.

Please inform the Department as soon as you conveniently may of the result of your conference with the Mexican Commissioner. As soon as this phase of the matter is adjusted the Department desires to make further representations to the Mexican Government with a view to the solution of such related questions as the adjustment of agrarian claims which arose too late for presentation to you prior to July 31, 1939, or which arose after that date.

Very truly yours,

SUMNER WELLES

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812.52 Agrarian Commission/114

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

EL PASO, TEXAS, January 16, 1940.

[Received January 17.]

SIR: There has been received under date of January 9, 1940, from the Honorable Under Secretary of State Sumner Welles, a communication concerning conversations with the Mexican Ambassador on the subject of Mexican agrarian claims and there was transmitted copy of an *aide-mémoire* on the same subject according to the understanding had with the Mexican Ambassador. It is proposed that the claims presented by Americans whose lands have been expropriated, and which claims are now being checked and abstracted by the American Section of the Claims Commission, will be individually examined by the American and Mexican Commissioners and that an endeavor will be made to agree upon proper appraisals as to the amount of losses or damages sustained by the claimants in each case and without regard to the technical points regarding liability which have been raised by the Mexican Government, such as the status of claims of American stockholders in Mexican corporations. The purpose of this arrangement is stated to be as laying the foundation for a settlement of these claims for a total sum, providing that such sum were sufficient to cover and not involve the scaling down of one class at the expense of another class or other classes.

This office recommends that if the Mexican Commissioner agrees to the acceptability of such a plan, and it may be assumed that he will receive a similar request, that the complete claims as originally planned to be presented by the American Section be briefed and submitted to the Mexican Commissioner in a form which would show the claimants, their proven nationality, locations of the tracts, acreages, and amounts

claimed for various items of the claim. The reason for this suggestion is that many claims contain in their original form what may be objectional matter and some contentious and provocative statements. The Agrarian Department of the Mexican Government has of record, of course, descriptions and other data as to these claims and undoubtedly by the use of the notices furnished the Mexican Section of the Claims Commission by the American Section has checked and examined descriptions and other details.

Commissioner Serrano has in the past several months been actively engaged as Director of the National Irrigation Commission of Mexico in the supervision of a large construction program, and attempts to reach him through his Juarez office show that he will for the next week or ten days be occupied in Mexico City on budget matters. On next Monday, January 22, there convenes in El Paso a board of engineers which will require my personal attention for final report on the Lower Rio Grande water conservation matters, carrying out the request of Congressman Milton West. I should be in a position to go to Mexico City about February 1 for a meeting with Commissioner Serrano unless he will have concluded his appropriation and budget matters and arrives at the Juarez office before that time.

Pending the settlement of the time and place of such an early conference with the Mexican Commissioner, it would be appreciated if the Department will advise relative to the form of claims presentation as referred to above.

Very truly yours,

LAWRENCE M. LAWSON

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812.52 Agrarian Commission/119

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

[WASHINGTON,] February 5, 1940.

MR. DUGGAN: The Mexican Ambassador told me this afternoon that he had received a personal letter from President Cárdenas in which the President stated that Mr. Lawson had now presented to Mr. Serrano the list of American claims, but had not indicated in any way the amount claimed in each instance, nor had he presented any supporting evidence as to the validity of the claims or any other form of documentation.

President Cárdenas requested that Mr. Lawson be instructed to take up with Mr. Serrano each claim and that he be empowered to discuss informally with Mr. Serrano the amount which would be regarded as satisfactory compensation, as well as to discuss such questions as the validity of the claim, the nationality of the claimant, et cetera. President Cárdenas said that if we were going to take up for consideration



a global payment, he did not see how this could be accomplished unless our Commissioner were prepared to discuss fully and informally with the Mexican Commissioner the details above indicated with regard to each specific claim.

Let me have your opinion as quickly as possible with regard to the procedure so suggested.

I feel, as I know you do, that the determination of this matter should be expedited as much as possible.

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812.52 Agrarian Commission/119

*The Secretary of State to the American Commissioner, Agrarian Claims Commission (Lawson)*

WASHINGTON, February 10, 1940.

SIR: Having reference to the Department's communications of January 9 and January 26, 1940<sup>5</sup> and the enclosure with the former, there is herewith enclosed for your further information in that connection a copy of a memorandum of conversation of February 5<sup>6</sup> with the Mexican Ambassador during which he indicated that the Mexican Government is not entirely satisfied with the information regarding individual claims which is being given by you to the Mexican Commissioner.

It is presumed that the letter from President Cárdenas, to which the Mexican Ambassador referred, was written before any action was taken by you pursuant to the suggestions made in your letter of January 16, and in the Department's letter of January 26 and is therefore not applicable to your present course of action. With a view, however, to clarifying the matter, the Department offers you the following explanation of its proposed procedure.

As indicated in the *Aide-Mémoire* which accompanied the above-mentioned communication of January 9, it was orally agreed that the two Commissioners should proceed to evaluate the damages caused American nationals by the expropriation of lands in which they were interested, but without any discussion of those technical principles of law relating to international liability, the right to diplomatic protection, et cetera, concerning which the two Governments have thus far reached no definite understanding. As indicated in the Department's communication of January 26, it was thought that a procedure, which would be appropriate and at the same time be agreeable to you, would be for you to submit to the Mexican Commissioner, as a basis for discussion, a brief abstract of the facts of each case including therein such data as the following:

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<sup>5</sup> Latter not printed.

<sup>6</sup> *Supra.*

- (a) Name of claimant, with statement of facts concerning his status as an American national.
- (b) Date of acquisition of the lands affected.
- (c) Location and description of the land affected.
- (d) List, with dates, of the decrees or other official acts by which the affectations were brought about.
- (e) Computation of damages caused by the affectations.

Such data should enable the Mexican Commissioner to check all necessary facts to determine the amount of damages involved in particular cases so that, when the two Commissioners shall have checked all claims in that manner, the two Governments will have been provided with an evaluation of all of the claims thus enabling them to proceed with discussions concerning an en bloc settlement of the claims without regard to the technical points mentioned above.

The enclosed memorandum of conversation indicates, however, that the Mexican Government expects the two Commissioners to discuss not only the amount of damages caused but also "such questions as the validity of the claim, the nationality of the claimant, et cetera", which are among the technical questions it has been agreed to put aside pending the conclusion of such a joint appraisal as is indicated above. In this situation, the Department is desirous of receiving a full and frank expression of your views concerning the proper course of action on the part of the two Governments and of the two Commissioners with a view to bringing about a settlement of the claims without the delays and difficulties which would attend a discussion of them on their individual merits in the manner suggested in the enclosure herewith.

Your prompt consideration of this matter would be greatly appreciated.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

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812.52 Agrarian Commission/124

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

[EL PASO, TEXAS,] February 13, 1940.

SIR: Under date of February 10 Under Secretary of State Sumner Welles, calling attention to the Department's communications of January 9 and January 26, 1940<sup>7</sup> on the subject of agrarian claims, United States and Mexico, enclosed for further information a copy of memorandum of conversation of February 5 with the Mexican Ambassador during which he indicated that the Mexican Government is not entirely

<sup>7</sup> Latter not printed.

satisfied with the information regarding individual claims which is being given by the American Commissioner to the Mexican Commissioner. As the Department has assumed, the presentations to the Mexican Section of the Agrarian Commission, beginning last March, were simple notices of the receipt of claims giving the name and location of such claims as they were received by the American Section. Such notices were delivered to enable the Mexican Section to begin their study of expropriation orders and to check with the records of the Mexican Agrarian Department of land takings. Such notices of course have no bearing or connection with the more recent plan of presenting briefs, including values of claims.

It is still believed and still apparent that with the present knowledge of the situation the Department has followed the most proper and logical course in withholding the actual claims from presentation to the Mexican Section pending a very definite agreement on the actual procedure to be followed.

This course is borne out by the last communication on the subject in which it is indicated that the discussion between the Commissioners will include technical questions, the elimination of which is so desirable. I appreciate the Department's reluctance to instruct me as suggested by the Mexican Ambassador's outline contained in Under Secretary Welles' memorandum to Mr. Duggan of February 5. To do so of course would invite this injection of technicalities so necessary to obviate, and which are apparently relied upon to eliminate certain claims.

With reference to the Department's communication of January 26 this office concurred in the procedure outlined which would, in lieu of originals or actual copies of claims, furnish the Mexican Commissioner, for discussion and evaluation only, brief abstracts of the facts with respect to the name of the claimant, location, area, and values of lands and improvements. Such data would enable the Mexican Commissioner to check all the essential facts in determination of the actual values involved and use such information as the Agrarian Department of his country has assembled and acquired.

Apparently from the memorandum of conversation of February 5 officials of the Mexican Government have undergone a change of ideas over those in the previous arrangement with the Mexican Ambassador as outlined in the *aide-mémoire* of January 9 [November 24] which accompanied the Department's letter of January 9 and the situation becomes cluttered by a disposition to evade the actual valuation work.

After some delay I have succeeded in making a definite appointment with Mexican Commissioner Serrano for next Saturday, the morning of February 17, and I will leave El Paso by train to arrive in Mexico City February 16. At such a conference it would be my

expectation to endeavor to obtain from Mr. Serrano just what limitations have been imposed upon his actions in evaluation and of course keep any commitments on my part within the confines of the Department's instructions. In the event that the Mexican Commissioner is not found to be in a receptive mood to the procedure and presentation of the claims in the approved briefed form, and based upon a certain belief that his concurrence will only be obtained with a very marked scaling down of values and with elimination of a large number of important claims, I respectfully suggest and recommend that the American Section proceed with its evaluation and report and that the results be presented to the Mexican Government for en bloc settlement.

A report will be made to the Department by code from Mexico City containing results of my conversations with the Mexican Commissioner on next Saturday morning.

Very truly yours,

LAWRENCE M. LAWSON

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812.52 Agrarian Commission/125

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

MEXICO, February 20, 1940.

[Received February 23.]

SIR: I have the honor to refer to the Under Secretary's letter of February 10, 1940 regarding additional difficulties which have arisen in determining a practical procedure for the adjudication of agrarian claims, and inviting a full and frank expression of my views regarding the proper course of action to bring about a prompt settlement. Reference is also made to my reply of February 13 regarding my proposed trip to Mexico City to consult with the Mexican Commissioner.

I arrived in Mexico City on February 16 at noon, and have had conferences with Commissioner Serrano on February 17 and this morning. . . .

While the Mexican Commissioner is agreeable to undertake the evaluation of claims before a definite agreement regarding technical questions is reached, it is my belief that these questions would be likely to arise in any joint consideration of individual claims and that, even if they should not arise at that time, the Mexican Government would be certain to raise them in subsequent negotiations with respect to the final settlement. It is also my belief that, whatever the form of presentation to the Mexican Section of the facts of individual claims, disagreement by the two Commissioners on any point, whether as to facts or technical legal matters, would be likely to result in the invok-

ing by the Mexican Government of the provisions of the agreement relating to decision of disputed points by a third Commissioner. In this latter respect, it is my belief that the present Administration in Mexico would welcome an opportunity, even that offered by reference of claims to a third Commissioner, to delay final action until after the incoming Administration assumes office in December.

It is, therefore, my considered opinion that further efforts should be made at this time to effect a definite agreement along the lines previously discussed and covering the several technical points which have arisen; and that, meanwhile, this Section continue its work of analysis of claims. It is expected that this phase of the work, which is essential to a proper appraisal of claims, will be completed by March 15.

It is also my considered opinion that even with an adequate agreement covering technical points which have arisen, differences as to facts and values will arise, with inevitable delay, if each claim is jointly considered by the two Sections. Accordingly, it would seem highly desirable that provisions be made for each Section to make an independent examination and appraisal of all claims and submit a separate report to its respective Government regarding the total values involved, such reports to serve as the bases for negotiations in Washington for an en bloc settlement. Such arrangements, coupled with an agreement on the disputed technical points, would remove the existing dangers involved in the presentation of claims to the Mexican Section and would, I believe, be the most practicable and expeditious manner of reaching a final settlement.

If arrangements of the above nature, i. e. for a definite agreement on disputed points and for independent appraisals by the two Sections, could be made by March 15 this Section would be ready by that date to proceed with its appraisal of claims, and at the same time to deliver claims to the Mexican Section for examination and appraisal. While it is difficult to state definitely, it is believed that this Section could complete the work of independent appraisal in about two months, beginning about March 15.

If arrangements of the above nature can not be made within a reasonable period, I would recommend that as soon as this Section is ready to begin the final appraisal of claims, now estimated at about March 15, the Mexico City office be closed and the appraisal work be carried on in El Paso with the view to the submission to the Department of a report regarding the amounts involved. At the same time the reduced staff handling this work could undertake the appraisal of properties which have been expropriated since July 31, 1939 and of those which may be expropriated in future in order that the Department may have full information regarding seizures of American-owned lands. To undertake such work in El Paso there would be a

requirement for the services of Executive Officer Winters, Secretary Scherer, Legal Assistant Shaner, Engineer Tighe and one or two others of the present staff.

Respectfully yours,

LAWRENCE M. LAWSON

812.52 Agrarian Commission/133

*The Mexican Under Secretary for Foreign Affairs (Beteta) to the American Ambassador in Mexico (Daniels)*<sup>8</sup>

[Translation]

52915

MEXICO, April 3, 1940.

MR. AMBASSADOR: I refer to Your Excellency's attentive note of December 6 of last year.<sup>9</sup>

In his recent trip to this capital, Doctor Francisco Castillo Nájera, Ambassador of Mexico in the United States of North America, presented to this Ministry a detailed statement regarding his most valuable (text has "ultimas") steps with the Department of State, a statement which I permit myself to transcribe integrally to Your Excellency:

"With reference to your telegram of December 8, 1939, and to your letter of the same date, as well as to the verbal consultations held with me in this connection regarding the scope of the statement that, on November 10, 1938,<sup>9a</sup> I made to Mr. Cordell Hull, Secretary of State of the United States, I must inform you that the statement under reference was made with a view to determining the treatment that would be received by agrarian affectations subsequent to those comprised in the agreement reached through the notes creating the Mixed Commission of Agrarian Claims. I said to Mr. Cordell Hull, that, with the authorization of my Government, I declared that affectations of lands belonging to American citizens made after the end of the work of the Mixed Commission of Agrarian Claims, would be decided as follows:

"The Government of Mexico would reach an agreement with the affected owners regarding the establishment of the amount of indemnization and the form of payment:

"That the compensation would be prompt, just and adequate:

"Finally, that if the Mexican Government and the owners should not reach an agreement, the case would bring about consultation of the Governments of Mexico and of the United States for the determination of the claimed (Spanish text: *repetida*) indemnization and the form of payment.

"Therefore, it is absolutely false that there existed an engagement not to make affectations, in the future, excepting with immediate

<sup>8</sup> Copy transmitted to the Department by the Ambassador in his despatch No. 10370, April 6; received April 8.

<sup>9</sup> See telegram No. 286, December 5, 1939, 7 p. m., to the Ambassador in Mexico, *Foreign Relations*, 1939, vol. v, p. 661.

<sup>9a</sup> Not printed.

indemnization, as is alleged by the Embassy of the United States in Mexico.

"My interpretation was discussed with Mr. Sumner Welles December 11, 1939, and later with Mr. Berle<sup>10</sup> in a conversation of February 24 [23] of the present year; on both occasions, I left a clear expression of the scope of the cited statement, adding that the latter cannot in any way modify the agreement concluded through the notes of November 9 and 12, 1938."<sup>11</sup>

I wish to express to Your Excellency that, in the belief of this Ministry, the statement transcribed made by Ambassador Castillo Nájera replies to the note of December 6, last, to which I referred hereinabove, and also clarifies, satisfactorily, the situation created through the several interpretations given to the conference that, on November 10, 1938, was held by His Excellency Mr. Cordell Hull and Ambassador Castillo Nájera.

I seize this opportunity [etc.]

R. BETETA

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812.52 Agrarian Commission/134

*The Department of State to the Mexican Embassy*

MEMORANDUM

The Mexican Government some months ago indicated a possible preference for a global settlement of claims presented by American citizens under the November 9-12, 1938 agreement.

This Government, desirous of giving practical effect to the agreement, is willing immediately to explore the possibility of such a global settlement, with the understanding that it can not, of course, scale down the reasonable values involved in any class or classes of claims. It is thought that the most expeditious and practicable procedure would be essentially as follows:

Each Government would proceed immediately and independently to assemble all data available to it relative to the properties seized and the amounts of damages involved, and on the basis thereof would determine the amount which in its considered opinion would represent a reasonable compensation to the American claimants.

This Government expects to have determined such an amount by April 20, 1940. In this connection, it is understood from statements made by the Mexican Ambassador to the Under Secretary of State on November 24, 1939,<sup>12</sup> that the Mexican Government has already made certain tentative estimates of the amounts involved in the claims; it is therefore hoped that on the basis of the data available to it, which it is understood include the records and surveys in connection

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<sup>10</sup> Adolf A. Berle, Jr., Assistant Secretary of State.

<sup>11</sup> For exchange of notes, see *Foreign Relations*, 1938, vol. v, pp. 714-719.

<sup>12</sup> *Ibid.*, 1939, vol. v, p. 660.

with the actual expropriations, the Mexican Government would be able promptly to determine the amount which it would propose as adequate to compensate the American claimants. In view of the knowledge it is presumed each Commissioner already has of the essential facts of each case, it is thought that this procedure would serve to avoid delay and unnecessary discussion or consideration of technicalities or details.

As soon as the two Governments reach independent conclusions as to the amounts involved, negotiations should be undertaken, preferably not later than April 30, 1940, to determine whether the difference, if any, between the two amounts so determined can be reconciled satisfactorily to both Governments and a global settlement reached.

If, as is hoped, such a global settlement of pending claims under the November 9-12, 1938 arrangement can be reached, a written agreement should be made setting forth the total amount to be paid by the Mexican Government and the amount (not less than one million dollars) to be paid annually.

The written agreement should also provide that the amount agreed upon is in full payment of all claims which have been properly filed by American citizens with the American Section of the Agrarian Claims Commission and of which informal "notices" have been supplied to the Mexican Section. In this respect it is understood that upon examination by the American Section a number of claims appear to be outside the Commission's jurisdiction under the November 9-12, 1938 agreement. Since such claims should be excluded from any global settlement under that agreement it would seem proper to request the two Commissioners to take such steps as they may deem appropriate to eliminate them from consideration in connection with the proposed settlement. It would be understood, of course, that in suggesting the elimination of claims of this nature this Government would reserve any right to present them as diplomatic claims.

The written agreement regarding a global settlement of claims now before the Agrarian Claims Commission should also include adequate provision for payment of compensation in the so-called "new cases", i. e., those which could not be presented to the Commission, because they arose at such a late date that it was impossible or impracticable for the owners to file claims on or before July 31, 1939, or because they have arisen since that date.

It would seem that these "new cases" of the two categories mentioned above should be examined by the two Governments, preferably by the two Commissioners designated under the November 9-12, 1938 agreement, with the view of reaching a separate agreement regarding the values involved and cash settlement in full. As a practical matter this Government would consent to this procedure despite a strong



conviction that at least in some instances "new cases"<sup>13</sup> have arisen in violation of the assurances given at the time and as a part of the November 9-12, 1938 agreement.

It will be expected, however, that as from today there will be full and adequate payment in cash prior to the expropriation or occupation of any further American owned lands.

WASHINGTON, April 9, 1940.

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812.52 Agrarian Commission/154

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

[WASHINGTON,] June 4, 1940.

The Mexican Ambassador called to see me today upon his return from Mexico. The Ambassador stated that President Cárdenas was very anxious to reach a prompt agreement on the agrarian claims. He urged that Commissioner Lawson be instructed to talk to Commissioner Serrano regarding the valuation placed by the American Government on the American agrarian claims and assured me that Serrano would be authorized to discuss immediately the reaching of an agreement for a global settlement without controversial discussion as to the various categories of the claims in question. The Ambassador said that the one difficulty was the fact that General Hay<sup>14</sup> was insisting that the conversations should take place in Mexico City in accordance with protocol and not in El Paso as suggested by this Government for reasons of convenience. I said it seemed to me that this was an unrealistic approach to the problem and that I earnestly hoped that since Serrano and Lawson were both in El Paso, the latter would be authorized to talk immediately with Lawson without bringing up the question of whether these conversations should take place in one spot or another. I said that if General Hay felt so strongly about the technical side of the question of the seat of the conversations, it would easily be possible for reasons of formality, if and when an agreement was reached, to have the final and concluding conversation take place in Mexico City. I said that I would be very glad to see that word was sent to Commissioner Lawson to undertake the conversations promptly with Commissioner Serrano.

S[UMNER] W[ELLES]

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<sup>13</sup> Several cases of expropriation or threatened expropriation without prior payment were under discussion with the Mexican Government during 1940. Correspondence regarding these individual cases is not printed.

<sup>14</sup> Eduardo Hay, Mexican Minister for Foreign Affairs.

812.52 Agrarian Commission/154

*The Under Secretary of State (Welles) to the Mexican Ambassador  
(Castillo Nájera)*

WASHINGTON, June 8, 1940.

MY DEAR MR. AMBASSADOR: I refer to our conversation of June 4, 1940, in which you informed me of the desire of President Cárdenas to reach a prompt agreement for the global settlement of agrarian claims. The Government of the United States shares that desire since it is of the opinion that such a prompt settlement would not only be helpful in itself but would mark a very important step in the settlement of the several major problems confronting the two countries.

On the basis of my understanding of your statements that in connection with the discussion of a global settlement of these claims the Mexican Commissioner, Agrarian Claims Commission, United States and Mexico, will raise no controversial question as to the various categories of these claims, a telegram is today being sent to the American Commissioner authorizing him immediately to present to the Mexican Commissioner lists of the claims. These lists will show claimed values in each case.

It is realized that the task to be accomplished by the Commissioners is no light one, but in as much as many months of study have been given by both Commissioners to the cases, the hope has been expressed to the American Commissioner that it may be possible to reach an agreement by June 25, 1940.

I would appreciate receiving from you, as soon as convenient, an expression of your concurrence in the foregoing.

Believe me, my dear Mr. Ambassador,

Sincerely yours,

SUMNER WELLES

812.52 Agrarian Commission/150: Telegram

*The Secretary of State to the American Commissioner, Agrarian  
Claims Commission (Lawson)*

WASHINGTON, June 8, 1940—2 p. m.

Reference your letter June 4.<sup>15</sup>

The opinion of the Mexican Government expressed at the Department by the Mexican Ambassador on June 4 is in harmony with our own that it is advisable to reach a prompt settlement of the agrarian claims. The Department is informing the Mexican Ambassador that you have been given the below-described authorization and suggesting that by June 25 an agreement be reached for a global settlement.

<sup>15</sup> Not printed.

You are authorized to submit to Serrano the list described in the second sentence beginning on page 4 of your letter.

You may also submit the list referred to in the last paragraph of your letter of June 4. Values indicated by you should be those alleged by the claimants. Please seek to have such of these claims as possess merit included in the global settlement. It is understood that some of the claims in this group may be meritorious but not within the jurisdiction of the Commission; such claims may be excluded from the global settlement if the Mexican Commissioner insists but every effort should be made to include them failing which you should reserve our right to present them later as diplomatic claims. Claims clearly not meritorious should be rejected by both Commissioners so as to give finality to the action taken.

The oral statements previously made to you by the Undersecretary as to negotiations and values remain in effect except as herein modified.

We have received assurances from the Mexican Ambassador that Serrano would be authorized to discuss immediately the reaching of a global settlement without controversial discussion as to the various categories of the claims.

HULL

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812.52 Agrarian Commission/153 : Telegram

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

EL PASO, TEXAS, June 9, 1940.

[Received June 10—7:58 a. m.]

Reference final paragraph Department's June 8, 2 p. m. Respectfully suggest that because of limited time Department urge immediate and definite authorization be given Serrano to negotiate final global settlement without raising any controversial legal questions, particularly that arising in claims of stockholders of Mexican companies which is of course one of the principal reasons of suggested global settlement. Also request telegraphic advice as soon as Serrano has been given such authority and is prepared to take final and definite action. Air mail<sup>16</sup> follows concerning inclusion of claims referred to in third sentence of fourth paragraph of telegram.

LAWSON

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<sup>16</sup> Not printed.

812.52 Agrarian Commission/168

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley)*<sup>17</sup>

[WASHINGTON,] June 12, 1940.

Mr. Boal<sup>18</sup> has telephoned from Mexico City to state that General Hay is expressing keen interest in expediting settlement of the agrarian claims. In this connection, General Hay has stated that Mr. Serrano is ill and must return to Mexico at once. Mr. Serrano will go to a small watering place about one-half days travel from Mexico City. General Hay asks that Mr. Lawson proceed to Mexico not later than June 15 in order to continue the conversations which Mr. Boal understands have already begun.

This sounds very much like a further attempt by General Hay to carry his point of having the conversations on agrarian claims in Mexico.

In view of all the circumstances, I think it is probably best for us to yield as gracefully as possible and to request Mr. Lawson to proceed immediately to Mexico City if it is the case that Mr. Serrano has left or is leaving for Mexico and it is necessary to carry on the conversations there. I think it would be advisable for me to telephone Mr. Lawson to ascertain the facts and then if they are as represented by General Hay, to request Mr. Lawson to proceed immediately to Mexico City for the purpose indicated.

812.52 Agrarian Commission/164

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

[WASHINGTON,] June 13, 1940.

MR. DUGGAN: I telephoned Mr. Lawson and informed him of the Department's willingness for him to proceed to Mexico City as soon as possible to continue with Mr. Serrano the discussions of agrarian claims. Mr. Lawson said that it was a fact that Mr. Serrano was quite ill. He also said that he had shown Mr. Serrano the list of 60 claims possessing no merit but that he had not yet presented a list of the 250, more or less, good claims because of the fact that Serrano apparently still has not had authority to discuss a global settlement without raising controversial matters, particularly Mexican corporation claims. Serrano had asked Mr. Lawson to present those claims

<sup>17</sup> Addressed to the Chief of the Division of the American Republics and the Under Secretary of State.

<sup>18</sup> Pierre de L. Boal, Counselor of Embassy in Mexico.

upon which there could be agreement and then to take up the difficult ones later.

I told Mr. Lawson that the Mexican Ambassador on the evening of June 11 had told you that Serrano had full authority along the lines promised. Mr. Lawson said he doubted that Serrano had such instructions.

Mr. Lawson said he would telephone to Mr. Boal to express his willingness to proceed to Mexico City; he said he would ask Mr. Boal to check up on the nature of the instructions Serrano has or will have.

HERBERT S. BURSLEY

812.52 Agrarian Commission/164 : Telegram

*The Assistant Chief of the Division of the American Republics (Bursley) to the American Commissioner, Agrarian Claims Commission (Lawson)*

WASHINGTON, June 13, 1940—2 p. m.

Reference our telephone conversation this morning. Quintanilla<sup>19</sup> informs me that Mexican Ambassador sent telegram no. 250 yesterday to Secretary of President Cárdenas indicating that Serrano apparently still had not received promised instructions. Quintanilla suggested that if this matter was not straightened out by the time you reach Mexico that you communicate with me immediately whereupon on advice from me the Mexican Ambassador would telephone to President Cárdenas.<sup>20</sup>

HERBERT S. BURSLEY

812.52 Agrarian Commission/160 : Telegram

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

WASHINGTON, June 19, 1940—6 p. m.

185. For Lawson. Your air mail letter June 10.<sup>21</sup> In view of considerations mentioned in paragraphs 3 and 5 of your letter, the Department suggests following course of action with respect to the 90 claims referred to therein, unless you perceive objection.

<sup>19</sup> Luis Quintanilla, Mexican Minister and Counselor of Embassy.

<sup>20</sup> In a memorandum of June 14, Mr. Bursley stated that Dr. Quintanilla had telephoned him that the Ambassador had a message from President Cárdenas to the effect that Serrano now had instructions permitting him to negotiate a global settlement of the Agrarian Claims.

<sup>21</sup> Not printed.

First. Following claims to be excluded from en bloc negotiations :

- (a) Six claims withdrawn.
- (b) Fifty-seven claims in which expropriation not established.
- (c) Eleven claims in which American citizenship not established.
- (d) Six claims in which claimant's interest not established.

Second. The following suggestions are submitted concerning five cases classified as outside Commission's jurisdiction :

(a) British owned claim should be excluded unless some American interest, other than mere American incorporation is apparent.

(b) Dual nationality claims should be excluded.

(c) Cases involving expropriation prior to August 30, 1927 should be excluded unless property expropriated subsequent to September 8, 1923, in which event request should be made to include. However it is not believed we can properly insist upon inclusion.

Third: In connection with duplicates of claims filed with the General Claims Commission, attention is invited to the fact that on June 14, 1939, an official of the Department, in response to a request by the Mexican Ambassador that we refrain from refileing agrarian claims already filed general, orally stated to the Ambassador that this Government's position was that it would not present to the Agrarian Commission claims already filed with the General Claims Commission provided (1) that, as was understood to be the case, the Mexican Government took the position that a provisional expropriation gave rise to a claim against Mexico within the jurisdiction of and subject to settlement by the Agrarian Commission, and (2) provided further that that Government also would take the position that the same considerations apply with respect to claims filed with the General Claims Commission involving provisional expropriations prior to August 30, 1927. If Serrano is prepared to give written assurances on both of those points, the four duplicate claims to which you refer may be excluded. In the absence of such assurances you should endeavor to have these four claims included in en bloc negotiations if final expropriation decrees in those cases were issued subsequent to August 30, 1927.

Fourth. In the absence of information as to what is meant by term "apparent abandonment of claim", the status of one claim so classified as D is not clear.

Fifth. It is suggested that all cases excluded by you and Serrano, as being without merit, be separately listed and jointly disallowed by you and him. Those excluded on jurisdictional grounds, in which there is an American interest, should be reserved for later presentation as diplomatic claims. Reservation should also be sought for protection of claimants in those cases, if any, where the claimants have not in your judgment had a reasonable time in which to perfect their claims.

HULL

812.52 Agrarian Commission/170 : Telegram

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

MEXICO, June 25, 1940—8 p. m.

[Received June 26—1 : 36 a. m.]

Reporting following developments since arrival June 17th.

Preliminary discussions with Serrano revealed that he had not received definite instructions permitting him even to evaluate controlling stockholder claims. I requested him to obtain such instructions as soon as possible in order to avoid misunderstandings and further delay. Following his receipt on June 20 of instructions and by letter of same date I gave him additional data regarding claims including individual claimed amounts for consideration in lump sum settlement. He replied by letter of June 24 raising several questions in connection with his proposed appraisal. Also by letter of June 24 I gave him amount of appraisal by American Section. Copies of these three communications were forwarded by air mail today to Bursley.

Serrano estimates about one month required by his section for appraisal of claims. He proposes to leave for El Paso about July 6th with attorney to discuss matters of nature referred to in his letter of June 24th and involved in individual claims.

While Serrano has indicated willingness to proceed to appraise claims it is evident from his letter and verbal statements that it will be impossible for the two commissioners to arrive at an acceptable figure for global settlement. He has not indicated even a roughly estimated amount but mentioned a fiscal valuation of approximately 30,000,000 pesos. Having informed him of the amount of my appraisal, further negotiations with him at present could serve no good purpose. It is, however, still believed that the two commissioners would serve a very useful purpose by supplying their respective governments with independent appraisals which probably could be adjusted diplomatically particularly if considered in relation to other possible matters.

In view of the foregoing the following carefully considered recommendations are made for the Department's consideration: That an effort be made in Washington through Mexican Ambassador to reach a global settlement immediately covering all points included in memorandum presented to him on April 9; that failing this every effort be made to insure payment on June 30th of additional million dollars pointing out that any settlement obviously will involve several million; that, if immediate global settlement not practicable suggestion be made to Mexican Ambassador that his Government request an extension to enable Mexican Commissioner to complete his appraisal for use in later negotiations; and that every effort be made to insure

continuance of funds for American Section after June 30th in order that present reduced staff may be kept intact.

Since nothing further can be accomplished here at present am leaving by train tomorrow for El Paso accompanied by Winters.

LAWSON

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812.52 Agrarian Commission/171

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley)* <sup>22</sup>

[WASHINGTON,] June 26, 1940.

I inquired of the Mexican Ambassador as to his views of the advisability of our bringing Mr. Lawson to Washington and the Mexican Government ordering Mr. Serrano to come here in order that the Department could do all it could to expedite action by Mr. Lawson and that the Mexican Ambassador on his part would do what he could to expedite action by Mr. Serrano, all of this with a view to bringing to a close as soon as possible the work of the Agrarian Claims Commission on the claims now before them. The Ambassador said that he thought this would be all right, but that he expected there would be some opposition from General Hay. Therefore the Ambassador preferred to handle the matter directly with President Cárdenas. He said that the President was now at El Palmito, which was some 170 kilometers from a telegraph line, but that he would send a telegram at once asking the President to telephone him as soon as possible, which he thought probably would be on June 28. The Ambassador also said that Mexico would make the request for the next extension of time, which he thought should be either for fifteen days, or preferably, for thirty days.

The Ambassador said he understood the next million-dollar payment was already en route to his bankers in New York, and that he hoped to be able to make the payment of \$1,000,000 on June 28,<sup>23</sup> but that if this were not possible the payment would be made on Monday, July 1 (June 30, a Sunday, not being a business day).

The Ambassador also said that he would seek to think of some way to expedite settlement of the agrarian claims matter before June 28 when he would be in touch with President Cárdenas, but that in any event he would get in touch with President Cárdenas as soon as possible.

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<sup>22</sup> Addressed to the Chief of the Division of the American Republics and the Under Secretary of State.

<sup>23</sup> Payment was made by the Mexican Ambassador on June 29, 1940; see Department of State *Bulletin*, June 29, 1940, p. 706.



I thanked the Ambassador for his statements, and also expressed briefly our appreciation of the arrangements he had facilitated for the establishment of a weekly Army plane service between Panama and the United States by way of Mexico.

While I was waiting to talk with the Ambassador three members of his staff emphasized to me how little danger they thought there was of any serious trouble at the time of the Mexican elections. They expressed considerable interest in our political conventions and Mexico's hope that President Roosevelt would be nominated and re-elected. They also were anxious (this includes the Ambassador) for information regarding our delegation to Habana.

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812.52 Agrarian Commission/181 : Telegram

*The American Commissioner, Agrarian Claims Commission (Lawson)  
to the Secretary of State*

EL PASO, TEXAS, July 18, 1940—noon.

[Received 4 : 17 p. m.]

Reporting further Agrarian Claims conversations in El Paso with Mexican Commissioner. Serrano proposes to leave July 20 for Mexico City to complete his independent appraisal of claims which he states will require about 10 days.

It is respectfully suggested that the Mexican Ambassador might now be urged to take steps to ensure that negotiations for final settlement, along the lines indicated in the memorandum presented to him on April 9, may be undertaken as soon as Serrano's appraisal is made available to the Mexican Government which presumably will be early in August.

Confidential report of appraisal by the American Section of approximately \$23,000,000 is being mailed to the Department for study and use in connection with possible direct negotiations with the Mexican Ambassador.

LAWSON

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812.52 Agrarian Commission/186g

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley) to the Under Secretary of State (Welles)*

[WASHINGTON,] July 30, 1940.

MR. WELLES: We now seem to be reasonably assured that Messrs. Lawson and Serrano will be here on August 1 in connection with the Agrarian Claims discussions. In this relation Dr. Córdova<sup>24</sup> and I

<sup>24</sup> Roberto Córdova, Legal Counselor of the Mexican Embassy.

have informally discussed the matter of a further extension for thirty days of the period for the Agrarian Claims negotiations, which apparently presents no difficulties.

It is not unlikely that the press will learn of these negotiations and the question arises of how these inquiries shall be dealt with. I should think that we could say, provided the Mexicans agree, that the two Commissioners have held conversations in Mexico City and in El Paso, and that they have now come here for what is believed will be the final negotiations. If the Mexicans want it said that the present discussions are informal, we could doubtless go along with that.

. . . There is strong likelihood that the two Commissioners will not move far from their recent positions and that a "political" settlement will be necessary. Dr. Córdova has suggested that it might be advisable for him and for me to sit in on a conversation between the Commissioners in an informal way, in order to understand clearly their divergent viewpoints. I could then report to you and Córdova could report to the Mexican Ambassador.

Alternatively, it might be desirable for you first to have a conversation with the Mexican Ambassador with a view to determining the broad lines upon which the conversations should proceed. It may be desirable to recall to the Mexican Ambassador's attention that we have as yet had no reply to our memorandum of April 9, 1940, suggesting the general ideas we have in mind. Moreover, the memorandum seems to furnish a suitable basis for discussion of all points except perhaps that of values. In the event you see fit to use it, we have a strong point in the fact that the Ambassador's assurances of November 10, 1938,<sup>25</sup> to the Secretary were not fully observed.

I think it is inevitable that at an early stage of the conversations, the Mexicans will say that it is all very well for us to insist upon a given total amount, but that they know they will also have to pay the General Claims and without knowing what we would accept in settlement for the latter group, they are quite unable to agree upon an amount on the Agrarian Claims since the total of the amounts due which we would consider reasonable may be beyond their economic capacity. It accordingly seems to me that some one in the Department should be prepared to discuss this aspect of the matter. . . . As to Agrarian Claims, Mr. Lawson has already stated to Serrano what he considers is the lowest figure, namely around twenty-three million dollars. It is my understanding that tentative studies by Le<sup>26</sup> have indicated that we should, as an absolute minimum, want nearly thirty million dollars net to ourselves, for the General Claims, leaving to Mexico the settlement of any valid Mexican claims.

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<sup>25</sup> Not printed.

<sup>26</sup> Office of the Legal Adviser.

Because of the technical legal aspects of claims matters and the historical background of some of the cases and precedents, I do not feel qualified to discuss claims matters, and particularly those relating to General Claims in other than their broad policy aspects, concerning which I think I understand your views or could obtain further instructions if necessary. In other words, it seems desirable that an attorney fully informed in claims matters should be readily available for consultation if not actually present at the discussions. In view of the pressure on Le, it may have some difficulty in sparing any one for this duty, at least until the conclusive stages, when we shall need Mr. Hackworth.<sup>27</sup> I have not seen Mr. Bert L. Hunt<sup>28</sup> recently but understand he is in Washington. He would possibly be available with or without compensation. In many ways he would be invaluable as a consultant for Mr. Duggan or me, or whoever may be charged by you with such part of the forthcoming discussions as you may desire to have handled on your behalf.

If you can spare a few moments, perhaps you will call me in to receive directions as to preliminary preparations for the conversations.

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812.52 Agrarian Commission/191

*Memorandum by the American Commissioner, Agrarian Claims Commission (Lawson), to the Acting Secretary of State*

[WASHINGTON,] August 7, 1940.

The exchange of notes of November 9–12, 1938, establishing the joint Agrarian Claims Commission, afforded the first opportunity for American citizens to present detailed statements of their losses resulting from seizures of property under the agrarian laws of Mexico subsequent to August 30, 1927. On July 31, 1939, the final date for filing claims, a total of 350 claims had been presented.

The claimed amounts involved in the 350 claims totaled approximately \$75,200,000 United States currency. For reasons which have been previously indicated, 90 of these claims have been eliminated from consideration for purposes of the proposed en bloc settlement, although it is recommended that rights be reserved to present them as diplomatic claims.

The remaining 260 claims involve the seizure of approximately 4,780,000 acres (about 1,935,000 hectares) of land, with claimed losses of approximately \$56,800,000 United States currency. These 260 claims have been carefully examined and investigated by the American Section to determine impartially the reasonable amounts involved.

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<sup>27</sup> Green H. Hackworth, Legal Adviser.

<sup>28</sup> Former Assistant to the Legal Adviser.

In this connection I may say that in the consideration of individual claims the emphasis of the American Section has been to determine the going values in Mexican currency of the affected property on the date of expropriation, and to convert these amounts into United States currency, at the official rate of exchange on that date.

As the result of its appraisal, the American Section has determined that reasonable values involved in the 260 claims in question total \$22,902,138 United States currency. Of this total, \$22,565,367 represents the value of the approximately 4,780,000 acres of expropriated land and facilities inherent therein, and the remainder,—\$336,771 or about 1.5 percent of the total,—represents other damages and losses such as permanent improvements, personal property, severance losses on remaining property, et cetera, suffered by the claimants as the result of the expropriations of their land.

The seizure of land upon which these claims are based occurred during a period of about twelve years from August 31, 1927 to July 31, 1939. The above-given appraisal figure does not include interest which in many cases covers a number of years. However, computations have been made and are available from which interest accruing in individual cases can readily be calculated.

LAWRENCE M. LAWSON

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812.52 Agrarian Commission/190

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

[WASHINGTON,] August 7, 1940.

Present: The Acting Secretary,  
The Mexican Ambassador,  
Commissioner Lawson,  
Commissioner Serrano, and  
Mr. Bursley (Secretary of Meeting).

The meeting opened with appropriate exchange of greetings.

Commissioner Lawson read a brief statement, of which copy is attached.<sup>29</sup>

Commissioner Serrano spoke of his pleasure at having been appointed Mexican Commissioner to cooperate in the evaluations with Commissioner Lawson, with whom he had been associated in various official capacities over a long period of years. Mr. Serrano said that he felt his function was primarily that of an appraiser, but that he thought the work he and Commissioner Lawson had done would be

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<sup>29</sup> Presumably the memorandum by Mr. Lawson, *supra*.

useful in furnishing a basis for a global settlement. He explained that the delay in reaching an agreement with Mr. Lawson was due in part to the written instructions under which he was functioning, to the relatively brief time he had had to study partial data presented to him by the American Commissioner, and to various trips on other business that both Commissioners had made.

Commissioner Serrano, consulting extensive tabulations which he brought to the meeting (and later handed to Mr. Lawson),<sup>30</sup> raised objections to some of the cases under consideration. He said that there were wide discrepancies in many instances between fiscal and commercial values; that in some instances the claimed values were ten times or more as great as the fiscal values; that in several instances the fiscal values had been raised by the owners in apparent anticipation of claims proceedings to a point where the claimed values were higher than the prices at which the owners had been selling their lands; that some valuations were as high per hectare as though the land were in the United States. He said that in some cases the claimants had not come forward with "clean hands".

The Mexican Commissioner referred to the several categories into which he had divided the claims, alluding to in passing, but not raising, the question of Mexican corporations. He stressed his view that fiscal values constituted a most important if not a leading element in determining values. Mr. Welles said that while, of course, fiscal values were one of the factors to be taken into consideration, it was not the case in any country in the world that the fiscal values had any real relation to the commercial values. The Mexican Commissioner said that he thought that at least in the United States fiscal values in a general way did approximate 50% or more of the real values. Mr. Welles said that, even in the United States, he thought this would vary widely on account of local conditions, financial needs of municipalities and other entities, and a number of other circumstances. He repeated that, as agreed in the notes of November 9-12, 1938, the United States was quite prepared to have fiscal values considered for what they might be worth, but he emphasized strongly that we could not agree that the fiscal values could be considered as the sole or most important factor.

The Acting Secretary said that since the Mexican Commissioner had raised a number of questions of fact, it appeared nothing further could be accomplished until these questions of fact had been discussed by the Mexican and American Commissioners. The Mexican Ambassador, the Mexican Commissioner, and Mr. Lawson concurred and the meeting adjourned.

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<sup>30</sup> Not found in Department files.

SI2.52 Agrarian Commission/186‡

*Memorandum by the American Commissioner, Agrarian Claims Commission (Lawson), to the Acting Secretary of State*

[WASHINGTON,] August 9, 1940.

I refer to our conference on August 7 with the Mexican Ambassador and Mexican Agrarian Claims Commissioner, during the course of which the latter discussed various aspects of the proposed lump sum settlement. You will recall that he left with us a statement prepared by the Mexican Section with respect to the claims.

I have carefully examined this statement and find that, with the exception of an incomplete indication of fiscal values (the accuracy of which is questionable in many cases), it does not constitute an appraisal of reasonable values of the expropriated properties. Although the records in the possession of the Mexican Government, particularly those presumably prepared by the Agrarian Department in connection with the land seizures, should be more complete as regards areas, kinds and qualities of lands seized than those available to the American Section of the Commission, it appears that no real appraisal has been made by the Mexican Section.

The principal importance, from our standpoint, of the Mexican Commissioner's statement seems to be that the grouping of claims indicates the continued intention on the part of the Mexican Government to endeavor to eliminate certain classes of claims, notably those involving stockholders of Mexican companies and estate cases, and to raise technical questions in others. I should explain in this connection, however, that while Commissioner Serrano stated to me in a subsequent conversation that the Mexican Government recognizes the fact that some means must be found of compensating stockholder claimants, it is obvious that he is unable to agree upon a lump sum settlement at a sufficient figure to provide reasonable compensation to all claimants, including such stockholder claimants.

The statement also includes "observations" by the Mexican Section with respect to some forty-six individual claims. The enclosure to this memorandum lists these "observations" together with comments in reply thereto based upon information developed by the American Section in its careful study of the individual claims. Mr. Serrano and I have also discussed these points, which you will note relate largely to confusion of names of owners, differences as to areas seized, etc., and practically all of which are met by our comments.

In connection with these "observations" regarding details of individual claims, I may say, as you know, that joint evaluation of individual claims, which originally was intended, was abandoned because of the serious legal questions injected by the Mexican Section, but the American Section completed the careful consideration of

individual claims. Subsequently, and after evading an interpretive agreement clarifying the legal questions raised, the Mexican Government suggested a lump sum settlement as a means of avoiding the necessity of discussing these questions and details of individual cases. By its memorandum of April 9, 1940, the Department expressed the willingness to reach such a settlement and urged that steps be taken at once in that direction. After a delay of four months, we now find that the Mexican Government is bringing up the same legal questions and details of individual cases, which are inconsistent with the idea of a lump sum settlement.

In my conversations with Mr. Serrano the latter has emphasized the discrepancy between the claimed amounts and the fiscal values in individual cases, and has evaded the fact that in its appraisal of the claims, for purposes of the proposed lump sum settlement, the American Section has made a reduction from the approximately 58 million dollars to approximately 23 million dollars. This reduction was the result of careful consideration by the American Section of precisely such matters as are now referred to in the above-mentioned "observations".

The Mexican Commissioner contends that there is too wide a margin between the fiscal value of about 27 million pesos, as calculated by the Mexican Section, and the approximately 23 million dollars determined by the American Section. For the approximately 4,780,000 acres involved, the Mexican figure is at the rate of about 5.60 pesos per acre, while our figure is at the rate of about 4.80 dollars per acre. The fiscal value, which the Mexican Commissioner believes to be too high in some cases, is on its face much too low considering the large area of irrigated and other fine lands involved in the claims.

The Mexican Commissioner also placed considerable stress on the Mexican political aspects of a settlement involving payment by Mexico of more than five or six million dollars, including the two million already paid, and on the financial situation of the Mexican Government which he states would be unable to pay even ten or twelve million dollars.

It is quite apparent that the Mexican Commissioner's recommendations for a total figure for a lump sum settlement will not exceed a total of six or seven million dollars, including the two million dollars already paid, and that further efforts by the two Commissioners to adjust the wide differences not only are entirely useless but result in delay which is, of course, entirely acceptable to the Mexican Government.

In view of the foregoing I wish to make the following carefully considered recommendations:

1. That negotiations between the two Commissioners to develop a figure for a lump sum settlement be terminated;

2. That direct negotiations be undertaken between the Department and the Mexican Ambassador to determine a figure acceptable to both Governments; and

3. That the final agreement with Mexico include provision for the adjudication of so-called new claims which could not be filed with the present Commission.

LAWRENCE M. LAWSON

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812.52 Agrarian Commission/194

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

[WASHINGTON,] August 12, 1940.

Present: Commissioner Serrano,  
Commissioner Lawson,  
Mr. Winters,  
Mr. Vicente Sánchez Gavito,  
Mr. Bursley.

Since it appeared that Commissioner Serrano was addressing himself directly to me, I said that Mr. Welles had asked me to attend this meeting primarily in the capacity of its secretary and that anything I might say in response to questions was unofficial. Mr. Serrano said that he understood this but that I was entirely welcome in any capacity. The meeting continued for a period of three hours in complete cordiality.

In the main, Mr. Serrano brought forth no particularly new ideas to supplement those he had advanced at the meeting in Mr. Welles' office on August 7, or in subsequent conversations with Mr. Lawson, as reported in Mr. Lawson's memorandum of August 9. Mr. Serrano repeated his discussion of most of the points he had heretofore raised, stressing perhaps more than others the "large amount" we claimed, the inability of Mexico to pay even 10 or 12 million dollars, and his belief that the Mexican Senate would not ratify any agreement involving a large amount. He referred to Mexico's difficult economic situation, the great number of pesos involved in converting a large sum of dollars into pesos, and expressed the belief that Mexico should not be expected to pay more than 5, or possibly 6, million dollars. He also stated on several occasions that it was quite impossible for him, as Mexican Commissioner, to agree to a sum any way nearly approaching that proposed by the American Commissioner.

In greater detail the discussions took the following course:

(1) Commissioner Serrano mentioned, without laying great stress thereupon, the inadequacy of the data regarding the claims supplied by the American Section; he stated that he estimated the Mexican



Section had the fiscal values in about 90% of the cases but had been able to secure full data from Mexican sources regarding only about 10% of the claims.

(2) Commissioner Serrano also mentioned, without emphasis, the apparent discrepancies in some cases between the American and Mexican data discussed by him in the conference of August 7 and recovered by Commissioner Lawson in a subsequent conversation with him, as reported in Commissioner Lawson's memorandum of August 9.

(3) At this stage, Mr. Lawson furnished Mr. Serrano with a copy of the statement replying in considerable detail to all of the "observations" advanced by Mr. Serrano in the meeting of August 7, regarding specific points of difference. When this statement was given to Mr. Serrano, it was pointed out that the scaling down of the claims from \$58,000,000 to \$23,000,000 was largely the result of careful consideration by the American Section of precisely such matters as those in question. It was explained to him that while the plan of discussions of a global settlement, by its very nature, precluded detailed discussion of cases, it was desired that he be informed of the facts regarding the particular objections he had advanced. Mr. Serrano took the statement, did not examine it, and made no comment upon it. The Mexican Commissioner concurred, however, that for purposes of a global settlement, these details are of no practical importance.

(4) Mr. Serrano stated that the American figure of about \$23,000,000 appeared to him to be too high and completely out of line with the Mexican figure of about 26,000,000 pesos fiscal value. He admitted, however, that fiscal values are somewhat lower than commercial values; while he was evasive as to the commercial values involved in these claims or the relationship between fiscal and commercial values in Mexico, he did refer, at another stage of the conversation, to an approximate 50% relationship.

(5) Commissioner Serrano several times brought up his belief that the agreement of November 9-12, 1938 did not include stockholder claims and repeatedly referred to the fact that his instructions did not permit him to adjudicate stockholder claims, but he nevertheless admitted that the purpose of the proposed global agreement was the avoidance of discussion of legal technicalities. Mr. Lawson made it clear that it had already been agreed the question of the right to include stockholder claims was not to be discussed.

(6) Commissioner Serrano informally but repeatedly stated that he could not agree himself to a figure higher than 5 or 6 million dollars; he said that Mexico was unable to pay more; that the Mexican Senate would not approve a higher sum, and, as he had done in his

conversation of August 7, said that such a figure would represent a considerably higher percentage than that involved in previous claims settlements. It was pointed out to Mr. Serrano by Commissioner Lawson that the proposed agrarian claims settlements, dealing solely with specific and tangible matters, is not comparable with other types of claims settlements.

(7) Mr. Lawson's statements during the course of the conversation were essentially a reiteration of statements that he has previously made to the Department and to Commissioner Serrano, i. e., that the American Section has carefully studied all claims with a view to determining the reasonable values involved therein, eliminating a number of claims found to be improper, and eliminating improper items of individual claims, with the result that the amounts have been reduced from a total of about \$75,000,000 claimed to approximately \$23,000,000 appraised. Mr. Lawson stated that since he is satisfied that the amount determined by the American Section is proper and reasonable, he would be unable to agree to any substantial reduction therefor.

(8) The two Commissioners then stated briefly that they saw no way in which they could possibly reach an agreement. Mr. Serrano, in particular, said he did not think that he was empowered under the agreement of November 9-12, 1938 to enter into a global settlement and that, in any event, he and the American Commissioner were so far apart in their evaluations that an agreement between them was out of the question. Mr. Lawson concurred. Mr. Serrano said that he would inform the Mexican Ambassador of this agreement to disagree and that he thought the Mexican Ambassador, in the discussions with the Acting Secretary of State, would not be restricted by the same considerations which limited his actions and that whatever the agreement is to be, it would have to be worked out between the Acting Secretary of State and the Mexican Ambassador or, alternatively, that the Mexican Foreign Office would have to decide the position of the Mexican Government in this matter.

HERBERT S. BURSLEY

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812.52 Agrarian Commission/195

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley) to the Acting Secretary of State*

[WASHINGTON,] August 13, 1940.

MR. WELLES: A report on yesterday's meeting between Mr. Lawson and Mr. Serrano is attached.<sup>31</sup>

In view of the apparent hopelessness of any acceptable agreement between the two Agrarian Claims Commissioners, I believe there is

<sup>31</sup> *Supra.*

nothing to be done except to arrange for conversations between you and the Mexican Ambassador, having as their object the reaching of agreement on a sum we could accept and Mexico could pay. (Possibly you would want me to have some preliminary exploratory talks with Licenciado Córdova. I think, however, that the status of the matter is such that the bull will have to be taken by the horns by officials with authority to make final decisions).

I believe that the conversations in Washington between the two Commissioners served a useful purpose in that our position was improved when the objections, reasonable and unreasonable, raised by the Mexicans were answered and since the way was left open for Mexico to propose a reasonable compromise—which, unfortunately, was not forthcoming.

. . . we should insist upon a large measure of justice for the claimants. I venture to express my opinion that we should not accept less than \$11,000,000 (in the published notes “chiefly farms of a moderate size, with a value claimed by their owners of \$10,132,388” were referred to as having been expropriated. We also said “this figure does not include the large land grants . . .”).<sup>32</sup>

Assuming, as there is every reason to do, that Mr. Lawson’s figures are substantially correct, I would be of the opinion that around \$15,000,000 would be a fair settlement. The full \$23,000,000 (especially if to this is to be added interest) would represent a heavy and lengthy burden particularly when it is recalled that we also have a group of “new” agrarian claims of undetermined value. Moreover, there is the question of General Claims to be faced, when the agrarian claims matter is out of the way, involving perhaps \$30,000,000.

There are numerous indications that the Mexicans may continue to resort to procrastination and to seek to involve us in discussions of details. May I suggest that the Mexican Government, if not now in possession of accurate data, has had time to acquire them; that it is highly desirable that we reach and sign an agreement this month; and that we seek to proceed in accordance with the Department’s memorandum of April 9, 1940 to the Mexican Ambassador (blue attached)<sup>32a</sup> to which we have not had a formal reply.

In accordance with the arrangements he made with you, Mr. Lawson is leaving Washington tonight. Mr. Lawson thinks that the continued presence of Mr. Winters here might encourage the Mexicans to resort to attempts at case by case and detailed discussions. I said that I doubted you would want Mr. Winters to leave since you might want details on given cases for your own information but suggested that he let it be known that Mr. Winters also probably soon would leave

<sup>32</sup> See note to the Mexican Ambassador, July 21, 1938, *Foreign Relations*, 1938, vol. v, p. 674.

<sup>32a</sup> *Ante*, p. 955.

Washington. Mr. Lawson is furnishing me a good deal in the way of detailed data on each case but I do not feel free to release Mr. Winters without your approval.

HERBERT S. BURSLEY

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[Further negotiations regarding these claims were merged in efforts to arrive at a general settlement of outstanding questions between the United States and Mexico. See pages 1040 ff.]

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**SUPPORT BY THE DEPARTMENT OF STATE OF EFFORTS OF AMERICAN OIL COMPANIES TO REACH AN AGREEMENT WITH THE MEXICAN GOVERNMENT REGARDING THEIR EXPROPRIATED PROPERTIES**<sup>33</sup>

812.6363/6408 : Telegram

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

MEXICO, January 2, 1940—6 p. m.

[Received 9 : 55 p. m.]

2. In his radio address last night President Cárdenas stated that definite termination of petroleum matter will have to be brought about through indemnization by judicial evaluation. Full Spanish text and English summaries have gone to the Department by air mail. The President is quoted in the press as saying that Mexico's right to apply the expropriation law to companies which refused to respect the laws of the country is no longer a matter for discussion; neither is there any longer being discussed with the representatives of the petroleum companies any arrangement which would look toward their intervening again in the management of the industry as they were trying to do.

DANIELS

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812.6363/6417 : Telegram

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

MEXICO, January 5, 1940—5 p. m.

[Received January 6—12 : 45 a. m.]

7. All petroleum companies included in expropriatory decree of March 18, 1938<sup>34</sup> and those companies not included therein but named in district court order to appoint appraiser have been declared in "rebeldia" by the First Civil District Court. Companies not included

<sup>33</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 667-719.

<sup>34</sup> See telegram No. 58, March 19, 1938, 4 p.m., from the Ambassador in Mexico, *ibid.*, 1938, vol. v, p. 725.

in expropriatory decree were given 10 days to present complaints against their inclusion in the order for appointment of appraiser. This period ends January 12. Indications point to belief that court will not appoint appraiser for companies until after decision on case involving companies not included in expropriatory decree.

DANIELS

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812.6363/6451

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

[WASHINGTON,] January 11, 1940.

Participants: The Mexican Secretary of the Treasury,  
His Excellency Eduardo R. Suárez;  
The Mexican Ambassador, Señor Dr. Don  
Francisco Castillo Nájera;  
The Under Secretary.

I paid yesterday evening a return visit of courtesy on the Mexican Secretary of the Treasury at the Mexican Embassy. The Secretary of the Treasury received me in the company of the Mexican Ambassador, and there were no others present at the interview.

The Ambassador commenced the conversation by telling in considerable detail of the conversations which had been taking place on reiterated occasions during the past few days between the representatives of the Sinclair interests and the Ambassador and the Mexican Secretary of the Treasury. The Ambassador said that the Sinclair group was represented by Harry Sinclair himself as well as by Colonel Patrick J. Hurley and one or two other lawyers. He surprised me by saying that Mr. John L. Lewis<sup>35</sup> had been present at all of these interviews, although Mr. Lewis had alleged at the first interview that he had no personal or pecuniary interest in the issues involved, but was acting solely as a friend of Mexico and in the altruistic desire to be of assistance in composing the difficulties between the Mexican Government and the American oil companies.

The Ambassador gave me to understand that from the standpoint of the Mexican representatives the Sinclair people were still asking far too much for their properties. The sum about which the Sinclair people were now talking, he alleged, being between fourteen and fifteen million dollars. (Colonel Hurley in previous conversations with me had given me to understand that the sum they had in mind was more than twenty million dollars.) The Mexican Government was not willing to talk about more than seven or eight millions as compensation, (although the Ambassador gave me to believe that the

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<sup>35</sup> Representative of Sinclair Oil Company.

Mexican Government would go up to nine million dollars). The basis for compensation, as Colonel Hurley had told me in talks with me, was the transfer by the Mexican Government to the Sinclair group of Mexican oil at a price less than the market price, the Sinclair group to obtain its compensation over a period of years. The Mexican Government was insisting that the price at which the Mexican Government was to sell the oil was to vary in accordance with the world market price.

The Ambassador told me that another interview with the Sinclair group was scheduled for that evening, and that he believed several more interviews would take place. He appeared to have far greater optimism as to the successful conclusion of these discussions than did Colonel Hurley in his last conversation with me.

Before I left I expressed to Señor Suárez my deep chagrin that the splendid opportunity which had been afforded both Governments by his visit to Washington in the autumn of 1937<sup>35a</sup> to take up for consideration and solution all the many controversies which existed between them had been indefinitely postponed as a result of the inability of the Mexican Government to reach any decision which would be satisfactory to the oil companies as a result of the expropriation of their properties. I said that so long as this situation remained unsolved, it was of course out of the question for the Government of the United States to attempt to undertake the determination of any of these controversies and problems.<sup>36</sup> I expressed the earnest hope that the Government of Mexico would agree to arbitrate in the broadest sense the questions arising from the expropriation of the properties of those companies with which negotiations had proved fruitful. I reminded Señor Suárez of his standing on this continent as a leading international lawyer and of his often evinced devotion to the principle of arbitration. Señor Suárez expressed his general agreement with what I had said and stated specifically that he himself favored arbitration and arbitration on the broadest terms. He added that he had no idea what the views of President Cárdenas with regard thereto might be. The Ambassador reminded him that President Cárdenas had already agreed in principle to arbitration. Señor Suárez seemed suddenly to recollect that this was the case.

I also took occasion to urge upon Señor Suárez as soon as he returned to Mexico City the need for a very speedy settlement of the pending questions arising from the agrarian agreement between the two Governments.<sup>37</sup> I said that we had expressed our willingness to discuss a settlement of a global nature, but that such a settlement

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<sup>35a</sup> See *Foreign Relations*, 1937, vol. v, pp. 676-678.

<sup>36</sup> For correspondence concerning negotiations for a general settlement of outstanding questions between the United States and Mexico, see pp. 1040 ff.

<sup>37</sup> Effected by an exchange of notes dated November 9 and 12, 1938, *Foreign Relations*, 1938, vol. v, pp. 714-719.

was of course contingent upon the amount being sufficient to meet the just claims of our nationals, including American citizens who are stockholders in Mexican corporations whose properties have been expropriated. Señor Suárez assured me that he would exert his official influence as well as his personal influence to that end. The Ambassador interjected to say that inasmuch as the amount of ten million dollars had been spoken of as a satisfactory total, he believed that an agreement could be had upon that basis. I told the Ambassador that I regretted that it was quite impossible for me to agree with him and that, while ten million dollars had in the early days of our discussions with the Mexican Government been casually mentioned, investigation had now shown that the amounts owing to our nationals whose agrarian properties had been expropriated in Mexico was very greatly in excess of any such sum as that.

S[UMNER] W[ELLES]

812.6363/6436

*The Department of State to the British Embassy*

AIDE-MÉMOIRE

The Secretary of State has given most careful consideration to the British Ambassador's *aide-mémoire* of December 12, 1939<sup>38</sup> regarding the Mexican oil controversy.

It is regrettably true that the negotiations between the Mexican Government and the American oil companies have failed of accomplishing the desired adjustment of the controversy existing between them as a result of the expropriation by the Government of the companies' properties and that there seems to be no immediate prospect of any betterment of this situation. Likewise, no solution of the problem has been found through diplomatic negotiation between the American and Mexican Governments.

In this view of the matter, the Government of the United States is considering proposing to the Government of Mexico that, so far as American interests are concerned the controversy be submitted to arbitration. Such a proposal would envisage conferring upon the arbitrators the power of instituting a practical method for the fulfillment of their decision.

In such a situation, comprising in the language of the treaty a difference which it has not been possible to adjust by diplomacy, it would appear that the two Governments should properly take recourse to the process of arbitration provided for in the Inter-American Arbitration Treaty concluded January 5, 1929,<sup>39</sup> to which both Governments are parties.

WASHINGTON, January 11, 1940.

<sup>38</sup> *Foreign Relations*, 1939, vol. v, p. 716.

<sup>39</sup> Signed at Washington, *ibid.*, 1929, vol. I, p. 659.

812.6363/6467 : Telegram

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

MEXICO, January 30, 1940—9 p. m.  
[Received January 31—2: 11 a. m.]

31. Mexico's answer to Richberg's<sup>40</sup> story officially made public today through the Department of Information in Ministry of Gobernación. In summary it says Standard Oil Company of New Jersey distributed a pamphlet entitled "The Mexican Oil Seizure" with the intention of influencing the reader and convincing him the Mexican Government when expropriating the oil companies acted lightly, violating applicable precepts of internal law and principles of international law and repudiated the companies formal offers making any settlement impossible. Because of public opinion falsehoods and misrepresentations will be refuted but for the moment only the most notorious untruths will be referred to. The pamphlet said the oil companies' investments represent several hundred millions of dollars that Mexico confessed its financial inability to pay, and that the companies reached the conclusion that they had no other remedy than to seek return of their properties through the courts and with the support of their governments, because Mexico could not legally expropriate them because of evident incapacity to make immediate and just payment. This conclusion is false because it is founded upon two false premises: It is not true that the value of the properties fluctuates between 262 and 500 million dollars because these amounts were taken from an article written by Luis Cabrera in *Hoy* of July 23, 1939. These figures are arbitrary, and the only basis for valuation of the properties is that stated in the companies' books on March 18, 1938, which is 100,899,890 pesos 40 cents. American interests represent a minimum part of that amount and the statement blames American companies for not intensifying production and for limiting efforts to investment amortization, and leaving refineries, pipe lines and installations in bad condition. Companies systematically refused to discuss value of their properties and ask the question of appraisals be omitted in negotiations. They could not deny Mexico's right to expropriate private property with just payment and tried to create the impression that Mexico could not legally expropriate because of its inability to pay the fantastic sum of millions arbitrarily fixed by the companies. Mexico has made known many times its willingness to pay for the properties by surrendering a percentage of production from reserves which unquestionably belong to the Government.

Nonpayment of foreign debt does not mean inability to pay for petroleum properties because income from the industry would be

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<sup>40</sup> Donald Richberg, representative of the American oil companies.



allotted therefor. Important nations have put off payment of some of their obligations and no one has said that they are permanently incapacitated to pay all their debts. The statement says an agreement was reached with the United States Government which created a commission to determine indemnification to American citizens for land expropriations and Mexico began to pay before exact amount of lands was known. Statement summarizes events leading to expropriation for the purpose of justifying intervention by the Government. Says award granted to workmen by Junta was for 26 million pesos which was midway between the demands of the workers' organizations and what the companies were willing to give. Companies' statement that net profit was 23 million pesos a year has been proven false by governmental operation. President Cárdenas offered to guarantee companies that they would not pay excess of 26 million pesos but the companies refused. Then for the public interest expropriation became necessary. Mexico invited companies to make appraisal of their properties so payment could be made but they imposed all kinds of obstacles. The pamphlet distributed by Standard Oil Company is lacking in truth when it said that the bases suggested by the representative of the companies was accepted by the Government because they were immediately considered unacceptable as they practically placed the companies in the same position as before expropriation. Statement enters discussion of 5 points suggested by companies' representative, and then says that it is lamentable that the reduced investments which American citizens have in the petroleum industry and for which the Government is ready to pay might serve as an excuse for the companies to continue a dispute that not only affects the beneficial commercial relations between Mexico and the United States, but also, might tend to disturb the close and friendly relations which exist between the two peoples.

Full translation by air mail.

DANIELS

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712.00/58 : Telegram

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

MEXICO, January 31, 1940—9 p. m.

[Received February 1—1 a. m.]

33. President Cárdenas distributed today written answers to questions of foreign newspaper correspondents. Regarding creation of Pan American Bank stated that it would be useful to strengthen continental solidarity. Regarding German merchandise for Mexico, he stated the Government had asked and received favorable reply from France to its request that deliveries of German merchandise to Mexico,

purchased before the war, would not be molested. Regarding capabilities of naval powers of American continent to maintain neutrality zone, he stated nations should think in terms of moral force rather than naval force and should wait for belligerent nations to consider the general advisability of respecting the zone approved at Panama City. Regarding admission of further contingents of Spanish refugees, he stated Mexico can admit more, especially agriculturist. Regarding aid to Finland, he believed that a joint peace action by all non-belligerent nations to seek a rational solution of the conflict would be best move. In reply to questions regarding use of oil tankers, President made statement that, if the nations of the American continent would stop selling all classes of products to the belligerent nations as a means toward contributing to peace, Mexico would surely be disposed to cooperate.

Relative to petroleum, the President is reported as saying that, after judicial appraisals, Government would not be able to modify them and since no denial of justice existed in any phase of expropriation and Government has not refused prompt and just indemnification, the solution of the controversy must be settled to its last detail directly between the Government of Mexico and the companies themselves and the Government considers that international arbitration is not [to] be resorted to.

DANIELS

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812.6363/6509

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

[WASHINGTON,] February 5, 1940.

The British Ambassador <sup>40a</sup> called to see me at his request this morning. I had informed the Ambassador by telephone on February 3 that it was the purpose of this Government to propose in the immediate future to the Government of Mexico arbitration of the differences arising from the expropriation by the Mexican Government of petroleum properties owned by American nationals.

The Ambassador commenced the conversation by saying that he was afraid his Government would be very much concerned if the United States proposed to Mexico arbitration of the questions arising from the expropriation of American properties without including in such proposal simultaneous arbitration of the questions arising from the expropriation of British properties. The Ambassador then read to me excerpts from an *aide-mémoire* which is attached herewith.<sup>41</sup> I

<sup>40a</sup> The Marquess of Lothian.

<sup>41</sup> *Infra*.

did not have the opportunity of reading the full text of the document until after the Ambassador had left.

The Ambassador requested in the name of his Government not only that the American proposal for arbitration include the question of the expropriation of British properties, but also that the American suggestion as to the tribunal to arbitrate the differences at issue should be a tribunal composed of three judges selected from the Permanent Court in The Hague and, finally, that before any proposal for arbitration was made by the United States, the American and British Governments agree as to the terms of reference to be proposed.

I said to the Ambassador that it had been my understanding that the Secretary of State had already indicated to him that the United States would not agree to the inclusion of the question of the British properties in its proposal for arbitration nor to a joint American-British proposal for arbitration. I stated that the suggestion of the United States for arbitration would be based primarily upon the treaty obligations of Mexico and of the United States to settle differences arising between the two countries which could not be adjusted by diplomacy and which were susceptible of juridical determination and which obligations arose from the Inter-American Treaty of Arbitration of 1929 which both nations had ratified. Insofar as the question of the arbitral tribunal was concerned, I stated that the treaty referred to made ample provision for the selection of such tribunal. I said that inasmuch as the signatories to this treaty were solely the American Republics, it would be clearly impossible for Great Britain to resort to this treaty for the arbitration of her controversy with Mexico. But more important than this, I said, was the fact that the United States desired in making this proposal to Mexico to present her case—which I believed was unassailable—in such a manner as to gain for the position taken by the United States the unanimous support of the other republics of this hemisphere. I reminded the Ambassador that he had upon repeated occasions, as had his predecessor, Sir Ronald Lindsay, informed me that the reason why Great Britain was so much concerned with the action taken by Mexico was the British fear that such action would create precedents which would be followed in the other American Republics. I stated that consequently it seemed to me that it was particularly important that public opinion in the rest of the American continent, as well as the opinions of the governments of the other American Republics, should regard favorably the position taken by the United States in its requests for arbitration. If at this time, I added, the Governments of the United States and Great Britain were to propose a joint arbitration, or if the United States were to include arbitration of the British controversy in its own request for arbitration, the whole inter-American aspect of the question would be lost, and I said I believed

that such action on our part would present a God-given opportunity to propagandists—both propagandists against Great Britain and propagandists against the United States in other parts of the Western Hemisphere—to raise the cry that the two great imperialists were bringing pressure to bear, hand in hand, upon unfortunate Mexico and that, consequently, the other Latin American nations should rally to support the position taken by Mexico. Consequently I said it seemed to me that the request proffered by the British Government was singularly short-sighted.

With regard to that portion of his request which dealt with the terms of reference, I said it was my understanding that the British Government, like the British and American oil companies, desired to assure themselves that the terms of reference would be sufficiently ample so as to include among the powers granted the arbitral tribunal the power to determine that company management and operation of the properties should continue until compensation had been paid. I said I was glad to assure the Ambassador that any terms of reference which would be suggested by the United States or which would be agreed to by the United States would in fact be sufficiently ample so as to make such an award possible.

The Ambassador said he would transmit the reply made to him to his Government.

S[UMNER] W[ELLES]

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812.6363/6510

*The British Embassy to the Department of State*

AIDE-MÉMOIRE

His Majesty's Government have given careful consideration to the State Department's *aide-mémoire* of January 11th regarding the Mexican oil controversy in which it was stated that the United States Government were considering proposing to the Mexican Government that so far as American interests were concerned the controversy should be submitted to arbitration. Such a proposal the *aide-mémoire* stated "would envisage conferring upon the arbitrators the power of instituting a practical method for the fulfilment of their decision."

His Majesty's Government are anxious to learn exactly what meaning should be placed upon the words quoted above and in particular to know whether they imply that the terms of reference for the suggested arbitration would be so drafted as to make it possible for the arbitral tribunal, if it considered that the restoration of the properties to the management of the oil companies was the only practical method of securing the execution of its award, to make an order to this effect.

As His Majesty's Ambassador explained to the Secretary of State on January 30th<sup>42</sup> the objections which His Majesty's Government originally felt to submitting the oil controversy to arbitration and which were set out in this Embassy's *aide-mémoire* of December 12th<sup>43</sup> were based on the assumption that under the proposals outlined by the Under Secretary of State in his conversation with His Majesty's Ambassador on November 14th,<sup>44</sup> the arbitral tribunal if it found in favour of the oil companies could only order compensation in the shape of a monetary award. His Majesty's Government took exception to this proposal since for the reasons given in the *aide-mémoire* of December 12th they felt that any such monetary award would be altogether illusory.

If however it is intended that the arbitral tribunal should be empowered to make an award whereby the restoration of the properties to the management of the companies could be ordered as the only practical method of fulfilling its decision His Majesty's Government would be prepared to consider submitting the case of the British companies to arbitration on such a basis by an impartial, disinterested, and appropriate tribunal.

In view of the fact that the essential question to be decided in the case both of the American and the British oil companies is the same, though the claims may differ in minor details, His Majesty's Government hope that the United States Government will agree that it is desirable that if it is decided to submit the dispute to arbitration the arbitral tribunal should be empowered to deal with both sets of claims. To attempt to deal with the cases separately might well lead to awards based on differing principles, which would almost certainly make both for confusion and injustice and possibly the prejudice of one or both sets of claimants. It is understood that this view is shared by the oil companies themselves, American as well as British, and His Majesty's Government therefore trust that the United States Government will be prepared to give their sympathetic consideration to the suggestion that any arbitration should cover the claims of both the American and the British companies. His Majesty's Government themselves are convinced that it would be to the mutual interest of all concerned to have the whole matter settled in one arbitration at which all parties are represented.

Were it decided that the cases of the American and British companies should be dealt with jointly, His Majesty's Government feel that a very appropriate tribunal to undertake the arbitration would be one composed of three judges selected from the Permanent Court of International Justice at The Hague.

<sup>42</sup> No record of conversation found in Department files.

<sup>43</sup> *Foreign Relations*, 1939, vol. v, p. 716.

<sup>44</sup> For memorandum of conversation, see *ibid.*, p. 709.

In view of the fact that both governments would seem to be agreed that the dispute should be submitted to arbitration on the lines set forth in paragraph 2 above, it would seem advisable that consultations should take place between the United States Government and His Majesty's Government regarding the terms of reference to the proposed tribunal. As explained above His Majesty's Government feel it essential that these terms should be so drawn as to enable the tribunal, if a denial of justice is established, to order the restitution of the properties to the management of the companies and so as to exclude the possibility of the tribunal being restricted to making merely a monetary award. His Majesty's Government trust that the United States Government will agree that the two Governments should consult as to the terms of reference. In that case His Majesty's Ambassador will be happy to depute a member of his staff to discuss the question with the appropriate official of the State Department.

WASHINGTON, February 5, 1940.

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812.6363/6487

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

[WASHINGTON,] February 5, 1940.

The Mexican Ambassador called to see me this afternoon at his request. The Ambassador gave me in the greatest possible detail an account of the conversations which had taken place up to the present time between himself and representatives of the Sinclair Oil Company. A considerable portion of this information had already been conveyed to me by the Ambassador and is contained in a previous memorandum reporting my conversation with him and the Mexican Secretary of the Treasury on January 11. The only important new information given me by the Ambassador related to the alleged statement by Mr. Harry Sinclair and his associates that they were demanding greater compensation for their properties expropriated by the Mexican Government than they could obtain by sale of the properties, or than they could have obtained had they continued to operate the properties themselves. According to the Ambassador, the Sinclair representatives, while originally demanding compensation equivalent to 30 million barrels of oil, had subsequently reduced the total to 16 million barrels of oil at 80¢ a barrel. To this second proposal, after much haggling, the Mexican Ambassador by authorization of President Cárdenas had made a counterproposal of 9 million dollars in cash payable at the rate of 3 million dollars a year over a period of three years, in addition to 4½ million barrels of oil to be delivered by the Mexican Government to the Sinclair Oil Company over a

period of some years. The Ambassador seemed to be in no way optimistic as to the eventual outcome of these negotiations.

The other information of significance given me by the Ambassador was that before the Mexican Secretary of the Treasury had come to Washington on his recent visit to the United States, he had spent two days in New York and had there conferred secretly with Mr. Harry Sinclair and Colonel Patrick J. Hurley, his attorney, and that at these interviews in New York not only had Mr. John L. Lewis been present, but also Mr. W. R. Davis. Mr. Hurley had subsequently said to the Ambassador that Mr. Davis had been present at these interviews at the specific request of Mr. John L. Lewis. The Ambassador further stated that in the course of a subsequent conference which had taken place in Washington and at which Mr. Lewis (not Mr. Davis) had been present, Mr. Lewis had made the following allegations:

First, that he was attending these conferences solely because of his patriotic desire to further good relations between the two countries and that he stood to profit not a cent through his participation therein.

Second, that in 1938 he had learned from a confidential source in the Department of State that a very stiff note was to be sent by the Government of the United States to the Government of Mexico and that he had gone to see the President to protest against such action and that the President had consequently instructed the Secretary of State to withhold such communication.

Third, that Mr. Lewis had learned some two months ago that this Government intended to propose arbitration of the controversy to the Government of Mexico and that he had considered such action altogether premature, and that he had consequently again intervened with the President and that the President had again instructed the Secretary of State not to take any action looking towards arbitration until the President had had a further opportunity of conferring with Mr. Lewis.

The Ambassador ventured the opinion that these assertions were untrue and stated that he had been informed by Colonel Hurley that Mr. Lewis was very closely associated in a business sense with Mr. Davis.

I told the Ambassador that with regard to that aspect of the question I had no information, but that Mr. Lewis was mistaken with regard to the correctness of the other two assertions he had made, and that because of my own knowledge of all that had transpired, I could tell the Ambassador that the two latter statements made by Mr. Lewis were completely unfounded.

812.6363/6486

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

[WASHINGTON,] February 5, 1940.

The Mexican Ambassador called to see me this afternoon at his request.

As the Ambassador rose to leave, he asked me if I had seen the statements made by President Cárdenas with regard to the arbitration of the expropriation of the oil properties issue.

I said that I had seen the statements as reported in the press, but that, of course, I could not conceive of either one of our two Governments being unwilling to submit to an impartial arbitration differences which arose between them which it had been found impossible to settle through the diplomatic channel and which resort to the Mexican courts seemed also incapable of settling. I said that from what the Ambassador himself had stated to me on previous occasions, the Mexican Government believed that it had all the necessary evidence to justify the valuation which it had itself fixed as the proper valuation of the properties taken from American nationals, and that if this were the case, surely the Mexican Government could have no reason to object to the submission of its case to an impartial tribunal. I said, however, that this was a subject upon which I hoped to have the opportunity of conferring further with the Ambassador in the near future.

S[UMNER] W[ELLES]

812.6363/6484½

*The British Ambassador (Lothian) to the Under Secretary of State  
(Welles)*

WASHINGTON, February 6, 1940.

DEAR MR. WELLES: I duly communicated the substance of our conversation of yesterday about the Mexican oil dispute to the Foreign Office, and told them of the terms of reference which you proposed to suggest to the Mexican Ambassador as the basis on which the case of the American companies should be arbitrated.

I have not yet had any reply from the Foreign Office but in the meantime I examined these terms of reference in consultation with my legal adviser. I feel bound to say that it seems very doubtful to me whether the terms of reference as at present drafted would accomplish what I had understood from my conversations with the Secretary of State and yourself to be the object of the State Department and what is certainly the only condition upon which His Majesty's Government could agree to arbitration: namely, that if the arbitral



tribunal decided that the only practical method of giving effect to its award was to order the restitution of the properties to the management of the companies, the terms of reference would enable it to do so.

It seems to me that as paragraph 3 of the proposed terms of submission to the tribunal refers in terms to the manner in which the damages awarded shall be *paid*, it is very doubtful whether despite the wording of the rest of the paragraph the Tribunal would, without some specific mention in the terms of reference of such a possibility, feel justified in ordering restitution.

In view of the importance which His Majesty's Government attach to this point being covered in any arbitration concerning the British companies' claims and of the bearing which any terms of reference adopted for the arbitration of the American claims would have on the terms of reference adopted for the arbitration of the British claims—supposing that as you suggested yesterday the two sets have to be dealt with separately—and as you said to me in the Guatemalan case, it is always possible for the Mexican Government to raise objections to the draft terms of reference, I hope that you will be prepared to give further consideration to this point.

LOTHIAN

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812.6363/6487½

*The Netherlands Legation to the Department of State* <sup>45</sup>

#### MEMORANDUM

From different sources information has reached the Netherlands Government that the United States Government is considering to propose to the Mexican Government the submitting of the oil controversy to arbitration.

The Netherlands Legation has been instructed to enquire whether this information is correct and in the affirmative to draw the attention of the United States Government to the fact that the American interests in the oil controversy are fundamentally the same as those of the Netherlands. For this reason the Netherlands companies, all through the controversy, have kept in close touch with the American and British companies. They have deliberately refrained from any action on their own behalf in view of reaching a settlement of the dispute because they realized that any departure from the line of the strictest cooperation in this regard would unquestionably harm the interests of all the companies concerned including their own. The Netherlands companies have also felt, from the very beginning of the controversy, that a settlement should be reached, the principles of which were to be the same for all claimants.

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<sup>45</sup> Left by the Netherlands Minister with the Legal Adviser on February 9.

Under these circumstances the Netherlands Legation has been instructed to express fear that arbitration which would deal with only one set of claims might well cause to the remaining sets the prejudices which the oil companies, by their united stand, sought to avoid.

Her Majesty's Government therefore sincerely hopes that the United States Government will share the former's view that in case arbitration should be decided upon, the arbitral tribunal be given power to deal with the claims of both American and Netherlands companies interested in the dispute, and that such power be granted previous to the constitution of the tribunal. To this effect the Netherlands Legation expresses the hope that if the United States and Mexican Governments reach an agreement as to the submitting of the American claims to arbitration, the United States Government may see its way to render its execution conditional to the conclusion of a similar agreement between the Netherlands and Mexican Governments, which the former would be willing to enter into once the principle of arbitration should have been agreed upon between the United States and Mexican Governments.

If the United States Government should share the views of the Netherlands Government it would seem advisable that consultation between both Governments take place regarding the terms of reference to the proposed tribunal.

WASHINGTON, February 8, 1940.

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812.6363/6503½

*The British Embassy to the Department of State*

His Majesty's Ambassador duly informed His Majesty's Principal Secretary of State for Foreign Affairs of the substance of his conversation on February 5th with the Under Secretary of State when the latter stated that the United States Government had decided to propose to the Mexican Government that the claims of the American oil companies against the Mexican Government should be submitted to arbitration and that they felt unable to agree with the views of His Majesty's Government as set out in His Majesty's Embassy's *aide-mémoire* of February 5th regarding the desirability of the claims of the American and British companies being dealt with together before the same arbitral tribunal. Lord Lothian also informed the Foreign Office of the suggested terms of reference to the arbitral tribunal communicated to him by Mr. Sumner Welles and which ran as follows:—

(1) What rights have been denied and what rights and properties have been expropriated, taken over or otherwise interfered with by Mexico.

(2) What losses and damages have been sustained by reason of such acts.

(3) In what manner shall the losses and damages awarded by the tribunal be paid or what other appropriate action shall be taken in order to assure prompt and faithful compliance with the award.

His Majesty's Ambassador has now been informed by His Majesty's Government that they feel bound, in view of the very close connexion between the cases of the American and British companies and of the inevitable reaction on the position of the British companies of any decision concerning the American companies, to place on record their grave concern at the proposal of the United States Government.

For the reasons explained in His Majesty's Embassy's *aide-mémoire* of February 5th, His Majesty's Government think it most important that the claims of the American and the British and the Dutch companies should be considered together by the same tribunal. The fundamental issue in all cases is the same, namely whether the Mexican Government was entitled to expropriate the properties without prompt, adequate and effective compensation and if not what the effective remedy should be. To divide the cases can only weaken the collective resistance both of all the oil companies and of all the governments concerned to manifest injustice, and it would certainly be taken as a victory for the Mexican policy of spoliation—a policy which has by no one been more formidably arraigned than by the United States Government itself.

Moreover His Majesty's Government cannot but feel that to deal with the two sets of claims separately will seriously impair that friendly cooperation which has now existed for so many years between the various oil interests, and may well have serious repercussions not only within the different groups of companies concerned but also in foreign countries where governments are often prone to take advantage of such dissensions. In particular to propose that the case of the American companies should be disposed of separately might well encourage the Mexican Government to endeavour to deal separately and in their own way with the various parties, to the prejudice of all concerned, while it involves the risk of disclosing such a weakness on the part of the oil companies that the Mexican Government may be encouraged to disregard a settlement of any kind. The prospects of any of the companies obtaining adequate redress would seem to be seriously prejudiced by this proposal and there is furthermore the danger that other governments may be encouraged to embark on a similar process of expropriation. His Majesty's Government are sure that the United States Government has no thought of initiating a process which might secure some compensation for the American companies at the expense of the British and the Dutch companies.

Finally, in a case such as this where the main issue is perfectly plain and, apart from the extent of the interests involved, virtually identical for all companies concerned, it would in the opinion of His Majesty's Government be contrary to good sense and justice to settle the same dispute twice over merely because two sets of claimants were involved. An analogous case in municipal law involving two sets of companies would undoubtedly at the instance of either plaintiffs or defendants, and even if the other party opposed application, be consolidated and tried together as one. Moreover it is perhaps relevant to point out that from the point of view of expense and convenience much time and money might be saved in reaching a final settlement if the costs of the hearing of the dispute were borne equally between companies according to amounts of their respective interests. The United States Government themselves would, His Majesty's Government believe, be far more likely to obtain a satisfactory settlement from arbitration by the road of a common hearing since if that principle were abandoned the tribunal, whilst engaged in settling the dispute with one set of companies, would inevitably be thinking constantly of what another tribunal might do in a subsequent case involving other companies' interests. Nor does His Majesty's Government believe that if the Mexican Government is really prepared to arbitrate that it will be deterred because the tribunal is appointed by the Hague Court and not under the Pan-American arbitration agreement.

The idea of a single arbitration has thus, His Majesty's Government are convinced, everything to commend itself on grounds of procedure both from the legal and commercial points of view and on grounds of justice, expense and convenience. As His Majesty's Government see it there is an identity of interests so far as all the companies are concerned, and the companies themselves are known to be anxious to ensure a settlement of the whole dispute at one arbitration. His Majesty's Government are still hopeful that in the light of the foregoing the United States Government will be prepared to give further consideration of His Majesty's Government's representations that both sets of claims should be dealt with before the same arbitral tribunal.

Apart however from this aspect of the matter His Majesty's Government feel obliged to express their serious concern in regard to the terms of reference which Mr. Sumner Welles indicated to His Majesty's Ambassador on February 5th would be proposed to the Mexican Government in connexion with the suggested submission of the American companies' claims to arbitration. In view of the identity of interest between the American and British companies His Majesty's Government feel entitled to call the attention of the United States Government to the following considerations concerning these terms of reference.

In the first place the proposed terms of reference do not appear to cover the "five objectives"<sup>46</sup> put forward by Mr. Richberg, with, it is understood, the approval of the United States Government, in his negotiations with the Mexican authorities in March, 1939. Nor do they seem reconcilable with the view of His Majesty's Government that the submission to arbitration must make it possible for the tribunal to order the restitution of the properties to the companies—a view which His Majesty's Ambassador had understood from his conversation with the Secretary of State on January 30th<sup>47</sup> was shared by the United States Government. Taken as a whole, the proposed terms of reference seem to His Majesty's Government to amount to an invitation to the tribunal to award compensation in terms of money damages, while the whole stress is laid upon the question of the assessment of such damages and the manner in which they are to be paid.

In particular His Majesty's Government feel that the words in Question (2) "losses and damages" are peculiarly appropriate to an award made on the basis of money compensation. In their view it would be preferable for the question to be framed not so much with the object of assessing the amount of such losses and damages (which must in any case be very difficult to ascertain) but with the object that the tribunal should decide whether the actual appropriation and interference by the Mexican Government with regard to the properties of the companies are such as to entitle them to claim redress for damage caused to their interests.

Question (3) appears to His Majesty's Government as at present framed to deal not with the redress or compensation to be made to the companies but with the manner in which the award is to be carried out. It seems to presuppose that the tribunal shall make an award assessing the losses and damages in terms of money and the question dealt with is the *manner* in which *payment* of these damages is to be made. From the point of view of His Majesty's Government this is open to serious criticism.

Furthermore the remaining words of Question (3) "or what other appropriate action should be taken in order to assure prompt and faithful compliance with the award" seem also to be concerned with the means to be employed for carrying out the award and not with the terms of the award itself.

Finally, if the words "other appropriate action" are meant to cover the possibility of the restitution of the properties to the ownership or to the management of the companies on the basis of the "five objectives", they seem to His Majesty's Government to be inadequate for the purpose. Indeed His Majesty's Government feel that it is doubtful

<sup>46</sup> For the "five objectives" see letter of August 10, 1939, from the President of the Standard Oil Company of New Jersey, *Foreign Relations*, 1939, vol. v, p. 690.

<sup>47</sup> No record of conversation found in Department files.

whether as a matter of law the words are sufficiently wide to empower the tribunal to order the restitution of either the ownership or the management to the companies on the basis of some or all of the "five objectives".

It has not been possible for His Majesty's Government in the time at their disposal to formulate any definite alternative suggestions on this subject, but their purely tentative view is that the questions to be referred to the tribunal might be: whether the companies are by reason of the action of the Mexican Government in regard to the expropriation of the properties entitled to any redress; if the answer to this question is in the affirmative, whether such redress should be granted to the companies by restoring the properties to the ownership, the management, or the control of the companies and if so on what conditions; and if the answer to the first question is in the affirmative and to the second in the negative, whether there is any other means by which the companies can be granted effective redress.

The foregoing suggestions as to the terms of reference are purely tentative and should not be regarded as the final views of His Majesty's Government. They however make it possible for the tribunal to order the restoration of the properties to the companies on suitable terms and it is the firm conviction of His Majesty's Government—a conviction which is known to be shared by all the oil companies concerned and which from the conversation between the Secretary of State and His Majesty's Ambassador on January 30th it was understood was also held by the United States Government—that it is only on such a basis that a satisfactory and effective settlement of the dispute can be reached.

WASHINGTON, February 8, 1940.

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812.6363/6503½

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

[WASHINGTON,] February 9, 1940.

The British Ambassador called this morning at his request and left with me a memorandum<sup>48</sup> comprising what in effect amounts to a protest against the proposal of the Government of the United States to request the Government of Mexico to submit to arbitration the controversy arising from the expropriation of American-owned oil properties in Mexico. The Ambassador summarized the points contained in the memorandum. At one point he spoke of the "united front" between Great Britain and the United States in dealing with the question of expropriation in Mexico.

<sup>48</sup> *Supra*.

I said that I wanted to make it very clear that there had never been anything remotely resembling a "united front" between the governments of the United States and Great Britain; that while both governments had publicly made known their objection to the pursuit by Mexico of the policy of expropriation without compensation, the course pursued by Great Britain had been devoted very largely to a reiteration of her position that the properties should immediately be restored to the owners, whereas the United States in its representations to the Government of Mexico had never questioned the legal right of the Mexican Government to expropriate properties within its jurisdiction, but it insisted that if expropriation were undertaken there was inherent in the exercise of such right by Mexico the corresponding obligation to pay prompt, adequate, and effective compensation for whatever properties might be expropriated. This Government had, furthermore, encouraged negotiations between the companies and the Mexican Government, and while I was prepared to concede that there appeared to be a "united front" between *some* of the American companies and the British interests, I could not admit that there had been the slightest indication of a "united front" between the two governments.

The Ambassador then in discussing the terms of reference mentioned the points contained in the memorandum of Mr. Richberg's "five objectives" and stated that they were not covered by the terms of reference. He said the British Government had understood that these "five objectives" had been "approved by the United States Government".

I said that I found it necessary to take issue with that since, while this Government had approved and encouraged the negotiations between the companies represented by Mr. Richberg and the Mexican Government, this Government had never attempted to determine what the basis for such negotiation should be, nor had it ever specifically approved or disapproved any objectives which may have been presented by the companies so represented.

With regard to the question of the terms of reference, I told the Ambassador that at a conference held two days ago with representatives of the American oil companies, I had stated that we would be glad to give further consideration to suggestions proffered by the companies for amendment of the terms of reference in order to see whether it might be possible to make the suggested terms of reference more satisfactory to the companies, but that by direction of the Secretary of State I had subsequently informed the companies that Tuesday, February 13, was to be regarded as the deadline and that if by that date no suggestions had been received from the companies or no agreement had been reached between the representatives of the companies and the Department of State, our proposal of arbitration would

be presented to the Mexican Government. I mentioned again to the Ambassador that this Government had determined from the standpoint of policy to suggest resort to the Inter-American Treaty of Arbitration of 1929, and that since that was the case, it was impossible for me to give further consideration to the suggestion of the British Government that joint arbitration be undertaken in as much as Great Britain was not a signatory to that treaty. The Ambassador said he fully understood that this question of policy had been determined and that he had already so informed his Government.

I said to the Ambassador that he could inform his Government that the communication he had handed me would be given the fullest consideration by the Department of State but that such consideration would be undertaken in the light of the statements I had already made to him.

S[UMNER] W[ELLES]

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812.6363/6490

*Memorandum of Conversation, by the Secretary of State*

[WASHINGTON,] February 9, 1940.

The Minister of the Netherlands<sup>49</sup> called at his own request. He said he called to discuss the interest of his Government in the oil properties of the citizens of his country which were seized by Mexican authorities at the same time American and British oil was seized under the pretext that it was to be a bona fide expropriation proceeding. He stated that the oil owners of his country and Great Britain and the United States in Mexico, whose properties were all alike seized, have thus far cooperated and sought to work together in any steps taken for relief and recovery; and that, therefore, his Government desired this Government to join in a joint proposal of the three Governments whose nationals are affected, in proposing arbitration, and that the Hague tribunal should be the agency. I then proceeded to repeat to him the course this Government has taken up until this time with respect to arbitration with Mexico, and what the State Department has said to the owners of the American oil companies in regard to separate arbitration proposals made concurrently, rather than a joint proposal by the three Governments, and I gave him further details of our discussions with American oil owners relative to this phase, stating why we could not take this joint action.

The Minister then inquired why this Government couldn't propose an arbitration agreement between this Government and Mexico and in the event of an acceptance by Mexico, this Government should then suggest that the Mexican Government work out an agreement to arbi-

<sup>49</sup> Alexander Loudon.



trate with the British and the Dutch, before the arbitration agreement with this country should be proceeded with. I told him that would not get anywhere for manifest reasons, which I explained to him. He then got away from his idea and said that he was impressed with the main points I had made and that he would get in touch with the representatives of the Dutch interests in New York; also that he would speak briefly with Mr. Hackworth<sup>50</sup> about one or two minor phases of his conference with Dr. Borchard<sup>51</sup> and Mr. Farish.<sup>52</sup>

812.6363/6529

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

[WASHINGTON,] February 19, 1940.

[Participants:] Señor Dr. Don Francisco Castillo Nájera, Ambassador of Mexico;  
The Secretary of State.

The Secretary said to the Ambassador that in an informal sort of way he would like to obtain clarification from the Ambassador of the views regarding the petroleum controversy expressed by President Cárdenas in his press conference of January 31, 1940.<sup>53</sup>

After looking over President Cárdenas' statement, the Ambassador said that on the basis of what he knew the statement represented the judgment of the Mexican Government. With regard to the appraisals, the companies had been requested to participate but had declined and had objected to the making of the appraisals so that at the present time work on the appraisals had stopped until the competent authorities decided whether the objections of the companies were valid or not. If it is decided that the objections are not valid, the appraisals will then be continued. During the period of the appraisals the Mexican Government is ready to continue direct negotiations with the companies for a settlement in the same way that the Ambassador is now carrying on conversations with the representative of the Sinclair Oil Corporation. Once the appraisals have been made, however, the President does not have authority to change them, so that in any negotiations the amounts fixed in the appraisals could not be modified either up or down.

The Ambassador added that after the appraisals have been made, the companies have the right to object to the valuations in the Mexican courts.

<sup>50</sup> Green H. Hackworth, Legal Adviser.

<sup>51</sup> Dr. Edwin Borchard, a counsel for the Standard Oil Company of New Jersey and professor at Yale University.

<sup>52</sup> William S. Farish, President of the Standard Oil Company of New Jersey.

<sup>53</sup> See telegram No. 33, January 31, 9 p. m., from the Ambassador in Mexico, p. 981.

The Secretary then asked the Ambassador to explain further his personal views regarding President Cárdenas' views on arbitration. The Ambassador said that the President alone could give a definitive clarification of his statement but that he, the Ambassador, thought there were two steps in deciding upon an arbitration. The first step was to determine whether under The Hague Conventions<sup>54</sup> or under the 1929 Inter-American Treaty the matter was of an international justiciable character. The Ambassador thought that it was not, since Mexico considered the oil controversy an internal matter and since there had not yet been grounds for charge of denial of justice. If it were decided that the question was of an international justiciable character, the second step would be to determine precisely what is to be arbitrated. The Ambassador indicated as his personal view that if the question were the entire subject including the right of Mexico to expropriate property the Mexican Government would undoubtedly decline. Moreover, he thought that Mexico would not consider an arbitration of subsoil values. However, if it were a question of arbitrating the value of the physical properties (e. g., oil well equipment, refineries, pipe lines, storage tanks, tank cars, distribution systems, et cetera), including the terms of payments and guarantees of payments, perhaps the Mexican Government would be willing, as long as other possibilities of direct negotiations had been exhausted.

The Secretary inquired whether the Ambassador meant by "guarantees of payment" that the arbitrators would be empowered to establish in their award the guarantees necessary to assure full compliance with the terms of the award. The Ambassador replied in the affirmative. The Ambassador then reiterated that Mexico could consider arbitration only after all possibilities of direct negotiation had been exhausted, as President Cárdenas had informed President Roosevelt in his letter of October 7, 1939.<sup>55</sup>

The Secretary asked again in an exploratory way whether the Ambassador thought the Mexican Government would be willing to deal with non-American interests in the same way. The Ambassador replied that he presumed that the United States was interested only in the claims of American interests, but that Mexico would treat non-American interests in the same way as American interests.

The Secretary said that he would like to secure President Cárdenas' own clarification of his views, and that he would appreciate anything the Ambassador could do to secure it. The Ambassador said he would write President Cárdenas by airmail tonight, and would hope to have a reply by telegram within a week.

<sup>54</sup> Convention for the pacific settlement of international disputes, signed at The Hague, July 29, 1899, *Foreign Relations*, 1902, Appendix II, pp. 169-194; convention for the pacific settlement of international disputes, signed at The Hague, October 18, 1907, *ibid.*, 1907, pt. 2, pp. 1181-1199.

<sup>55</sup> Not printed.

812.6363/65234

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

[WASHINGTON,] February 19, 1940.

[Participants:] Señor Dr. Don Francisco Castillo Nájera, Ambassador of Mexico;

The Secretary of State.

The Secretary inquired whether there were any new developments in the oil situation.

The Ambassador replied that the negotiations he was carrying on with the Sinclair interests through Mr. Hurley were progressing very satisfactorily. The Mexican Government had offered to make compensation of \$9,000,000 in cash, payable in three equal annual installments, and additional compensation of approximately \$5,000,000 payable in twenty or twenty-five million barrels of oil at 25 or 20 cents, respectively, off the market price to be furnished over three to five years. This offer had not yet been accepted by the Sinclair interests but the Ambassador expected a favorable reply this week or next week at the latest. The Ambassador thought this was a generous settlement. The Sinclair interests had finally claimed \$13,800,000 as representing actual investment in physical properties. The Mexican Government thought this high: first, because a fire prior to expropriation had destroyed a refinery worth \$2,000,000 and secondly, because an oil field claimed to be worth several millions had been proven non-commercial as a result of the drilling of two wells which had been started prior to expropriation. Nevertheless, and in spite of the fact that the Government's appraisal showed the properties to be worth only \$5,000,000, the Government had agreed to pay practically \$14,000,000 in order to get a settlement. The Ambassador added that other companies would probably not be treated as generously.

The Ambassador stated that Cities Service and the Standard of California had recently approached the Government to open negotiations. The Government will negotiate with them as soon as the agreement with the Sinclair interests has been signed. The books of these two companies show a value of approximately \$2,000,000 for Cities Service, and \$3,000,000 for the Standard of California. Negotiation with the latter should be not difficult since it had no oil leases in Mexico and no producing system, only a distribution system. The determination of the value of this distribution system should present no unusual problems.

If agreements were arrived at with Cities Service and the Standard of California, this would leave only the Standard of New Jersey outside of an agreement. The Ambassador said that on two recent occasions, the last time only last Friday, Mr. Hurley had been called

by Mr. Farish, President of the Standard of New Jersey, and asked if he would undertake to represent the Standard in negotiations with the Mexican Government. Mr. Hurley replied that he would consider this if the negotiations he had undertaken on the part of Sinclair succeeded.

The Ambassador also stated that the top officials in Mexico of the Aguila had just been called to New York. He thought this might mean that the Shell, too, was about to get in touch with him to negotiate a settlement.

Dr. Castillo Nájera passed some severe strictures on Mr. Richberg. He did not think that Mr. Richberg had handled the negotiations well. It was impossible for the Mexican Government to know when Richberg was talking for himself and when for the companies.

The Secretary inquired to what extent Richberg was talking for all of the companies. The Ambassador said that he represented all of the companies, including the Shell and Sinclair.

Later, the Ambassador told me that the books of the Standard of New Jersey showed that the physical properties of the Standard were valued at \$15,000,000. I inquired whether this included the value of concessions. The Ambassador said that it did not, that if the Standard wanted an agreement, it would have to give up any thought of receiving anything for its subsoil rights just as Sinclair was about to do.

LAURENCE DUGGAN

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812.6363/6539 : Telegram

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

MEXICO, February 27, 1940—9 p. m.  
[Received February 28—2: 45 a. m.]

65. Suárez advised Lockett<sup>56</sup> tonight that the President has called representatives of Petroleum Syndicate for tomorrow morning to present to them a plan for full reorganization of petroleum industry. Plan calls for severe reduction in salaries of administrative officers but not of workers, discharge of employees in excess of number employed by former companies, severe economies in all operations, and greater discipline. Said President was already assured of cooperation of syndicate and that while the President would present only general outline of reorganization tomorrow petroleum administration had every detail ready for immediate application. Suárez said reorganization and economy necessary to accomplish plans for this year including the building of pipe lines, purchase of more tankers, reconstruction of refineries, and the increase of export petroleum to 200,000 barrels daily principally from Poza Rica.

DANIELS

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<sup>56</sup> Thomas H. Lockett, Commercial Attaché.

812.6363/6594

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

[WASHINGTON,] March 1, 1940.

[Participants:] The Secretary  
Mr. Patrick Hurley

The Secretary gave me some notes that he made during a conference with Mr. Hurley. It would appear that Mr. Hurley explained the details of the proposed arrangement between the Mexican Government and the Sinclair Oil Company for compensation for the properties belonging to the company that were expropriated by the Mexican Government in March 1938. The company considered that its properties in Mexico were worth \$13,890,000. In settlement it offered to take 20,000,000 barrels in oil. The Mexican Government agreed to settle on the basis of \$9,000,000 in cash, \$3,000,000 to be paid annually for three years, plus 20 or 25 million barrels of oil to be sold to the company at 20 or 25 cents below the posted price.

Mr. Hurley explained that this arrangement would only be feasible provided it were possible to arrange for an increase in the amount of Mexican petroleum that can enter the United States at the reduced tariff. At the present time Mexico's share is around 2,000,000 barrels per year. Unless this were increased to 4,000,000 barrels per annum, which the Sinclair interests could use, the proposed arrangement would not be satisfactory to them.

LAURENCE DUGGAN

812.6363/6595

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

[WASHINGTON,] March 2, 1940.

[Participants:] The Secretary of State  
The Mexican Ambassador

The Ambassador stated that on Wednesday, February 28, President Cárdenas called him on the telephone to request him to proceed immediately to Mexico by airplane to discuss the questions raised by the Secretary in his conversation with the Ambassador on February 19. The Ambassador hoped to be back in Washington by March 10.

The Secretary said that what he would like to find out in an informal but official way was whether President Cárdenas was opposed to arbitration of the petroleum controversy, as he stated in his press confer-

ence of January 31, 1940. He felt sure that President Cárdenas would understand that this Government, in making its plans, would wish to have directly from him a confirmation or denial of his position as reported in the press.

The Secretary then went on to explain that he preferred, and he thought this also would be the desire of President Cárdenas, to ascertain the President's position on arbitration through an oral and informal exchange of views rather than through an exchange of notes that might result in long arguments. He would like this information to help him in deciding what he should do with respect to the interests that were in touch with him.

The Secretary thought that the questions presented were simple and said that he hoped that the President would give a simple and specific reply. In effect, all the Secretary wanted to know was whether the Mexican Government would agree to an arbitration of the petroleum controversy under an arrangement which would contain guarantees for the fulfillment of the award; moreover, since the Ambassador had at his earlier meeting indicated that Mexico had been treating the oil companies as a unit in the discussions with Mr. Richberg, would the Mexican Government continue to treat them as a unit in connection with an arbitration, offering to all interests the same proposition.

The Ambassador replied that he understood from what the President told him over the telephone that the President was not favorable to arbitration and that the President had decided that it would be desirable to give the Secretary a memorandum setting forth his reasons for opposition to arbitration. The Ambassador thought that the President wanted to go further than this and to include in the memorandum his ideas for solving the controversy through direct negotiations with the several interests. In that connection, the Ambassador stated that the negotiations with the Sinclair interests were progressing satisfactorily and that possibly that settlement, if it went through, might serve as a model for settlements with the other interests. The Ambassador then explained at some length that the agreement with Sinclair was premised upon an increase in the amount of Mexican petroleum which could enter the United States at the reduced duty.

The Secretary expressed his hope that the President would make the memorandum commenting upon arbitration as simple as possible. If the President desired also to give his ideas on a possible basis for solution, the Secretary suggested that the President might put those ideas in a separate memorandum. Regarding the possibility of an increase in Mexican participation in the quota of oil that can enter the United States at a reduced duty, he said that there were many difficulties involved. He mentioned the probability that Venezuela and other areas would object to any diminution in their quotas,

particularly since in the case of Venezuela the petroleum concession was the only really important concession that Venezuela had received in the trade agreement, and that any arrangements for compensation that Mexico might enter into based upon the reduced duty would be premature because there were great difficulties to working out an increase for Mexico and precarious, since the reduced duty itself depended upon the continuance of the trade agreement with Venezuela, which Venezuela could denounce.

The Secretary stated that he would like to be sure that it was understood that when he talked of an arbitration he of course meant an arbitration wherein the arbitrators would be empowered to set forth in their award the guarantees they considered necessary to assure the fulfilment of the award.

The Ambassador stated that he understood the Secretary's point of view on this, but that he wanted to state his own belief that President Cárdenas at this moment was not prepared to agree to an arbitration but preferred to endeavor to work out direct settlements through negotiation with the several interests. The Ambassador thought that if an arrangement were arrived at with Sinclair it would be possible to reach somewhat similar agreements with the Standard Oil of California and the Cities Service interests. This would leave only the Standard Oil of New Jersey. The Ambassador thought that on the same basis that the Sinclair settlement had been calculated, the value of the interests of the Standard Oil of New Jersey in Mexico would be around sixteen million dollars. He indicated that Mexico would be willing to settle with the Standard Oil of New Jersey, but that that company had not shown itself interested in reaching a direct settlement since the breakdown of the negotiations with Mr. Richberg.

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812.6363/6600

*The Mexican Embassy to the Department of State*<sup>57</sup>

[Translation]

MEMORANDUM

The declarations of January 31, 1940, took into account principally the arbitration proposed by the oil companies as it appears in the publication *Present Status of the Mexican Oil Expropriation* in which the said companies disclose that they addressed themselves to the Department of State on May 9, June 16 and July 25, 1938,<sup>58</sup> suggesting

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<sup>57</sup> Handed by the Mexican Ambassador, who had just returned from Mexico, to the Secretary of State on March 16. The Secretary said he thought it advisable to have the memorandum translated and to make a study of it before undertaking to discuss it.

<sup>58</sup> None printed.

to the said Department that the Governments of the United States, of Great Britain and of the Netherlands submit to the international arbitration of three judges, choosing them from the list of the Permanent Court of Arbitration at The Hague, the points of denial of justice regarding the legality, according to international law, of the Expropriation Decree of March 1938 and the validity of the subsequent expropriations which the oil companies may have suffered without compensation in Mexico. According to the same publication the companies suggested that the terms of a *modus vivendi* be agreed upon which would restore in so far as possible the *status quo* before March 1938, pending the handing down of a decision by the arbitral tribunal, and in case the decision should be adverse to Mexico, that the properties be delivered to the companies in accordance with the conditions of compromise proposed January 26, 1936 [1939].

These suggestions of the companies are unacceptable to the Mexican Government.

And therefore an arbitration with the said objectives must be refused.

The Mexican Government judges that the right of expropriation is beyond discussion, and the said Government is agreeable to paying the respective indemnity and therefore it cannot obligate itself to conclude a contract contrary to its own laws.

As regards the Mexican oil company "El Aguila", a stock company, the Government of Mexico could not submit itself to any arbitration nor would it discuss with another government the situation of the said enterprise in view of the facts that:

*a.* "El Aguila" is a Mexican company, organized and constituted in accordance with the laws of Mexico, and as such legitimately prevented from invoking the diplomatic protection of a foreign government.

*b.* International Law plainly rejects the possibility that foreign shareholders of a national company may have recourse to the diplomatic protection of their governments for the purpose of protecting them on account of damages which the said company may suffer.

*c.* *A fortiori*, the stockholders of "El Aguila" agreed with the Government of Mexico not to have recourse to the protection of any government; a renunciation which appears on the shares of the said company.

*d.* The shares of the Mexican oil company, "El Aguila", a stock company, are bearer certificates which frequently change ownership, and it is difficult to determine the nationality of the holders at the moment of expropriation. Further, the Government of Mexico is disposed to grant to the Mexican oil company, "El Aguila", a stock company, the same just treatment which it is disposed to grant foreign enterprises.

With regard to the expropriated companies of American nationality, it is proper to express the following considerations:



1. There exists no divergence of opinion between the Government of the United States and that of Mexico regarding the right of the Mexican state to expropriate any private property by payment of a just compensation, as Mexico is agreeable to paying such indemnity to the expropriated companies.

2. It is well known that the negotiations undertaken between the Government of Mexico and the companies under consideration for the purpose of seeking a form of reciprocal cooperation with the object of operating to the common benefit the expropriated properties came to no result. The negotiations which are under way with the Sinclair group are the only ones in which both parties have agreed to determine the value of the properties expropriated.

3. With the exception indicated in the foregoing paragraph, the companies have systematically refused to discuss directly with the Mexican Government the value of their properties as well as the conditions and the guarantees of payment.

4. The proceeding initiated by the Government for the purpose of determining the value of the said properties is pending before the Mexican courts. The companies have refused until now to name the experts who together with those designated by the competent court should proceed to determine the values.

5. No official discussion has yet been had, between the governments of Mexico and of the United States, of the only point pending settlement, that is, the amount of the indemnity and the manner and guarantee of payment. The Government of Mexico is convinced that these conditions—indemnity, manner and guarantee of payment—will be satisfactorily settled, since the said Government has the resources to meet these conditions.

The Government of Mexico understands that the possibility of an international arbitration on a point of International Law should be proposed only when the question arises of settling a matter of fact or of law respecting which it has not been possible for two or more governments to reach an agreement, a circumstance which does not arise in this case, since the governments of Mexico and of the United States have not expressed their respective points of view as to what should constitute a prompt, equitable and adequate indemnity to compensate the American oil companies.

On that account, my Government believes that, in the present status of the matter, it would be premature to propose the possibility of arbitration and feels that, in order to determine the amount of the indemnity, the decision of the Mexican courts should be awaited, a decision which will very shortly be known, in as much as the data necessary to determine the corresponding valuation are now at hand.

Nevertheless, in its reiterated eagerness to reach a satisfactory solution, my Government would be disposed to accept the good offices of that of the United States in order to discuss with the companies what should be considered as a prompt, equitable and adequate compensation.

In case the companies should refuse the good offices, the Government of Mexico would suggest that :

a. The governments of Mexico and of the United States designate, respectively, one or several experts to present and discuss their points of view regarding the calculation of the value of the expropriated properties, and regarding the form and guarantee of payment of the indemnity.

b. When the experts have concluded their labors, they will render to their respective governments a joint report, indicating the points on which they have agreed, as well as the points of variance, if any.

c. In view of the report submitted, the two governments would proceed to decide, in subsequent conversations, upon the proper measures to settle the question in a definitive manner.

My Government is certain that the experts will be able to complete their labors within a very short period since the Government itself has collected all the data to facilitate the labors of the joint commission.

WASHINGTON, March 16, 1940.

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812.6363/6609½

*Memorandum by the Counselor of the Department of State (Moore)*

[WASHINGTON,] March 20, 1940.

I regret to say that the note of March 16, 1940 is a most unsatisfactory discussion of a subject that has been under consideration in one way and another for two years.

The note asserts that the "right of expropriation is beyond discussion" but it fails to recognize that the right cannot be exercised without making effective adequate and prompt compensation to the owner or owners of the property seized. In this instance, not only has there been a failure to make such compensation, but thus far there has even been a failure to make any specific offer of compensation. As heretofore stated in another connection, expropriation, without compensation of the character indicated amounts to confiscation.

The note refers to a suggestion of arbitration which is said to have been made by the American owners of the oil properties that were seized. It is only necessary to say that the suggestion was not made by this Government, which is exclusively concerned with the claims of its own nationals. Relative to possible arbitration, it is very much desired to ascertain whether the Mexican Government is willing to submit to the decision of an impartial arbitration tribunal all of the questions pertaining to the American claims that have been raised or can be raised for final adjudication, and that Government is invited to furnish definite information as to its attitude in that regard.

Nothing apparently could be gained by this Government extending its "good offices" as proposed in the note, whatever that may mean, nor could anything be gained by the appointment of experts as proposed to develop "points of view regarding the calculation of the value of the expropriated properties and regarding the form and guaranty of the payment of indemnity". The experts would not be vested with any such jurisdiction as would be vested in an arbitral tribunal, and their recommendations would in all human probability be as inconclusive and futile as apparently have been the results of the conferences between the property owners and the Mexican Government.

At this moment it would seem entirely irrelevant to comment on the statements contained in the note as to the "El Aguila Company" or to comment upon the alleged refusal of the American owners to enter into certain negotiations which it is apparent excluded the possibility of a consideration of some of the basic questions involved.

Unless the Mexican Government, as I am not willing to believe, desires to limit the effort of this Government to obtain a full recognition of the legal rights of its nationals, and complete and adequate indemnity for the injuries they have suffered or may suffer, it is my belief that that Government will promptly agree that the only method of disposing of the controversy is by the creation of an impartial arbitration tribunal that would have unlimited authority to canvass and decide all of the legal and practical questions involved.

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812.6363/6651

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

[WASHINGTON,] April 3, 1940.

The Mexican Ambassador called upon me this morning at my request. I handed the Mexican Ambassador the note signed by the Secretary of State of today's date <sup>59</sup> and told him that I would request him to communicate it to his Government at his early convenience. I further said that for the time being this Government did not propose to make the text of the note public.

The Ambassador told me that he was having a further interview this afternoon with Mr. Hurley and other representatives of the Sinclair interests and that he believed that a final agreement would be reached at that meeting for a settlement of the Sinclair properties expropriation claim on the basis of compensation of \$9,000,000 to be paid in oil over a period of years. In addition thereto, the Sinclair

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<sup>59</sup> *Infra.*

Company would claim something over \$4,000,000 for their physical investments in Mexico and the Mexican Government would pay for this claim in the same manner, providing a subsequent accounting verified the amount claimed by the Sinclair Company. The Ambassador said that his Government had reason to believe that the amount to which the Sinclair Company was entitled in this latter category was less than that claimed and that an impartial accounting would confirm this belief.

The Mexican Ambassador said that with this settlement it would be necessary for the United States Government to increase the quota permitted Mexico for Mexican oil inasmuch as otherwise the Sinclair Company could not recoup the amount of the indemnity which was to be paid by the Mexican Government. He stated that Mr. Hurley was going to make representations in this sense in the near future, pointing out that Venezuela was not utilizing the quota granted it and the amount not utilized by Venezuela should be diverted to Mexico, particularly since the Mexican quota was based upon the period of the last three years which included the period subsequent to expropriation during which period importations of oil from Mexico had been abnormally low.

I told the Ambassador that my own view was that there was involved a question of principle and not a question of indemnity due to one particular company. I stated that the note which I had handed to the Ambassador provided an honorable and friendly way for the settlement of the basic difficulties which had created so much damage to the two countries and to the best interests of the peoples of the two countries. I stated that with the submission to arbitration of the petroleum controversy and the settlement of the General Claims, both Governments could go ahead with common sense to a friendly adjustment of all the important problems pending between them, and that if this course were pursued, such matters as the amount of the oil quota to be given the Mexican Government would most decidedly be settled in a manner satisfactory to both Governments. I told him, however, that I was afraid I could hold out no hope that any constructive steps could be taken towards the adjustment of these problems until and unless Mexico were willing to pass through the open door which had now been offered by the United States in the note I had given him.

The Ambassador seemed well disposed and stated clearly that the public statement made by President Cárdenas rejecting the idea of arbitration had referred solely to the kind of arbitration proposed by the Standard Oil Company and that President Cárdenas had not placed himself in a position where he could not in a dignified and proper manner accept the principle of arbitration.

I said I was glad to hear that this was the case and that I felt sure that the Ambassador would urge upon his Government a resort to the procedure indicated in the note in question.

The Ambassador said that he would advise me of the final result of the interview today with the Sinclair interests and also said that if there were any points in the note upon which he required clarification, he would telephone me before sending it to his Government.

S[UMNER] W[ELLES]

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812.6363/6659a

*The Secretary of State to the Mexican Ambassador (Castillo Nájera)*

WASHINGTON, April 3, 1940.

EXCELLENCY: During the course of the past years there have arisen between the Government of the United States and the Government of Mexico many questions for which no friendly and fair solution, satisfactory to both Governments, has been found. Certain of these problems are of outstanding importance and their equitable solution would redound to the immediate benefit of the peoples of both of our countries.

Animated by the desire to find such an adjustment of all of these pending matters, this Government proposed some two years ago an immediate and comprehensive study by representatives of the Government of the United States and of the Government of Mexico, for the purpose of preparing the way for an expeditious settlement of these controversial questions, the just solution of which would undoubtedly do much to cement the friendly relations between our neighboring peoples.

At that very moment the Government of Mexico by an executive decree expropriated large holdings of oil properties, amounting in value to many millions of dollars and belonging to American nationals, for which no payment has been made and for which there is no present prospect of payment. At various times the Government of Mexico has indicated its ability and readiness to pay. But the fact remains that no payments have been made.

The Government of the United States readily recognizes the right of a sovereign state to expropriate property for public purposes. This view has been stated in a number of communications addressed to your Government during the past two years and in conversations had with you during that same period regarding the expropriation by your Government of property belonging to American nationals. On each occasion, however, it has been stated with equal emphasis that the right to expropriate property is coupled with and conditioned on the obligation to make adequate, effective and prompt compen-

sation. The legality of an expropriation is in fact dependent upon the observance of this requirement.

In my note to you dated July 21, 1938<sup>60</sup> I stated that the whole structure of friendly intercourse, of international trade and commerce, and many other vital and mutually desirable relations between nations, indispensable to their progress, rest upon respect on the part of governments and of peoples for each other's rights under international law. I stated that the right of prompt and just compensation for expropriated property was a part of this structure; that it was a principle to which the Government of the United States and most governments of the world have emphatically subscribed, and which they have practiced and which must be maintained. The Government of Mexico has professed support of this principle of law.

The Government of Mexico has, however, unfortunately, not carried this principle into practice.

Because of its conviction that until this fundamental question be solved in accordance with the recognized principles of equity and of international law, there could not exist an appropriate or favorable opportunity for the solution of all of the other questions pending between the two Governments, and which my Government had been most desirous of adjusting, the Government of the United States has been prevented from proceeding with the negotiations which it had initiated.

On March 16, 1940 you were good enough to hand to me an informal memorandum pursuant to our earlier discussions of the difficulties arising out of the expropriation by your Government of the oil properties belonging to American nationals. Without undertaking to pass in any way upon the memorandum as a whole, it is important to have a clarification of two or three of the points raised therein.

It is stated (a) that "the Mexican Government judges that the right of expropriation is beyond discussion", and (b) that "there exists no divergence of opinion between the Government of the United States and that of Mexico regarding the right of the Mexican State to expropriate any property by payment of a just compensation, as Mexico is agreeable to paying such indemnity to the expropriated companies."

I am compelled to take exception to the statements that the "right of expropriation is beyond discussion" and that "there exists no divergence of opinion between the Government of the United States and that of Mexico" in this respect.

As above stated, in the opinion of the Government of the United States the legality of an expropriation is contingent upon adequate, effective and prompt compensation.

<sup>60</sup> *Foreign Relations*, 1938, vol. v, p. 674.

The difference between our two Governments with respect to this principle lies in the fact that the Government of Mexico has assumed and continues to assume to exercise a right without compliance with the condition necessary to give such exercise a recognizable status of legality.

Expropriation of property by the Mexican Government has been taking place on a large scale since 1915 under the so-called agrarian program. While there are now under way efforts looking to a settlement of agrarian claims arising since August 30, 1927, the large number of such claims which arose prior to that date and which were filed with the General Claims Commission under the Convention of 1923, as well as a very much larger group of general claims, some of which date back over a period of approximately seventy years, remain adjudicated and not a single dollar has been realized by any of the owners of the properties or by any of the other general claimants.

Accordingly, it is incorrect to state that there is "no divergence of opinion between the Government of the United States and that of Mexico" on the subject of expropriation. As stated in my note to you of July 21, 1938, in which I was discussing the expropriation of agrarian properties, the taking of property without adequate, effective and prompt compensation is not expropriation but is confiscation, and as also stated in that note, it is no less confiscation because there may be an expressed intent to pay at some time in the future.

It is also stated in your memorandum of March 16 that "since the Governments of Mexico and of the United States have not expressed their respective points of view as to what should constitute a prompt, equitable and adequate indemnity to compensate the American oil companies . . . it would be premature to propose the possibility of arbitration", and that the Mexican Government feels that "in order to determine the amount of the indemnity, the decision of the Mexican courts should be awaited".

It is difficult to imagine in what way this Government could have made plainer its point of view as to the compensation owing the American petroleum companies. Our records show that the obligation of the Mexican Government to make compensation has been kept before the Mexican Government constantly since the taking of the property. No stone has been left unturned by this Government to bring about a satisfactory arrangement for compensation. Moreover, the statement of your Government is not in the nature of things an adequate answer to the suggestion that arbitration would be an appropriate method of settling the differences between our two countries; nor is the statement that the decision of the Mexican courts should be awaited by any means reassuring.

You further indicate in your memorandum that your Government would be disposed to accept the good offices of my Government in order

to discuss with the companies the question of compensation, or, in the alternative, to join with the United States, in the designation of one or more experts to "present and discuss their points of view regarding the calculation of the value of the expropriated properties and regarding the form and guarantee of payment of the indemnity".

My Government has already used its good offices in the promotion of discussions between the American companies and the Mexican Government, and those discussions, as stated in your memorandum, came to naught. I am therefore unable to perceive that there would be any purpose in reverting to a procedure that has already resulted in a complete failure, nor do I perceive how the designation of experts for the purposes stated in the memorandum would promote a satisfactory solution of the problem. The designation of experts merely to "discuss their points of views" and without authority to receive and consider evidence systematically prepared and presented, to hear arguments pro and contra, and to render decisions of a final and binding character would merely postpone an effective solution which has already been too long delayed.

During the last twenty-five years, one American interest in Mexico after another has suffered at the hands of the Mexican Government. It is recognized that the Mexican Government is making payments on the Special Claims which have to do solely with damages caused by revolutionary disturbances between 1910 and 1920, and has started payments for farm lands expropriated since August 30, 1927. But the Mexican Government has made no compensation for the large number of General Claims of long standing which include an extensive group of claims for the expropriation of farm lands prior to August 30, 1927. It has made no adjustment either of the foreign debt or of the railroad debt both long in default and in both of which American citizens hold important investments. Moreover, the question of the railroad debt was further complicated by the expropriation of the Mexican National Railways on June 23, 1937. Finally, on March 18, 1938, the Mexican Government took over American-owned petroleum property to the value of many millions of dollars, and although two years have elapsed, not one cent of compensation has been paid.

This treatment of American citizens, wholly unjustifiable under any principle of equity or international law, is a matter of grave concern to this Government. These long-standing matters must of necessity be adjusted if the relations between our two countries are to be conducted on a sound and mutually cooperative basis of respect and helpfulness.

As an important step towards placing relations between the two countries on this basis, I suggest resorting to the appropriate, fair and honorable procedure of arbitration. Accordingly, I suggest that the two Governments agree (1) to submit to impartial arbitration all



the questions involved in the oil controversy and to clothe a tribunal with authority not only to determine the amount to be paid to American nationals who have been deprived of their properties, but also the means by which its decision shall be executed to make certain that adequate and effective compensation shall promptly be paid, and (2) either to submit to an umpire, as contemplated by the General Claims Protocol of 1934,<sup>61</sup> the unadjudicated claims falling under the Convention of 1923,<sup>62</sup> or proceed immediately to the negotiation of an en bloc settlement in accordance with that Protocol.

There exists at this time a complete solidarity on the part of all the American Republics in upholding the principle that international differences of a justiciable character, which it has not been found possible to adjust by diplomacy, shall be submitted to arbitration. I think that the questions here involved fall within this category. At a period when in other parts of the world there is seemingly a growing disregard for the established principles of international law and orderly processes and an increasing tendency to substitute force for pacific methods of settling controversies, it is all the more desirable that the Governments of Mexico and the United States, firm in their adherence to the enlightened principles advanced and supported by all the American Republics, should signify their willingness to settle the differences between them mentioned in the preceding paragraph in the friendly manner indicated.

With the submission to arbitration of the oil controversy and the adjustment of the General Claims matter, the two Governments would then be in a position to go forward at the same time with the negotiations interrupted by the oil expropriation for a general settlement of all other pending matters. This Government earnestly urges this course, as it has consistently done in the past.

I shall be glad to learn whether your Government is favorably disposed to proceed along these lines.

Accept [etc.]

CORDELL HULL

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812.6363/6650

*The Netherlands Minister (Loudon) to the Secretary of State*

WASHINGTON, April 4, 1940.

SIR: I have the honor to refer to the conversation I had the privilege of having with Your Excellency on February 8th [9th] concerning the Mexican Oil Dispute and the memorandum I left with you on that occasion.

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<sup>61</sup> Department of State Treaty Series No. 878; 49 Stat. (pt. 2) 3071.

<sup>62</sup> Department of State Treaty Series No. 678; 43 Stat. (pt. 2) 1722.

In the last paragraph of that memorandum the advisability was stressed that eventually consultation between our two Governments might take place regarding the terms of reference which might be adopted in case it were decided to submit the claims of all the oil companies to some form of international arbitration.

I now have received instructions to inform you that the Netherlands Government has been advised of the terms of reference which Mr. Farish in his letter of March 14th<sup>63</sup> communicated to you on behalf of the American companies and that my Government regards these terms of reference as very suitable although possibly some improvements might still be made in the text.

Especially the provisions of the new article 10, according to which, pending the award of the tribunal, the expropriated properties or rights should be restored to the management of the respective oil companies, seem, in the opinion of the Netherlands Government, hardly acceptable to the Mexican Government.

Please accept [etc.]

A. LOUDON

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812.52 Agrarian Commission/137

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

[WASHINGTON,] April 9, 1940.

The Mexican Ambassador called to see me today at my request. I handed him the *aide-mémoire* of today's date<sup>64</sup> with regard to the Agrarian Commission and a suggested solution of the agrarian claims question. The Ambassador said that he would give this memorandum his immediate attention and would do what was possible to expedite a decision.

I asked the Ambassador what reaction he had received with regard to the note proposing arbitration of the oil controversy and solutions of the other pending problems between Mexico and the United States. The Ambassador stated that tremendous agitation had been created in Mexico as a result of the sending of this note. He said that a false report published in the press to the effect that Mexico was purchasing eight million dollars worth of arms in this country had been exploited in Mexico as meaning that the note of the United States Government contained in it a threat of armed intervention in Mexico. He said

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<sup>63</sup> Not printed. Mr. Farish suggested to the Department that in the contemplated arbitration of the petroleum question the United States, Great Britain, and the Netherlands jointly appear as plaintiffs. Acting as one party, the three countries would nominate two arbitrators, the Mexicans two, and the four would select a fifth. In the event of disagreement two members of the Permanent Court of Arbitration at The Hague would make the selection of the fifth arbitrator. (812.6363/6583)

<sup>64</sup> *Ante*, p. 955.

that Lombardo Toledano<sup>65</sup> had arranged for the declaration of two holidays on April 11 and 12 so that labor demonstrations and popular manifestations in support of the position taken by the Government and in opposition to the United States might be held. He expressed the belief that the situation was really very serious.

I asked the Ambassador why a constructive, friendly and courteously worded note on the part of this Government, calling attention to the just grievances of our citizens and proposing an impartial arbitration of one of the pending controversies between the two Governments, should be regarded as aggressive. The Ambassador merely replied that Mexico had no faith in arbitration as a result of past experience. I inquired, if that was the case, why Mexico at every inter-American conference always took the lead in espousing the cause of obligatory arbitration, but to this he had no reply to make.

The Ambassador told me that various Latin American representatives in Mexico City had come to the Mexican Foreign Office to tender the good offices of their governments in the dispute between the two countries. I said to the Ambassador that this was the first time I had ever heard of good offices being tendered when one country proposed to another a solution of their dispute by recourse to friendly and impartial arbitration.

I stated that in view of what the Ambassador said, I felt there was no reason to delay, and every reason to expedite, publication of the text of our note to Mexico. The Ambassador said that he fully agreed with me and that he would so recommend to President Cárdenas in a conversation which he intended to hold with him this evening on the telephone. I stated that publication, as I had told him when I handed him the note, was a matter which would have to be determined solely by this Government once the note in question had been duly received by the appropriate Mexican authorities. I said that consequently we would reserve complete liberty of action with regard to publication and that I would recommend to the Secretary of State that publication be made immediately.<sup>66</sup> The Ambassador said that he believed this would be helpful and salutary and that he trusted the excitement would die down.

S[UMNER] W[ELLES]

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<sup>65</sup> Vicente Lombardo Toledano, Mexican labor leader.

<sup>66</sup> The note of April 3 was released to the press April 9; published in Department of State *Bulletin*, April 13, 1940, p. 380.

812.6363/6800

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

[WASHINGTON,] April 23, 1940.

The Mexican Ambassador called to see me this morning at my request.

I asked the Ambassador if he had any recent news from Mexico and he replied that he assumed that the answer to our recent note would be delivered tomorrow, April 24, inasmuch as a meeting of the Cabinet had been called in Mexico City to pass upon the final draft of the note and he thought the document would be despatched immediately after the session of the Cabinet. He said he had no indication as yet from his own Government as to the nature of the reply but that he had strongly recommended upon two occasions that the reply should not constitute a rejection of the United States proposal but should rather be an acceptance in principle of the proposal for arbitration, only modified so as to provide for the constitution of a joint commission with an umpire who, in case of disagreement, would have the final word. He further said—what he had not previously told me—that both in a personal letter to President Cárdenas, as well as in a conversation he had had with the President in the spring of 1938, he had urged the Mexican Government of its own initiative to propose arbitration of the dispute. He offered the opinion that if the Mexican Government had done that at that time, it would have avoided a great deal of unnecessary grief, but he realized, he said, that the situation during the past year had shaped itself in such a manner, because of domestic politics in Mexico, as to make it impossible for President Cárdenas to propose arbitration.

The Ambassador further said that he believed that the final agreement with the Sinclair Company would be signed today. He told me that he had received authorization by cable from President Cárdenas last night to sign the agreement and that he understood that Mr. Sinclair and Mr. Hurley would meet with him at the Embassy this afternoon in order to sign the final documents. He told me that all details had now been agreed upon, but he did not indicate exactly what these details were.

The Ambassador said that the delivery of the note proposing arbitration had resulted in very welcome political support for the government-favored presidential candidate, General Avila Camacho. He said that the simultaneous publication in newspapers and periodicals in the United States, notably *Current History*, of articles alleging that General Almazan would now be elected and would undoubtedly restore the properties to the oil companies—and which articles had been widely circulated in Mexico—had caused many of General

Almazan's followers to desert his cause and had unified and solidified support in favor of General Avila Camacho.

I told the Ambassador that that was a phase of the subject which I, of course, was not going to discuss, but I said that I had been afforded a great deal of amusement by reading pamphlets which had been circulated broadcast throughout some of the other American Republics by Señor Lombardo Toledano alleging that the note of the United States Government constituted an act "of imperialistic aggression" and an evidence of "direct intervention in the affairs of Mexico". I said I wondered whether this kind of propaganda was able to delude many people. I stated that I believed that an overwhelming majority of citizens in the other American Republics were perfectly well aware of what the word arbitration meant and were equally well aware of the fact that arbitration was exactly the way in which "imperialistic aggression" and "intervention" were avoided when disputes arose between two countries, and that I had seen no signs as yet that anyone was taken in by this kind of deliberate and malicious falsehood. The Ambassador blandly said that he thought there were a great many people who would be taken in and that they certainly had been taken in in Mexico. He stated, however, that he had urged upon his Government the need to put an end to this kind of injurious propaganda inasmuch as Mexico has always openly and officially espoused as a weak country the cause of the arbitral determination of international disputes and had expressed it as his opinion that a continuation of this kind of propaganda was highly injurious to Mexico's own best interests.

I told the Ambassador that I wanted to call to his attention the fact that I had been advised that a decree of the President of Mexico published on February 28, 1940 had provided for the annulling of certain titles in Campeche from which American companies derived title to chicle lands. I said I understood that two of the American companies interested had obtained *amparo* pending determination of their cases by the Mexican courts. I said to the Ambassador that I was not familiar with the details of these cases but that I did wish to bring this entire subject to his attention. I stated that I was familiar with other cases where American companies had owned properties in Mexico over a period of many generations, had had their titles validated upon several occasions by the highest authorities to which, at that time, they had recourse, and had now been confronted with a new attack upon the validity of their titles as a result of Presidential decree. I stated that it seemed to me that this kind of situation hopelessly and completely destroyed all confidence on the part of American property holders in Mexico. I said that in one case with which I was thoroughly familiar because of our previous discussions about it, citizens of the United States of the highest repute

had had three or four times during the past thirty years to defend their titles against the charge of invalidity and after very considerable expense and recourse to the courts and to the administrative bodies set up to pass upon titles had had their titles declared completely valid. Now, I said, these same individuals were confronted with exactly the same situation and if they now had recourse to the Mexican courts or other bodies set up to pass upon titles and had the validity of their titles once more upheld, what assurance could they possibly have that a year or two years from now they would not again be put to the same difficulty. It must be clear to the Ambassador, I said, that this kind of procedure opened the door to every variety of blackmail, placed the owners of the properties at a recurrent and very considerable legal expense, made them altogether unwilling to spend new capital in the development of their properties, and, finally, gave rise to an increasing feeling in many quarters within the United States that through such an attack on the validity of property titles the Mexican Government was seeking to expropriate without being obliged to resort to expropriation proceedings. I said that I felt the Ambassador would agree with me that the question presented was of the utmost gravity and that I hoped that upon consideration he would be able to suggest some manner in which further problems of this character could be avoided.

The Ambassador replied by a very sweeping and general statement that all of the titles now being attacked by the Mexican Executive were invalid and that no matter how long persons had held properties if their original titles were invalid they had no possible right to consideration. I replied that I was not in the least interested in defending fraudulent or vicious titles, but that what I was interested in upholding was the principle that if the owners of properties had once gone through the Mexican courts to the highest authorities to which they could have recourse and had then had the validity of their titles upheld they should not again be obliged with every changing government in Mexico to go through the same procedure. The Ambassador said that he would study the matter and see what solution could be found. He said, however, that he knew that all of these titles in Campeche had been obtained by fraudulent connivance and gave me a long account of how badly the American companies in question had treated their laborers. I merely remarked that I was sorry to learn of this if the accounts he gave me were correct and that I did not see that the treatment accorded labor by these companies affected in any way the validity or non-validity of the titles to their property.

S[UMNER] W[ELLES]

812.6363/6829

*The Mexican Minister for Foreign Affairs (Hay) to the American  
Ambassador in Mexico (Daniels)*

[Translation] <sup>67</sup>

MEXICO, May 1, 1940.

MR. AMBASSADOR: I have the honor to refer to the note sent on the third of last April by the Government of Your Excellency to the Ambassador of Mexico in Washington. In it Your Excellency was pleased to state that during recent years different matters have arisen between the Government of Mexico and the Government of the United States, some of them of notable interest, the equitable and friendly solution of which would benefit the peoples of the two countries, and that, with a view to arriving at the solution of such matters and to simplifying their prompt settlement, Your Government had suggested a comprehensive and immediate study of the same.

It is added that at that moment the expropriation of petroleum properties belonging to American citizens took place, for which no payment whatever has been made, nor is there any prospect of payment even though the Mexican Government has manifested on various occasions its disposition to pay, as well as its capacity to do so. Once more the Government of the United States admits the right of expropriation which for reasons of public utility pertains to every sovereign State, adding that such right is united to and conditioned by the obligation to make an effective, prompt and adequate compensation. For this purpose, it is recalled that in a previous note the government of Your Excellency stated that the structure of international relations in its different phases rests in the respect of governments and peoples for reciprocal rights, according to International Law, and that a prompt and just compensation was part of that structure; a principle professed by all the governments of the world and to which the Government of Mexico has lent its support.

It is correct, as the note affirms, to which I am replying, that the expropriation of the properties of the petroleum companies happened precisely when the prospect of an agreement on certain pending questions seemed to be presenting itself, but the moment was not chosen by the Mexican Government, which found itself obliged to act due to well-known circumstances.

Notwithstanding that in the note which I am answering, all matters pending settlement aforementioned are not detailed, it should be remembered that important questions exist between both Governments for an immediate and equitable adjustment of which the Mexican

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<sup>67</sup> A different translation of this document is printed in Department of State *Bulletin*, May 4, 1940, p. 465.

Government has shown a special desire; their solution should be attempted immediately, as there is no justified motive for subordinating other important questions to that of the petroleum case.

It is imputed that Mexico in spite of having declared its support of the principle of the "right of an equitable and prompt compensation for the properties expropriated", has not carried this into practice.

In this regard, my Government sees itself obliged once more to insist on what it has constantly reiterated and in every manner, that is, its resolution to pay suitable indemnity, and it would appear unjust to maintain that Mexico has not complied with the obligation contained in that principle merely because it requires, as is obvious, that the amount it is to pay must first be established. The frequent arrangements in daily transactions between private individuals, the decisions regarding the manifold controversies which are brought before local courts in suits for compensation, and among which some very important decisions could be cited, for example, those of the Courts of the United States and the arbitral awards regarding differences between States, prove in an overwhelming manner that the obligation to pay is not a requirement until after the amount to be paid is known and established by some means.

The failure to meet that obligation can be attributed to the companies themselves which have systematically refused to have the value of their properties fixed, whether in a friendly manner proposed by Mexico by means of private negotiation or before competent courts to which my Government, more desirous than the other parties interested in concluding this matter, has entrusted the task of fixing by means of expert appraisers the value of such properties according to its laws.

This decision had its origin in the attitude of the companies which have obstructed, by all the means in their power, the establishment of the amount of the compensation, the indispensable requisite to effect payment. By certain activities of the companies, as well as by publications which they have distributed, it can be seen that their efforts have ever been directed towards delaying the solution of the conflict and these have caused serious economic damages to Mexico and to the commercial relations between both countries; the companies even having cherished the hope that these differences, which should not amount to more than a controversy between the Government and a group of private enterprises, would weaken the friendly ties which unite our two peoples.

Based on the foregoing indisputable facts, it cannot be denied that my Government has shown its utmost respect, by its legal dispositions, to the principle of compensation, as well as its resolution to put it into effect. In a conciliatory spirit, it has avoided introducing into this matter the point of view supported and confirmed



by numerous cases that there is not, in International Law, any accepted universal policy in theory or in practice that makes obligatory the payment of immediate compensation, and therefore that immediate indemnization does not constitute an inherent element or a condition to the right of expropriation. Nevertheless, though on different bases, it is pleasing to my Government to recognize that there does not exist any disagreement with the Government of your country regarding the obligation of making payment of due indemnization as imposed on the Mexican Nation by its own laws.

In referring, in the note that I am answering, to the affirmation that the award of the Mexican Courts cannot be reassuring, I suppose that has reference only to the time which the procedure of evaluation would require. The note of Your Excellency also states that two years have elapsed since the expropriation of the petroleum properties was effected and that up to now no settlement has been reached. It is true that delays have existed in the legal procedure intended to determine the value of the expropriated properties, but it is to be observed that such delays have been due to the fact that my Government has had to wait until the terms stipulated by law have expired and these terms have been caused by various omissions, measures and recourses taken before the courts by the companies themselves, with the result that the courts have only been able to make their decisions relative to the legal recourses interposed by the companies within the last few days. Nevertheless, in this respect I should state that, notwithstanding the above, the legal procedure of evaluation has advanced considerably within the legal terms and soon will be finished.

Moreover, the good offices of your Government had been employed in an effort to seek other methods of settlement suggested by the companies which excluded payment from consideration and, therefore, the determination of the value of the expropriated properties, as the companies have persistently and uninterruptedly claimed the illegal return of their properties.

The Government of Your Excellency has insisted upon other occasions in sustaining the opinion that expropriation without a just and prompt compensation is confiscation and that it does not cease to be because there may exist the express desire to pay some time in the future. Mexico does not consider itself to be in such a situation, since it has not only expressed its desire to pay but has unequivocally expressed its willingness to do so, having done everything on its part in accordance with its own laws, to the end of establishing the sum to be paid.

It is mentioned, in the note signed by His Excellency, the Secretary of State, that during the last 25 years American interests in

Mexico have suffered at the hands of my country's Government, mentioning to this effect, besides the cases mentioned previously, that my Government is not up to date in the service of its foreign debt and the railroad debt. I consider that the suspension of said services does not constitute an exceptional case in the world, since the phenomenon results from causes of a general character, but further still, I should state that the possible renewal of said services was, before expropriation, in a state of very advanced negotiations and if they were suspended it was due to the campaign against Mexico in which the petroleum companies, with the help of some Governments, employed, among other measures, the boycott to totally prohibit the sale of our petroleum in other countries or else to considerably restrict it by means of imposing tariff barriers, especially those called quotas, placing an appreciable limitation on the possibilities of payment by Mexico.

The Government of Your Excellency concludes proposing that both Governments agree to submit to arbitration the petroleum question, investing a court of justice with the necessary authority, not only to determine the amount to be paid to American nationals deprived of their properties, "but also the means so that its decision may be executed and to assure that an effective and adequate compensation be soon paid".

With this in mind, the Government of Your Excellency makes an appeal to continental solidarity for the principle of arbitration, its use being more commendable because it comes at a time when an increasing contempt for order appears to be in the ascendent and there is a tendency to substitute force for peaceful measures in the friendly solution of these matters.

It pleases me to recognize that Mexico concurs with the ideas of the Government of Your Excellency in a manifestation of its persevering and firmly renewed faith that the moment will come when force will be eliminated as a means of resolving conflicts between States, using only the pacific means adopted by our Continent. If a country of America has constantly maintained its faith in arbitration, it has been Mexico, which has always scrupulously fulfilled the arbitral decisions, even in those cases where the award had been adverse, as in the recent case of Clipperton Island;<sup>68</sup> neither has it failed to recognize the utility of using this means of settling international differences, even though as in the case of Chamizal, an award<sup>69</sup> which was favorable to it has been pending fulfillment on the part of the Government of Your Excellency since 1911.

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<sup>68</sup> Arbitral Award of His Majesty the King of Italy on the Subject of the Difference Relative to the Sovereignty over Clipperton Island (France-Mexico), January 28, 1931, *The American Journal of International Law* (1932), vol. 26, pp. 390-394.

<sup>69</sup> *Foreign Relations*, 1911, p. 573.

Nevertheless, my Government does not believe that arbitration should be accepted unless the Nation has fully exercised its rights of sovereignty through the action of its tribunals and it can be proved that denial of justice exists.

In support of this principle, the protection of foreign interests has been clearly defined, not only by the most reputable authorities of the Continent, but by its normal inclusion in International Treaties.

The Convention of January 29, 1902,<sup>70</sup> relative to the Rights of Foreigners devotes itself to the principle of exhausting local recourse and to the procedure by diplomatic channels, that is to say, the interference of a Government, only in those cases of manifest denial of justice, undue delay or evident violation of the principles of International Law. The Convention of February 20, 1928,<sup>71</sup> signed at Havana, relative to the Conditions of Foreigners clearly establishes the principle of the submission of foreigners to national jurisdiction and to the local laws.

In the reservation to the Arbitration Treaty signed at Washington in 1929,<sup>72</sup> Mexico maintained that suits which fall under the jurisdiction of the tribunals will not be subject to arbitration proceedings unless there exists a denial of justice, and until the sentence dictated by the competent national authority passes to the category of something judged. Mexico was supported in this viewpoint by an important group of American countries, among which Colombia can be pointed out, which nation took the position that with the exception of a case of denial of justice, arbitration is not applicable when the judges and tribunals of the State, in accord with their legislation, are competent to solve or decide the controversy. Ecuador excepted from arbitration pecuniary claims of foreigners who had not previously exhausted their recourse to the courts of the country. El Salvador stated that pecuniary claims against the nation shall be decided by its judges and courts as it was their function to hear such cases, and that International Arbitration should only be resorted to in case of denial of justice. The Dominican Republic took the position that controversies relative to questions which are within the competency of its own courts shall be referred to the jurisdiction of arbitration only in accordance with the principles of International Law. Venezuela excluded from arbitration those matters which in

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<sup>70</sup> Presumably the Treaty of Obligatory Arbitration between Argentina, Bolivia, the Dominican Republic, Guatemala, Mexico, Paraguay, Peru, El Salvador, and Uruguay, signed at Mexico, January 29, 1902, *British and Foreign State Papers*, vol. xcvi, p. 1009.

<sup>71</sup> Convention between the United States of America and other American Republics concerning the Status of Aliens, signed at Habana, February 20, 1928, Department of State Treaty Series No. 815; 46 Stat. (pt. 3) 2753.

<sup>72</sup> Signed January 5, 1929. For text, see *Foreign Relations*, 1929, vol. I, p. 659; for reservations mentioned below, see *ibid.*, pp. 664-667.

conformity with the Constitution or the Laws of Venezuela correspond to the jurisdiction of their courts and, especially those relative to pecuniary claims of foreigners, holding that arbitration should not be resorted to in such matters until the claimant has resorted to all legal recourses and it would appear that there had been denial of justice.

Chile did not accept obligatory arbitration for those questions which, being of the exclusive competency of national jurisdiction, the interested parties attempt to remove from consideration by the proper judicial authorities, unless such authorities refuse to resolve any action or exception which any foreign individual or juridical person presents to them in the manner established by the laws of the country. Bolivia considered that those questions which in conformity with International Law correspond to the competency of the Nation can be excepted from the stipulations of the Arbitral Agreement, and Uruguay stated that arbitration was only proper in cases of denial of justice when the national courts have competency according to their own legislation.

The foregoing reveals that the unanimous will of the Continent has manifested itself in the sense that international action in favor of foreigners is proper only when internal legal recourse has been exhausted and a case of denial of justice can be cited.

Consistent with the criterion above expressed, the Arbitration Treaty, signed in Washington, which embodies the conviction of the American States regarding this matter, specifies as subject to arbitration differences of an international character and definitely excludes those of a domestic character, that is to say, those which can be dealt with and resolved by local courts.

In view of what has been stated and faithful to the principles which my Government has invariably sustained, my Government considers arbitration incompatible with said principles, as the matter under discussion is of a domestic nature and is about to be resolved by the authorities of Mexico. I make known to Your Excellency that my Government has authorized a private and direct settlement with the "Sinclair" group which represents approximately forty percent of the investments made by American citizens in the petroleum industry, and that, accepting as final the act of expropriation, discussion will be limited to total amount of compensation and the conditions of payment within a reasonable time, recognizing the justification of the Mexican point of view. Regarding the other American companies, my Government reiterates its disposition to arrive as soon as possible at a just and acceptable settlement in the event that they may prefer, prior to the decision of the Mexican Courts, to enter into direct negotiations regarding the indemnization which should be granted them and terms of payment, and,

therefore, they may follow the same procedure, in case they are really disposed to settle this question; with the understanding that, as stated in the note Your Excellency delivered that it is a point of vital interest to the American petroleum companies that assurances be given regarding the payment of the compensation, my own Government is disposed to effect said payment immediately after an agreement has been reached regarding the corresponding indemnization.

Regarding the question of land, Your Excellency's Government calls attention to the expropriation of properties which has been effected in large scale since 1915, according to the agrarian program; that from the claims presented to the General Commission, those affected have received nothing, but that at the present time efforts are being made toward a solution of those arising from 1927. I desire to call the attention, regarding these last claims, to the fact that my Government has delivered a considerable sum for the payment of these claims, but up to this moment the American Commissioner has not presented a single demand duly proven which might have been discussed and decided by the two Commissioners.

Those claims made before 1927 and which have been presented by the Governments of Mexico and the United States in the name of the Mexican and American claimants, respectively, are subject to an agreed procedure accepted by both Governments and are subject to covenants defining terms which have been extended several times upon the request of Your Excellency, and if the American claimants have not yet received any compensation for this reason which also is the case of the Mexican claimants, it is due to the fact that the Arbitration Commission has not yet decided regarding said claims. It is not a case, therefore, of demandable obligations, but of contentious credits, the evaluation of which it has not been possible to determine, it not being known, for that reason, which one of the two countries is going to be the debtor and which one is to be the creditor.

It cannot be maintained, therefore, that Mexico has in any manner obstructed the solution of the claims of the General Commission, since from the initiation of its work, my Government has been able to demonstrate, on numerous occasions, its desire to reach as soon as possible an evaluation of all the registered claims.

In view of the above, it is set forth with obvious clarity that in both cases, that of the petroleum properties and that of the General Claims Commission, reasons foreign to the will of my Government have prevented the compliance of its obligation to compensate American citizens.

The Government of Your Excellency makes the proposition to submit to an arbitrator, as indicated by the Protocol of 1934, the demands

not settled which are subject to the Convention of 1923, or immediately proceed to the negotiation of a global arrangement for the resolution of land claims, in accordance with the Protocol. In this regard, I express to Your Excellency that my Government agrees to immediately proceed to the negotiation of a global arrangement. My Government believes, nevertheless, that the Protocol in force is not applicable to the present situation, since said Protocol foresaw the case in which the Commissioners could not agree, but did not foresee the case of claims not being discussed or decided. Therefore, said arrangement should be negotiated by the Commissioners themselves, with absolute freedom and with the desire to reach a prompt understanding, and if results are not obtained, my Government, from that moment on, is ready to negotiate the terms of a procedure which would permit the prompt and definite solution of this matter.

My Government indicates to the Government of Your Excellency the desirability of renewing the conversations that were suspended upon the presentation of the petroleum case, in order to discuss and decide other matters pending between both Governments, because the Government of Mexico considers that the prompt solution of all of them will contribute favorably to strengthen the good relations between both countries.

Please receive [etc.]

EDUARDO HAY

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812.6363/6931

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

[WASHINGTON,] May 23, 1940.

The Cuban Ambassador <sup>72a</sup> called to see me this afternoon to discuss various Cuban problems, including the pending controversy going on in the Constituent Assembly with regard to the so-called transitory provisions of the new Constitution governing the moratorium.<sup>73</sup>

In the course of our conversation the Ambassador said with the greatest emphasis that no one thing had done more harm to United States prestige in Latin America, and particularly in Cuba, than the arrangement entered into with the Mexican Government by the Sinclair Company. The Ambassador stated that he had heard from various sources in Habana that it was believed that the only reason why the Sinclair Company had entered into this arrangement with Mexico, after the expropriation of the Sinclair properties by Mexico, was because the United States Government was unwilling or unable to afford proper protection to American interests in other countries. The Am-

<sup>72a</sup> Pedro Martínez Fraga.

<sup>73</sup> See pp. 763 ff.

bassador said he was saying this to me in the most friendly manner because of his deep and abiding affection for the United States and because he hated to see a situation of this kind arise which might have grave and prejudicial effects upon the unity of the continent.

S[UMNER] W[ELLES]

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812.6363/6952

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

[WASHINGTON,] June 4, 1940.

The Mexican Ambassador called to see me today upon his return from Mexico. He told me that he was charged by President Cárdenas to inform this Government that an arrangement between the Cities Service Corporation and the Mexican Government in settlement of the properties expropriated from the American company was now about to be completed along the general lines of the agreement with the Sinclair Company. President Cárdenas felt that it was highly undesirable for this expropriation controversy to continue any longer and consequently suggested that the Mexican and United States Governments each appoint a commissioner to undertake the immediate consideration of the valuation of all of the properties expropriated from American owners which had not already been covered by agreements and to determine likewise the method of payment of the values which might be determined. I remarked that one of the fundamental difficulties of this proposal from our standpoint was that no assurance whatever was given that the terms would be reached in any prompt fashion and that if, as was to be presumed in advance, the American and Mexican commissioners did not agree, the two governments and the owners of the properties would find themselves worse off than they are now with no hope of any prompt or effective compensation. The Ambassador said that President Cárdenas was entirely willing to fix a very brief period, even as short as two months, with the further understanding that if the two commissioners could not agree, the decision should be left with a third commissioner or umpire. I said that I would give consideration to the suggestion made.

The Ambassador then mentioned the plan suggested by Señor Legorretta which provided essentially that the two governments and the owners of the expropriated properties agree that compensation to the amount of the valuation of the properties be provided by the issuance by Mexico of bonds, one-third to be subscribed by a group of private bankers whom Señor Legorretta was to organize, one-third by the oil companies and one-third by a governmental agency of the United States, obviously the Federal Loan Agency.

If this were agreed to, the Mexican Government would ask the companies to appoint a board of technical experts which board would in reality undertake the operation of the properties and have a veto power in the event of any disagreement between the Mexican Government and the directors selected by the bondholders and in this way would bring about more or less what the oil companies have been clamoring for from the beginning, namely, control of management. The Ambassador said that the significance of Señor Legorretta's plan was that it had not provided for any satisfactory manner of determining the valuation of the properties and that if the two governments would agree as to the appointment of the suggested commissioner, this obstacle would be overcome and make possible the use of Señor Legorretta's plan or some plan similar to it. I merely stated that I would give the full question every consideration and said that I had no doubt the Secretary of State would desire to study the proposal carefully before making any comment.

S[UMNER] W[ELLES]

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812.032/452: Telegram

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

MEXICO, September 1, 1940—3 p. m.

[Received 9:25 p. m.]

312. Following is summary of high points of President's message to Congress this morning.

*Foreign policy.* He said world conditions required definition of Mexico's foreign policy which is oriented for geographical and economic reasons and by similarity of institutions toward the American continent although Mexico maintains good relations with in general all other members of the community of nations. He affirmed that Mexico would not recognize armed conquests nor governments originating in violence. Referring to the League of Nations he said Mexico had no share in its collapse and would continue to support the League no longer for its former practical purposes but for the ideals it represents. He referred to Habana meeting in which Mexico had participated, he said, because of her real desire to contribute inter-American solidarity; he recited the aims of that meeting mentioning the question of the maintenance of the present political status of foreign possessions in America and the strengthening of inter-American commercial and cultural ties and also mentioned that the results of the meeting did not exclude possibility of trade with non-American countries nor did they change in any respect the principles of nonintervention and of mutual respect for national sovereignty (in this connection he remarked that with reference to international claims, foreign capital must abide by the law of the land). He ex-



pressed his Government's stand against all forms of political violence and referred to Mexico's welcome to political refugees from other countries mentioning specifically that additional refugees, Spaniards now in France, have been granted permission to come here, an immigration which he considered desirable; but apparently referring to Trotsky murder he emphasized that all such refugees should have the same respect for law and order that Mexicans have.

*Petroleum.* He alluded to the legality of the Expropriation Act and stated one company had accepted indemnification. If other companies refuse the awards established by law the amounts awarded will be deposited in the Bank of Mexico for their account. The American proposal for arbitration, he said, was not accepted because it would have compromised national sovereignty.

[The remainder of the message related to Mexican domestic problems.]

DANIELS

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[Further discussion of compensation for expropriated oil properties was merged in efforts to arrive at a general settlement of outstanding questions between the United States and Mexico. See pages 1040 ff.]

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**NEGOTIATIONS REGARDING PROPOSED AGREEMENT BETWEEN THE UNITED STATES AND MEXICO CONFIRMING USE OF WATERS OF THE LOWER COLORADO AND LOWER RIO GRANDE RIVERS**

711.1216A/1756

*The Under Secretary of State (Welles) to the Mexican Ambassador (Castillo Nájera)*

WASHINGTON, December 27, 1939.

MY DEAR MR. AMBASSADOR: You are doubtless aware of the fact that no understanding exists between our Governments recognizing the present uses in Mexico and in the United States of the waters of the Lower Colorado River and the Lower Rio Grande, respectively. Lands in both countries have to date enjoyed a beneficial use from these important water systems and it is believed that it would be advisable that an agreement be entered into between the two Governments confirming the present uses of Lower Colorado River waters on Mexican lands and similar uses of Lower Rio Grande waters on American lands in the State of Texas. I understand that a certain amount of water going to Mexico from the United States in the one area and an equal amount of water delivered from Mexico for use in the United States in the other area would satisfy these requirements and correct the present unsatisfactory situation.

I am certain that you share with me the feeling that the present large developments of the lower portions of each stream system are entitled to this protection and that such an agreement which would be entirely logical would obviate possible future difficulties. Accordingly, this Government would welcome an opportunity of having our Commissioners on the International Boundary Commission, United States and Mexico, report on the question of the area of land being irrigated and the amount of water used by each country from the other country's source, in order that present beneficial uses of water on the Lower Colorado River and the Lower Rio Grande might be recognized and confirmed by agreement between our Governments.

I shall accordingly appreciate it if you will be good enough to ascertain whether your Government would be disposed to authorize the Mexican Commissioner to join the American Commissioner in the preparation and submission of a joint report on this important matter.

Believe me,

Very sincerely yours,

SUMNER WELLES

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711.1216A/1803

*The Mexican Ambassador (Castillo Nájera) to the Under Secretary of State (Welles)*

[Translation]

WASHINGTON, January 19, 1940.

DEAR MR. UNDER SECRETARY: Confirming what I had the honor of expressing to you in my note of December 28, 1939,<sup>74</sup> in relation to your communication of the 27th of the same month, I have the pleasure of advising you that my Government, after studying, with due attention, the points of view expressed by you respecting the suitability of our Commissioners on the International Boundary Commission between Mexico and the United States reporting on the area which is being irrigated and the quantity of water used by each country, coming from sources in the other country, with the purpose of being able to conclude an agreement, recognizing and confirming the present beneficial uses of the water in the said regions, has seen fit to give me instructions to make the following statement to you:

The Government of Mexico is pleased to express, through me, its satisfaction that the problem of the international rivers which has been of such concern, and for so long years, to the Governments of the two countries, is at last on the way toward its definitive solution.

My Government has been informed of the authorization which the United States Government proposes to give its Boundary and Water

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<sup>74</sup> Not printed.

Commissioner and, accordingly, at once authorized its International Water Commissioner, as this matter is included, in a preponderant measure, within his specific sphere of action, and, separately, its Boundary Commissioner, in so far as he is concerned, to prepare and present, together with the American Boundary and Water Commissioner, the respective reports on the points upon which both countries definitively agree.

In regard to these points, the Government of Mexico suggests that there be taken into consideration the inevitable and beneficial development of those regions of both countries which are capable of being irrigated by the waters of the international rivers, which development may in the future give rise to more important uses than at present and, accordingly, suggests also that the reports of the Commissioners not be limited to the present uses but that, in addition, they embrace the projects and prospects for possible future uses, including the works of an international character which would permit a greater use of the international waters. In this way the said reports may serve as a basis for an agreement or treaty to settle in full and definitively the just distribution and the uses of the waters of the international rivers, the service and utilization of their channels, defense works, the adequate operation of the systems and of the solutions which may be adopted, etc.

This proposal of my Government coincides, fundamentally, with the one which your Department of State made to this Embassy in its note of November 12, 1931,<sup>75</sup> and with the authorization given to the American Section of the International Water Commission, by a law (*Decreto*) of the American Congress approved March 3, 1927.<sup>76</sup> In the said note the United States Government proposed, further, that instructions should be issued to the two Commissioners to submit recommendations relative to the organization, functions and adequate powers of a Permanent International Water Commission which could intervene in all the administrative and defensive aspects concerning the international water between Mexico and the United States of America. In making this last proposal your Department thought that it was in accord with the recommendations submitted, previously, by the Mexican Section of the International Water Commission at the meeting of the latter held January 18, 1930.

My Government considers that in the time which has elapsed since then the Mexican and American Sections of the International Water Commission have collected a sufficient amount of technical data which will, without doubt, facilitate their prompt rendering of a joint report covering not only the specific points which the American Government now proposes, but also broader and more general points,

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<sup>75</sup> Not printed.

<sup>76</sup> 44 Stat. (pt. 2) 1403.

so as to render possible the solution, in an integral manner, of the important problem before us.

To sum up what is set forth above, the concrete proposal of my Government is the following:

To authorize the Commissioners of International Waters of the two countries and the Boundary Commissioners, in their respective spheres, to prepare and to present the appropriate reports on the following points:

*a)* Areas of ground which are now under irrigation and the quantity of water used by each country proceeding from the other country in the lower regions of the Colorado and Bravo (Grande) Rivers;

*b)* Prospects and projects of possible future uses;

*c)* Works of international character permitting greater utilization of international waters;

*d)* Bases which could serve for the concerting of a Treaty between Mexico and the United States which, in a general and total manner, would govern use and distribution of the international fluvial waters, the control of floods, the production of electric energy, as well as any other use of the said waters. The Treaty should create an International Water Commission between Mexico and the United States of a permanent character which would have in its exclusive charge the carrying out of the basic points of the said Treaty.

I avail myself [etc.]

F. CASTILLO NÁJERA

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711.1216A/1827

*The Mexican Embassy to the Department of State*

[Translation]

MEMORANDUM

The Mexican Section of the International Water Commission between Mexico and the United States sent, under date of the 10th of the current month of January, a report, made by an Engineer in the said Mexican Section as a result of a study trip which he made to the irrigation works, dams, etc., of the Rio Grande and its tributaries in the States of New Mexico and Texas, in the United States, and in that of Tamaulipas, in Mexico.

The said report speaks of the great importance of the works carried out and in operation, in American territory, in order to take advantage of the waters of the Rio Grande and, particularly, the works in Willacy County, where four 48-inch pumps have been installed with a total discharge of 17 cubic meters per second. The irrigation system of Willacy County is planned to irrigate 30,000 hectares in its first stage and 50,000 in its final stage.

Much is said in the Brownsville press about projects now being studied by various United States authorities, the object of which is

to take flood waters from the Rio Grande at Zapata, Texas, by means of a gravity canal in order to store them in a reservoir which it is intended to build in the Arroyo de los Olmos, east of Rio Grande City, and about 160 kilometers upstream from Brownsville. For some time this plan has been persistently discussed and it seems that now the American farmers of the lower Rio Grande have succeeded in making an impression on the Federal and State authorities, who have ordered a careful study the result of which will be a report which, according to the press of the locality, will be submitted to the Congress of the United States during the present month of February.

It is well known by American officials that scarcity of water occurs, year after year, with more or less acute characteristics, but always serious, in the Matamoros-Brownsville region, brought about in great part by immoderate American uses thereof, to such a degree that, in some cases, there has been no water for the most indispensable uses.

One such scarcity occurred in April 1938, when Engineer Gustavo P. Serrano, Chief of the International Water Commission between Mexico and the United States, was in the city of Washington; he took advantage of this circumstance to take up directly with Mr. Duggan, of the Department of State, the matter of the immoderate use of the waters of the Rio Grande on the American side.

On that occasion Engineer Serrano pointed out, on a general map, the location of the Lower Rio Grande, showing that while on the American side 96 percent of the total discharge of the river is taken, on the Mexican side practically nothing is utilized; on the other hand, in spite of the acute difficulty caused by scarcity of water, irrigation projects were continually being developed, such as that of Willacy County to irrigate 30,000 hectares (75,000 acres) which may later be extended to double the amount. Engineer Serrano added that he did not see how such uses could be authorized in the United States unless it were to create a priority of use which might later be alleged in preference to other diversions, insisting that Mexico did not recognize this doctrine of priorities on an international question.

The Government of Mexico wishes to call the Department of State's attention, once more, to the situation which the immoderate use of the waters of the Rio Grande by authorities and citizens of the United States is creating in the Matamoros-Brownsville region.

If the United States plans to remedy this situation through the diversion of flood waters of the Rio Grande at Zapata, Texas, mentioned in the report by the Mexican Section of the International Water Commission, it could perhaps achieve it through the investment of very great amounts of money, but the solution would not be definitive in view of the fact that, since three-fourths of the volume of the Rio Grande comes from Mexican tributaries, if Mexico should in the future, as must sooner or later happen, utilize those waters, there

would be danger that, in the end, the works completed by the United States would be useless.

In these circumstances, arrangement with Mexico is desirable which, while taking into consideration the present and future United States developments, would likewise consider the few existing developments and the very great potential ones in Mexico to utilize the proportion of water from the Rio Grande which must justly be hers.

It is certain that, at a much lower cost than that of the project talked of, works of an international character could be carried out which would settle the problem in a much more satisfactory way, from the technical, as well as from the economic and international, point of view.

In view of the good disposition which the Government of your country apparently has now, and the equally good disposition which Mexico has always had to arrive at a satisfactory solution of the distribution of the international waters, it is to be hoped that, in view of the facts pointed out in the present memorandum, projects similar to that of the diversion of water at Zapata will be abandoned, in order to study more easily realized and less costly projects through the conclusion of a treaty with Mexico which might at the same time settle this concrete case and all other cases now existing or which may in the future exist.

WASHINGTON, February 5, 1940.

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711.1216A/1803

*The Under Secretary of State (Welles) to the Mexican Ambassador  
(Castillo Nájera)*

WASHINGTON, February 15, 1940.

MY DEAR MR. AMBASSADOR: I have received your letter of January 19, 1940, in which you refer to my letter of December 27, 1939, proposing that an agreement be entered into between our Governments confirming the present uses of Lower Colorado River waters on Mexican lands and similar uses of Lower Rio Grande waters on American lands in the State of Texas.

I am gratified to note that your Government accepts the proposal and has authorized its International Water Commissioner and its Boundary Commissioner to join the American Boundary Commissioner in the preparation and submission of a joint report on this matter. Accordingly, Commissioner Lawson is being instructed to cooperate with the Mexican Boundary Commissioner, as well as with the Mexican Water Commissioner, in the preparation of a joint report on the area of land now being irrigated and the amount of water used by each country from the other country's source.

Concerning the suggestion of your Government that the activities of the Commissioners be extended so as to include possible future uses of the waters of the international rivers in question, I may state that it is my understanding that such uses are already being investigated by interior agencies in both countries; and since these investigations will not be completed for some time to come, this Government prefers not to consider the suggestion at this time.

Concerning the organization of an International Water Commission, as suggested by your Government, I may state that the American Section of the former International Water Commission, United States and Mexico, was abolished by an Act of Congress approved June 30, 1932,<sup>77</sup> and that its powers, duties and functions were transferred to the American Section of the International Boundary Commission. It is therefore not considered likely that the Congress of the United States would be willing to enact legislation at this time to revive the American Section of the former Water Commission.

In the circumstances, it is my understanding that the two Governments will proceed immediately toward the preparation of the necessary joint report looking to a prompt agreement upon the confirmation of present beneficial uses of the waters of the Lower Rio Grande and the Lower Colorado River.

Believe me,

Very sincerely yours,

SUMNER WELLES

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711.1216A/1827

*The Department of State to the Mexican Embassy*

MEMORANDUM

The Secretary of State refers to the Mexican Embassy's memorandum dated February 5, 1940, relative to the diversion of waters of the Lower Rio Grande in Willacy County, Texas, and the development of plans for the betterment of the water supply for lands on the Texas side of the Lower Rio Grande.

The Willacy County development project is being built with funds allotted by the Public Works Administration, with a provision established by the State Board of Water Engineers of Texas that it will obtain water at flood times and provide local storage of flood waters rather than compete with the other areas in distribution of available water at low water periods. Furthermore, this Government is at present conducting investigations below Fort Quitman, Texas, to determine the feasibility of storing flood waters both by international

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<sup>77</sup> 47 Stat. 481.

dams and domestic works on the lower Rio Grande, pending the conclusion of a treaty with Mexico governing the use of the waters of that stream.

This Government understands that a large development is now under construction on the Mexican side of the river involving what is known as the Retamal Heading, a gravity intake on Mexican territory. This gravity diversion presents a very similar problem to that of developments on the American side of the river.

Referring to statements contained in the last paragraph of the Embassy's memorandum, this Government would appreciate being informed of any general or concrete plan which the Mexican Government may suggest for solution of the lower Rio Grande situation, and which might be embodied in agreement between the two Governments. Meanwhile, the Embassy is informed that the American Boundary Commissioner is prepared at any time to discuss the Lower Rio Grande water problem with the Mexican Boundary Commissioner, as well as with the Mexican Water Commissioner.

WASHINGTON, March 15, 1940.

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711.1216A/1935

*The Mexican Ambassador (Castillo Nájera) to the Secretary of State*

[Translation]

WASHINGTON, May 18, 1940.

MR. SECRETARY: I referred to my Government the note from Your Excellency dated February 15, 1940, to which I now reply on instructions from the Secretary of Foreign Affairs of Mexico.

My Government wishes, first of all, to clarify and define the terms under which it authorized its International Water and Boundary Commissioners to render, together with the Boundary Commissioner of the American Government, a joint report to the two Governments.

The acceptance by the Government of Mexico of the invitation which your Department made through me in its note of December 27, 1939, was subject to the condition that the Government of the United States should, in its turn, accept the Mexican proposals set forth in my note of January 19, 1940. This is quite clearly evident from the terms of my note under reference, in which I advised Your Excellency that my Government had given its International Water and Boundary Commissioners instructions to render a joint report, together with the American Boundary Commissioner, to the two Governments regarding the points on which they should definitively agree and not merely, as your Department seems to have interpreted it, on the partial and concrete case relative to the areas of lands which are at present irrigated and the amount of water used, by each country,



coming from the other, in the lower regions of the Rio Grande and the Colorado River, to the end that the present beneficent uses of the waters of the said rivers might be known and confirmed by agreement between the two Governments.

My Government sincerely regrets that the Government of the United States did not accept the proposals which, in representation thereof, I had the honor to make in my aforementioned note of January 19, since Mexico continues to believe that the said proposals constitute an equitable and just procedure for the complete and final solution of the international water problem between our countries. My Government also regrets the refusal of the Government of the United States because, if the desired satisfactory agreement is not reached, the authorization given its International Boundary and Water Commissioners would be to no further avail.

The situation of Mexico and the United States with respect to the present use of the international waters is very different, since in the former there is really little hydraulic development and the corresponding uses [of the water]<sup>78</sup> are but incipient, whereas in the United States, on the other hand, it may be said that they have reached their maximum development and that in order to increase them, at least in certain regions, there would be need of constructions of an international character which would be beneficial not only to the United States but to Mexico likewise.

My Government would be most favorably disposed to study and consider the interest of the Government of the United States respecting special problems, the settlement of which, by their very nature and in their greater part, may be advantageous to this latter country if, with due reciprocity, Your Excellency's Government should be as favorably disposed toward other aspects suggested by Mexico. In this way it would not only be possible to end the differences which have existed between the two countries for many long years, but, as has been stated, the possibility of increasing the development of some of the American hydraulic systems through the construction of international works would be achieved and the development of the Mexican systems would be assured.

With respect to the investigations being carried out by international offices of the two countries, concerning possible future uses of the waters of the international rivers which, in Your Excellency's opinion, will not be completed within the near future, my Government, while not failing to recognize their importance, inasmuch as it recommended them, considers that it will not be necessary for these investigations to be completed—it will not even be necessary for them to have been begun—in order to set down in an International Treaty

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<sup>78</sup> Brackets appear in the file translation.

general rules, independent of those investigations, which should govern the conduct of the two Governments in the distribution of the said international waters.

My Government believes that its proposal relative to the organization of the International Water Commission has likewise been misinterpreted by Your Excellency's Government, inasmuch as it did not propose that such organization be set up previous to the conclusion of the Treaty, but as a consequence thereof, for it is unquestionable that the latter could not operate properly failing the existence of a body charged with executing it. The International Water Commission which Mexico has proposed, and which would be a result of the Treaty of Distribution which it is desired to conclude, would be executive and not investigatory in character, as was the Commission which functioned from 1927 to 1929, to which Your Excellency refers, and as is the Commission at present existing and on which both Governments have commissioners.

Because of the foregoing, my Government finds it necessary to insist on its proposal contained in my note of January 19, 1940, and to advise Your Excellency's Government, once more, that it has not the slightest desire to place obstacles in the way of a settlement of a problem which has been the occasion of serious anxieties for it over many years, but, on the contrary, does desire to use all its good will and its devoted cooperation to the end that, in the interest of the people of both countries, this important problem may be settled as soon as possible in a definitive and complete manner in conformity with a joint plan, and not partially settled through consideration given separately and successively to concrete and local cases, a consideration based fundamentally on momentary circumstances.

But if, in spite of my Government's insistence, its proposal should not be accepted by Your Excellency's Government, I have instructions to propose to Your Excellency's Government in that case, as perhaps the simplest and most rapid means of achieving the end which both Governments desire, that authorization be given the present respective Boundary and Water Commissioners who, having studied this problem for many years, have a thorough understanding of it, allowing them to suggest the points which should be contained in the joint report to be rendered the two Governments. If the proposal which the Commissioners present merits the approval of the two Governments, the corresponding instructions will be given for the said Commissioners to proceed immediately to render the Joint Report which will serve as a basis for drafting the International Treaty which, embracing all aspects of the problem, may settle it in the complete fashion desired by Mexico and which my Government is thoroughly convinced is the most advantageous and beneficial for the two countries.

The technical ability and the diplomatic skill of engineers Serano and Lawson, present International Water Commissioners of Mexico and the United States, proof of which they have already given in achieving on a previous occasion an agreement on the bases of a Treaty of such importance as that concerning the rectification of the Rio Grande, in the section between Ciudad Juárez and Cajoncitos, and the confidence shown in them by both Governments, inasmuch as the latter have at the present time placed in their hands the settlement of delicate, complex and difficult questions, make my Government believe that any labors entrusted to them will have most favorable results for both countries.

Please accept [etc.]

F. CASTILLO NÁJERA

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711.1216A/1935

*The Acting Secretary of State to the Mexican Ambassador  
(Castillo Nájera)*

WASHINGTON, July 19, 1940.

EXCELLENCY: I refer to Your Excellency's note no. 3261 of May 18, 1940<sup>79</sup> in which comment is made upon the Department's communication of February 15, 1940 with reference to this Government's proposal of December 27, 1939 that an agreement be entered into between the two Governments confirming the present uses of Lower Colorado River waters on Mexican lands and similar uses of Lower Rio Grande waters on American lands in the State of Texas.

While I am gratified to learn that your Government would be most favorably disposed to study and consider the interest of this Government with respect to special problems pertaining to the international water situation, I sincerely regret that your Government finds the proposal contained in the Department's communication of December 27 unacceptable.

Accept [etc.]

SUMNER WELLES

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[Further negotiations regarding waters of the Rio Grande and Colorado Rivers were merged in efforts to arrive at a general settlement of outstanding questions between the United States and Mexico. See pages 1040 ff.]

<sup>79</sup> *Supra.*

PRELIMINARY NEGOTIATIONS FOR A GENERAL SETTLEMENT OF  
OUTSTANDING QUESTIONS BETWEEN THE UNITED STATES AND  
MEXICO

812.6363/6626

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

MEXICO, March 13, 1940.

[Received March 23.]

MY DEAR MR. SECRETARY: In a conversation with Ambassador Castillo Nájera just before he left for Washington today, I took occasion to try to find out, entirely personally and unofficially, what his feeling might be regarding the possibility of reaching an early agreement on some, if not all, of the important matters of difference between Mexico and the United States. I found him most receptive to some such move. Of course, I told him that I had not discussed the possibility with you and that I could not discuss it with him or with President Cárdenas without first having your views.

I would like your reaction. I apprehend that the long drawn out oil difference might be a barrier, if it were intended to include it in any discussions. You will be the best judge of what could be done in that regard. You will also best be able to determine what particular questions, possibly involving financial settlements or other adjustments, in favor of Mexico by the United States, and in favor of the United States by Mexico, might be included in the list of matters on which adjustment might be sought. If the idea appeals to you my thought would be to have guidance from you regarding the possible scope of the discussions in order to explore the matter with President Cárdenas when he returns to Mexico City at the end of this month or the early part of April. My thought would be to find out from him whether he would like to have an informal and confidential examination of the possibilities made, and would appoint someone to study them with us with this in view. I apprehend that in that event both you and he would wish to have a study made and recommendations presented for action by early in June, at the latest.

I think the desirability of having at an early date some fairly comprehensive arrangement with Mexico regarding problems warrant our making a special effort at this time, if the President is receptive and will meet us at least half way on such a proposition. In that event, the first step would be, I should think, for his representative and ours to draw up a list of questions on which both Governments would consider it possible to come to an agreement at this time.

Awaiting your reaction to this suggestion, I am [etc.]

JOSEPHUS DANIELS

812.6363/6626

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

WASHINGTON, March 23, 1940.

DEAR MR. AMBASSADOR: I have read with very great interest your letter of March 13, 1940 suggesting the possible advisability of your having an interview with President Cárdenas with reference to matters pending between the two countries.

I share your apprehension, stated in the second sentence of the second paragraph of your letter, that the oil question might be a barrier to such a general discussion between you and the Mexican President at this time.

We are now dealing intensively with the oil and land matters and have recently taken up important aspects of the Rio Grande water question. These are all so important and complex that I doubt we should enter into discussions of other matters until some progress is made with at least some of those mentioned. In the circumstances, it seems better to confine our activities to the subjects now in hand, at the same time keeping in mind the idea of general discussion of other matters for later consideration as conditions may permit.

With kindest personal regards,

Sincerely yours,

CORDELL HULL

412.11 (41) Agreement/9

*Memorandum by the Division of the American Republics*

[WASHINGTON,] September 17, 1940.

**SUGGESTED PLAN FOR SETTLING THE MEXICAN CLAIMS AND PETROLEUM EXPROPRIATION THROUGH AGREEMENT BETWEEN THE MEXICAN AND UNITED STATES GOVERNMENTS**

1. Mexico will pay to the United States in settlement of the Agrarian Claims Agreement of November 1938<sup>80</sup> and of any new agrarian claims which have occurred since that time the sum of \$19,000,000.

Mexico has already paid \$2,000,000 on deposit. It will continue to pay at the rate of \$1,000,000 per year until the special claims are paid off in 1945, when the \$500,000 a year now used for special claims will be added to the agrarian claims settlement making an annual payment of \$1,500,000. Under this arrangement the agrarian claims should be liquidated in 1953.

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<sup>80</sup> See *Foreign Relations*, 1938, vol. v, pp. 657 ff.

2. Mexico will pay to the United States in settlement of claims and counterclaims under the General Claims Convention<sup>81</sup> the sum of \$17,000,000.

Mexico will pay from its reserves the cash sum of \$3,000,000 plus annual payments of \$1,400,000. Compensation for the general claims should on this schedule be effected by about 1950 or 1951.

3. The United States will cooperate with Mexico to stabilize the Mexican currency. Since stabilization will make unnecessary the retention of all of the present Mexican currency reserve, a part can be used to effect compensation on account of claims as indicated in numbered paragraph 2. A down deposit of \$3,000,000 would be made on the general claims.

4. Coincident with the announcement of the settlement on claims and the stabilization arrangement, the Mexican Government will make a deposit of \$9,000,000 on account for compensation of the expropriated petroleum properties.

At the same time the United States and Mexican Governments will announce the appointment by each government of an engineer who, with assistants, will make an appraisal of the expropriated petroleum properties. Mexico will agree to furnish access to all data including the confiscated company books. The engineers will agree upon an evaluation of the properties. If unable to agree, they will submit their separate estimates to their governments which will agree upon a final figure through diplomatic negotiation.

5. Mexico will pay the petroleum companies the compensation agreed upon on the basis of \$ . . . . a year. Mexico will agree that a fixed amount on each barrel of oil sold shall be set aside in a fund to make compensation. If the proceeds in any one year of this fixed amount do not equal the total annual payment, Mexico will make up the difference from its regular budgetary sources.

6. Upon agreement between the United States and Mexican Governments with regard to the compensation to be made the petroleum companies, the United States will:

- a.* Extend to Mexico the necessary credit facilities to permit the completion of the Mexican section of the Inter-American Highway; and
- b.* Enter into an agreement for the purchase of Mexican silver.

Further details are provided in the attached memoranda.<sup>82</sup> The paragraph numbers in them relate so far as practicable to the paragraph numbers above.

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<sup>81</sup> *Foreign Relations*, 1923, vol. II, p. 555.

<sup>82</sup> Not printed.

412.11 (41) Agreement/10

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

[WASHINGTON,] September 26, 1940.

MR. WELLES: The Mexican Ambassador did not come to the meeting in my office this morning. However, Señor Antonio Espinosa de los Monteros<sup>83</sup> came in and after stating to him that any discussions of the plan for adjustment of certain Mexican problems at this time must necessarily be without commitment on either side, I outlined to him the plan set forth in the memorandum of September 17.

Señor Monteros appeared on the whole to be very much pleased with these suggestions. However, he raised the following questions for consideration in connection with the exploration of this matter:

(1) The necessity from the Mexican point of view of obtaining, if in any way practicable, an increase in the portion of the oil quota available to Mexico under the reduced taxes provided for by the Venezuelan trade agreement.<sup>84</sup>

(2) The need for some sort of a marketing agreement whereby Mexican oil could be marketed through some or all of these channels, viz., sales on the American market, sales in foreign countries, and sales to the United States Navy.

(3) The desirability from the point of view of both countries of Export-Import Bank financing of the various imports of equipment for plant expansion and new industries Mexico would need following the adoption of some such plan as that now under consideration.

It was pointed out to Señor Monteros that these points obviously raised certain further problems but that the obstacles in the way of our assisting, at least in some of these matters, were not necessarily insuperable.

Señor Monteros said he would report the conversation to the Mexican Ambassador.

Messrs. Collado<sup>85</sup> and Bursley<sup>86</sup> were also present and participated in the conversation.

LAURENCE DUGGAN

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<sup>83</sup> Mexican representative on the Inter-American Financial and Economic Advisory Committee.

<sup>84</sup> Effective December 14, 1940; for text, see Department of State Executive Agreement Series No. 180, or 54 Stat. (pt. 2) 2375.

<sup>85</sup> Emilio G. Collado of the Division of the American Republics.

<sup>86</sup> Herbert S. Bursley, Assistant Chief of the Division of the American Republics.

412.11 (41) Agreement/12

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

[WASHINGTON,] September 30, 1940.

Participants: Ambassador of Mexico  
Señor Espinosa de los Monteros, Mexican Representa-  
tive on the Washington Economic Committee  
Mr. Welles  
Mr. Duggan

The Under Secretary stated that as he had informed the Ambassador at a luncheon several days ago, he thought the time had now come for Mexico and the United States to make an urgent and determined effort to arrive at a solution of the principal problems that stood in the way of the improvement of relations between the two countries. Mr. Welles asked the Ambassador how the idea appealed to him of pooling the principal problems and endeavoring to come to some over-all arrangement regarding them.

The Ambassador said that this approach appealed to him and he could assure Mr. Welles that he would give the maximum of his personal effort to bring about a successful arrangement.

Mr. Welles then stated that he believed frankness compelled him to state that it would be utterly impossible for this Government to enter into any such arrangement as they were now talking about without positive assurance that there would be no further expropriations without compensation. This Government therefore would be obliged to require a written assurance that could be made public to the effect that the Mexican Government did not intend to make further expropriations of American-owned properties in Mexico.

The Ambassador stated that he understood the position of this Government but that of course he would have to present the matter to his Government and to the President elect. The Ambassador stated that since it would be the new administration that would carry out any arrangement that might be entered into it would be necessary to consult the President elect. He inquired whether it would be possible to agree in writing upon a framework of an agreement which he could then take with him to Mexico as the basis for discussions with President Cárdenas and General Avila Camacho.

Mr. Welles said that he thought that would be a good procedure provided that it was understood on both sides that neither Government had entered into any commitment so that the memorandum would merely represent a personal effort of officials in both Governments to find some basis for a solution.

The Ambassador said that there was a certain amount of technical information he desired. He inquired whether Señor Espinosa de los



Monteros might not go over these matters with Mr. Duggan. Mr. Welles indicated that this arrangement would be satisfactory to him.

It was agreed that Señor Espinosa de los Monteros would meet with Mr. Duggan on Tuesday afternoon and that Mr. Welles would again see the Ambassador and Señor Espinosa de los Monteros on Wednesday afternoon.

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812.51/2460

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

[WASHINGTON,] October 1, 1940.

Participants: Dr. Antonio Espinosa de los Monteros, Under Secretary of the Mexican Treasury.  
Mr. Duggan  
Mr. Collado

Dr. Monteros came in by arrangement made at the meeting on Monday with Mr. Welles and the Mexican Ambassador to indicate informally ideas on certain details of the suggested arrangement with Mexico.

On the question of claims he indicated that it was his opinion that it might be easier to put across a settlement in Mexico if the agrarian and general claims were lumped. He stated that while there was general opinion in financial circles that the general claims should be settled, the Mexican population had the opinion that \$10,000,000 would be the total of the agrarian settlement. . . . With respect to the amounts which Mr. Duggan had previously mentioned to him, he felt that the total would be too high in relation to Mexico's capacity to pay. He stated that the stabilization arrangement would be a very useful facilitation which would permit the carrying out of the deal but that the real measure of Mexico's capacity to pay in the long run would be the movement of capital to Mexico and the whole readjustment of the balance of payments including especially increases in Mexico's exports. He suggested that a reasonable figure for the total claim might be from \$30,000,000 to \$35,000,000, of which the agrarian claims might get up to \$20,000,000 and general claims \$13,000,000 to \$15,000,000.

With respect to the stabilization arrangement, Dr. Monteros asked what the Department might have in mind. Mr. Collado stated that any ultimate arrangement would of course depend upon the Treasury Department and that it was consequently impossible to discuss the matter satisfactorily, but that an arrangement such as that informally suggested by Dr. Monteros several weeks ago to Dr. White,<sup>87</sup> Dr.

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<sup>87</sup> Harry Dexter White, Special Assistant to the Secretary of the Treasury.

Laughlin Currie<sup>88</sup> and Mr. Collado might be a possible basis of discussion. Mr. Collado described such an arrangement, pointing out that the Treasury might conceivably agree to a line of credit of up to \$60,000,000, individual drawings to be collateraled by gold up to 50 percent. The Bank of Mexico currently has approximately \$30,000,000 of gold. This would amount to a net line of credit of \$30,000,000 in uncovered funds. In addition, this would permit a more complete utilization of the Bank of Mexico's existing reserves. There occurred considerable discussion of the effects of such an operation on the Mexican exchange situation, and it was stated that perhaps \$20,000,000 might flow back to Mexico as a result of increased confidence of Mexicans in the stability of the peso. These funds would of course become a part of the reserves of the Bank of Mexico and would facilitate the carrying out of the transactions.

With respect to the total down payments suggested, that is \$3,000,000 on the claims and \$9,000,000 or so on an oil settlement, Dr. Monteros stated that these would appear to be possible if a satisfactory stabilization arrangement were concluded. At his request Mr. Duggan summarized the oil procedure, which would be to announce the down payment at the time of the announcement with respect to the claims and the Stabilization Fund, and simultaneously to announce the appointment of two commissioners to value the oil properties. If these commissioners could agree upon a valuation and arrange for payment, this would be subsequently announced; if not the governments would have to make the settlement by negotiation. The method of payment would probably envisage some annual minimum payment to be made in any case, plus some percentage based upon oil exports from Mexico. Dr. Monteros indicated that such a general arrangement would appear to be practicable.

Dr. Monteros emphasized frequently throughout the conversation that in order for Mexico to be in a position to carry out the entire settlement, as well as a settlement on its public debt, which he indicated was also essential, it would be necessary for the payments to be scaled to Mexico's capacity to pay, and that every possible means would have to be found to increase Mexico's exports. He suggested possibilities of increased customs quota on oil and cattle, and some sort of a seasonal duty reduction on fresh fruits and vegetables, which he believed could be fixed so as not to compete with United States production. Mr. Duggan indicated that while the first of these might be possible to carry out administratively under existing trade agreements with other countries, the others would probably require the negotiation of a new trade agreement with Mexico, which of course could not be carried out during the period of the discussions, although

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<sup>88</sup> Laughlin Currie, Administrative Assistant to President Roosevelt.

consideration could be given to announcing such negotiations. Dr. Monteros also emphasized the necessity of obtaining suitable markets for oil and raised in addition to the question of an increased customs quota, the possibility of sales to the United States Government and of suitable marketing arrangements with the American oil companies.

812.51/2467

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

[WASHINGTON,] October 5, 1940.

I called Dr. Monteros at Mr. Duggan's request to go over the questions of a possible stabilization arrangement with Mexico, a silver agreement, and highway financing. With respect to the stabilization arrangement Dr. Monteros referred to our previous conversations and stated that he felt he fully understood the suggested arrangement.

With regard to silver, I indicated that the Treasury might reenter upon an arrangement similar to that which formerly existed with Mexico and which still is in effect with Canada. Dr. Monteros stated that such an arrangement would be of considerable benefit to Mexico.

With respect to highway financing I stated that two possible arrangements had occurred to us. Both involved credit extensions by the Export-Import Bank in the amount of \$10,000,000 to \$12,000,000 for ten or twelve years, and at perhaps 4 percent. One would be a dollar loan to the Bank of Mexico, collateralized by Mexican road bonds, of which the Bank now holds some 60,000,000 pesos. The extension of such a credit would put the Bank and the Mexican financial mechanism in a position to handle the financing of the remaining link of Pan American Highway to the Guatemalan border internally. Another type of credit would of course be a direct construction loan similar to those extended to Nicaragua and other countries, in the case of Mexico to cover American materials only.

Dr. Monteros suggested that it would be desirable to complete the western highway, the link between Guaymas and Guadalajara. He estimated its cost at perhaps \$20,000,000 and indicated that a large part of the expenditure would be for steel for bridges. He stated that probably the Monterrey company would not have enough capacity and that in any case it was not efficient to transport steel from Monterrey to the projected highway. I stated that within the above-mentioned amounts the credit might well include, if desirable, the cost of some of the bridge steel.

Dr. Monteros stated that rather than enter into a construction, his Government would prefer a financial operation with the Bank of Mexico, or credits on actual steel and materials imports.

I reiterated that all of these suggestions were of course tentative. Dr. Monteros and I made an engagement to discuss the matters further on Tuesday.

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412.11 (41) Agreement/16

*Memorandum by the Assistant Chief of the Division of the American Republics (Bursley) to the Under Secretary of State (Welles)*

[WASHINGTON,] October 7, 1940.

MR. WELLES: There are attached copies of the redraft of the informal memorandum for the Mexican Ambassador.<sup>89</sup>

In drafting paragraph no. 8 regarding the alternative oil plan, I have purposely been vague with a view to avoiding too sudden precipitation of the question of some modified form of company operation. However, if you prefer, we can easily change the memorandum by replacing the phrase "certain expert services" with "an acceptable modified form of company operation".

I note that during my absence the question of settlement of the railway debt was brought into the discussions (paragraph 11 (a)). Unless the reference at the end of paragraph 10, "debt settlement", is to the Mexican public debt, I think it might be advisable to insert reference to the public debt in paragraph 11 (a), in view of the possibility that it might be held we were discriminating between the Railway bondholders and the holders of bonds in the public debt.

HERBERT S. BURSLEY

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412.11 (41) Agreement/16

*The Department of State to the Mexican Embassy*

[WASHINGTON,] October 7, 1940.

PLAN FOR SETTLING OUTSTANDING PROBLEMS NOW PENDING  
BETWEEN THE UNITED STATES AND MEXICO

1. In settlement of the claims listed hereafter by the United States against Mexico, and of the claims listed hereafter by Mexico against the United States, the Government of Mexico will pay the Government of the United States the sum of \$40,000,000.

2. With a view to facilitating the liquidation of these claims, Mexico will make a deposit of \$3,000,000 and thereafter will make annual payments of \$2,500,000 until the Special Claims are paid off, and \$3,000,000 annually thereafter.

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<sup>89</sup> *Infra.*

3. Claims included in settlement:

(a) Claims of United States against Mexico:

- (1) Claims filed under the General Claims Convention.
- (2) Agrarian claims filed under the Agrarian Claims Agreement of November 1938.
- (3) Agrarian claims which arose after July 31, 1939 or so shortly before that date that it was not practicable for the affected landowners to file their claims before July 31, 1939.
- (4) All other property claims.

(b) Claims of Mexico against the United States:

- (1) Claims filed under the General Claims Convention.
- (2) All other property claims.

4. Although Mexico will pay a global amount as settlement for all of these pending claims, the United States will be permitted to announce that in agreement with Mexico the total sum is divided into parts corresponding to the types of claims listed under 3.(a). Moreover, as a bookkeeping matter, the United States will keep in separate accounts the funds which it has already received and which it will receive from Mexico.

5. The United States will cooperate with Mexico to stabilize the Mexican currency. In as much as stabilization will make unnecessary the retention of all of the present Mexican currency reserve, a part thereof can be employed to effect compensation on account of claims as indicated in numbered paragraph 2, and on account of the petroleum expropriation as indicated in numbered paragraph 6, hereafter.

6. Coincident with the announcement of the settlement on claims and the stabilization arrangement:

(a) The Mexican Government will make a deposit of \$9,000,000 on account for compensation of the expropriated petroleum properties. At the same time the United States and Mexican Governments will announce the appointment by each government of an engineer who, with assistants, will make an appraisal of the expropriated petroleum properties. Mexico will agree to furnish access to all data, including the confiscated company books. The engineers will agree upon an evaluation of the properties. If unable to agree, they will submit their separate estimates to their governments which will agree upon a final figure through diplomatic negotiation.

(b) The Mexican Government will officially and in writing inform the Government of the United States that it will countenance no more expropriations of properties belonging to American citizens except in urgent and special cases of the national welfare, and that in these cases prior, just and adequate compensation will be made.

7. After determination of the amount of the petroleum indemnity the Mexican and United States Governments will agree with regard to the time in which this compensation shall be effected. The minimum

period will be five years, the maximum period, eight years. An equal installment of the compensation shall be made each year. Mexico will agree that a fixed amount on each barrel of oil sold shall be set aside in a fund to make compensation. If the proceeds in any one year of this fixed amount do not equal the total annual payment, Mexico will make up the difference from its regular budgetary sources.

8. As an alternative to the plan referred to in paragraph 6. (a) and 7. consideration would be given to a plan whereby the companies would extend certain expert services, financing, and marketing facilities and receive from the Mexican Government a determined percentage of oil or would deliver to the Mexican Government a determined percentage of the net proceeds.

9. During the time that steps are being taken to resolve the petroleum question :

(a) The Mexican and United States Governments will :

(1) Discuss the extension to Mexico of the necessary credit facilities for highway construction, particularly for the construction of the section of the Inter-American highway between Oaxaca and the Guatemalan border; and

(2) Discuss an agreement for the purchase by the United States Government of silver produced in Mexico; and

(b) The Mexican Government will enter into discussions with representatives of the American holders of Mexican bonds for an agreement for the renewal of debt service.

10. It would be the purpose of the United States and Mexican Governments at the time they announce the determination of the value of the expropriated petroleum property and the arrangements for payment likewise to announce the conclusion of arrangements governing highway credits, silver purchase and debt settlement.

11. At the time of the announcements to be made as indicated in numbered paragraph 10 :

(a) Mexico would further announce that it was entering into discussions for a settlement of the problem of railroad indebtedness; and

(b) The Mexican and United States Governments would enter into discussions with regard to the manifold problems arising out of the distribution of waters from the Rio Grande and Colorado River.

(c) The Mexican and United States Governments would enter into discussions for the increase in commercial intercourse through the medium of a trade agreement.

412.11 (41) Agreement/15

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

[WASHINGTON,] October 7, 1940.

Participants: The Under Secretary.

Señor Dr. Don Francisco Castillo Nájera, Mexican  
Ambassador.

Señor Antonio Espinosa de los Monteros, Mexican  
Under Secretary of Finance.

Mr. Bursley.

The Mexican Ambassador presented the attached informal statement regarding general claims,<sup>90</sup> stating that the figures had been prepared by Licenciado Cordova of the Embassy and were at wide variance with the figures recently mentioned in the Department. Mr. Bursley said that while the figure regarding the remaining American claims appeared to be substantially correct, it was also the case that the Mexican claims consisted in large measure of Texas land claims. The Under Secretary stated that the Department had made most minute examination of the American claims and was satisfied that the figure he was about to mention in connection with the proposed settlement was a fair one.

The Under Secretary said that after the most careful consideration of all the factors involved he had reached the conclusion that Mexico should pay \$40,000,000 in settlement of the claims listed in paragraph 3 of the memorandum, which he shortly thereafter handed to the Mexican Ambassador. A copy of the memorandum is attached.<sup>91</sup> Mr. Welles said that the memorandum was substantially the same as the previous memorandum given to the Mexican Ambassador except for the mention of the specific sum of \$40,000,000 and the insertion of paragraph 8, which was new.

The Mexican Ambassador, after reading the memorandum, stated that no Mexican executive could agree to paragraph 6 (b). Mr. Welles stated that the Department was not concerned with the form of the undertaking but that a binding undertaking was of the essence. The Mexican Ambassador said that he would examine the matter with a view to finding a formula to meet this condition. He said that it would have to be handled in such a way that there was no question of yielding under pressure on the part of the Mexican Government and he suggested tentatively that the incoming President of Mexico might make a statement to an American journalist stating that his policy would be in the sense of this paragraph. He had previ-

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<sup>90</sup> Not printed. The statement listed American claims of \$222,929,893.84 and Mexican claims of \$123,833,197.29, leaving a balance of \$99,096,696.55 in favor of the United States.

<sup>91</sup> *Supra.*

ously said that adoption of the paragraph in its present form would involve changing the Mexican constitution or making a commitment not consistent with it, either of which would be unacceptable. Mr. Welles said that perhaps an interview of the character mentioned might serve the purpose if it were followed up by a note from the Mexican Ambassador based on an instruction from the President of Mexico stating that the interview represented his policy. Mr. Welles, as a personal suggestion, said that perhaps the inaugural address of the new President would be a suitable occasion for this declaration of policy, adding that the recent public declarations by General Avila Camacho had had a good press.

Mr. Espinosa de los Monteros inquired whether the \$2,000,000 already paid on account of agrarian claims were to be deducted from the \$40,000,000 and Mr. Welles replied that they were.

There was some discussion of paragraph 8, the Mexican Ambassador indicating some anticipations that it might not be workable. The Under Secretary said that in his opinion that plan was preferable to the other and he and the Ambassador agreed that some combination of that plan and the one outlined in paragraphs 6 (a) and 7 might be worked out.

The Ambassador said that he would give these matters further thought and an appointment was made for him to confer with the Under Secretary again on Wednesday afternoon.

Mr. Welles several times referred to the desirability of carrying out the proposed plan and twice emphasized that it was necessary to consider it as strictly confidential for the present.

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812.52 Agrarian Commission/214½

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

[WASHINGTON,] November 9, 1940.

Participants: Under Secretary, Mr. Welles  
The Mexican Ambassador, Señor Dr. Don Francisco  
Castillo Nájera  
Mr. Hackworth <sup>91a</sup>  
Mr. Córdova of the Mexican Embassy  
Mr. Bursley

Mr. Welles said that he understood the Ambassador had come in to discuss the Department's recent suggestions for settlement of certain questions now pending, particularly claims. Mr. Welles then read from the Department's memorandum the categories of claims which

<sup>91a</sup> Green H. Hackworth, Legal Adviser.



were under discussion. The Mexican Ambassador said that careful study had been given to the matter of these claims with appropriate officials including the President of Mexico while he was in that country recently. The Ambassador said that it was felt that \$12,000,000 would furnish a very satisfactory settlement of all agrarian claims from 1927 up to about November 1, 1940. (In the course of the conversation Mr. Welles had mentioned that Mr. Lawson's figure on agrarian claims did not include any cases which could not have been filed before July 31, 1939 or any other expropriations the Mexican Government might have in mind saying that we really had not thought there would be any "new" expropriations after July 31; the Ambassador smiled wryly as if in confession that certain assurances had not been fulfilled.) The Mexican Ambassador said that his Government did not see how it could pay more than \$13,000,000 for general claims. He said, however, that his Government would agree to total payments of \$30,000,000 for the Agrarian, General, and other pending unsettled claims. He said he thought the offering of \$30,000,000 was really quite liberal under the circumstances.

Both the Ambassador and Mr. Córdova made some attempt to show that Mr. Lawson's appraisals were far too high, especially in the matter of lands near the border which they said Mr. Lawson had valued as though they were in the United States. To this Mr. Welles replied that the Department was convinced Mr. Lawson had made very fair and reasonable appraisals. On the question of general claims, there was some discussion as to the value of the Mexican claims introduced for trading purposes. Mention was made by Mr. Córdova of one American claim of apparently inflated character.

Since Mr. Welles had to leave for the White House, he said that further study would have to be given to the general claims and to the Mexican suggestions and arrangements were made for the Mexican Ambassador to return on Monday at 4 p. m.

The meeting continued for a while and the following matters were discussed:

Mr. Bursley inquired what exchange rate had been used when the Mexican Government reached the conclusion that the agrarian claims were worth 60,000,000 pesos (this being the \$12,000,000 mentioned above). The Ambassador said that he himself had raised this question with the Mexican authorities who stated that while the calculations had been based on surveys made in 1930 or 1931, allowance had actually been made for difference in exchange rates and for difference in land values.

Mr. Hackworth pointed out that if the agrarian claims which fall under the general claims convention were settled on the basis the Mexicans proposed for the settlement of the agrarian claims subsequent to 1927, the amount proposed for settlement of the general

claims including general agrarian claims was very low. There was some general discussion following in which Mr. Córdova and Mr. Hackworth said they would examine the claims which fall into the general claims figures.

Prior to Mr. Welles' departure from the meeting the Mexicans raised the question of Mexican corporations. Mr. Welles said that it had long since been agreed that the Mexican Government would not raise the question and the Mexican Ambassador assented.

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412.11 (41) Agreement/19

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

[WASHINGTON,] November 11, 1940.

Participants: Sumner Welles, Under Secretary of State,  
Señor Dr. Don Francisco Castillo Nájera, Ambassador  
of Mexico,  
Señor Dr. Don Roberto Córdova, Mexican Embassy,  
Mr. Hackworth,  
Mr. Bursley.

In the course of a preliminary meeting, Mr. Welles, after discussion of the matter with Mr. Hackworth and Mr. Bursley, decided upon a minimum amount which would be acceptable as payment from Mexico on account of all outstanding property claims, it being understood that, in addition, Mexico would relinquish in so far as the United States is concerned all Mexican property claims against this country. It was also decided that Mr. Hackworth would outline the total amounts of each group of claims, as well as the total amount of all of them, in order that the Mexicans might see to what an extent the Department had scaled down within the limits of fairness each group of claims and particularly the acceptable total.

Shortly thereafter, the Mexican Ambassador and Mr. Córdova entered and Mr. Hackworth set forth the figures. The Mexican Ambassador and Mr. Córdova indulged in some remarks largely repetitive of the stock Mexican arguments in these matters, including the difficulty of inducing the various Mexican authorities to pay Mexican corporation claims and the like. The Mexican Ambassador said that at the time he returned to Washington recently he was authorized to offer only \$25,000,000 in settlement of all these claims but that on his own responsibility he had offered \$30,000,000, subsequently obtaining the approval by President Cárdenas of this action.

The Under Secretary made it very clear that we could not, in justice to American claimants, accept the \$30,000,000 offer. Twice in the course of the conversation he emphasized the Department's very real

concern over reports we had received to the effect that the Potrero lands were about to be expropriated. The Under Secretary pointed out that such a development would be very unfortunate at a time when the two Governments were seeking to dispose of practically all pending questions between the two countries. In the course of the conversation on this point allusion was made to the assurances given the Secretary by the Mexican Ambassador on November 10, 1938.<sup>92</sup> Mr. Welles stated his understanding of these assurances, but the Mexican Ambassador, as on several occasions in the past, sought to establish that these assurances did not go as far as they actually did. To the Mexican Ambassador's statement that the most the assurances provided for was consultation between the two Governments in the event any new expropriations were undertaken, the Under Secretary made it clear that the reported proposed action in the Potrero case, which was admitted by the Ambassador, did not even afford an opportunity for such consultation between the Governments.

After some further discussion the conversations were adjourned until November 14, at 4 p. m., the Under Secretary, in view of the attitude of the Mexican Ambassador, having refrained from advancing the Department's bedrock figure for settlement.

HERBERT S. BURSLEY

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412.11 (41) Agreement/20

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

[WASHINGTON,] November 14, 1940.

Participants: Sumner Welles, Under Secretary of State,  
 Señor Dr. Don Francisco Castillo Nájera, Ambassador  
 of Mexico,  
 Green H. Hackworth, Legal Adviser,  
 Señor Dr. Don Roberto Córdova, Mexican Embassy,  
 Herbert S. Bursley, Division of the American  
 Republics.

The Mexican Ambassador said that he had sent to President Cárdenas a memorandum of the conversation of November 11. In reply President Cárdenas had said that in order to make the claims settlement create as little difficulty as possible in Mexico, it would be desirable if announcement could be made at the same time of the settlement of other matters, or at least of those relating to stabilization, silver, road financing, and the trade agreement. Mr. Welles said that he had forgotten that the memorandum given to the Mexican Ambassador

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<sup>92</sup> Not printed.

on October 7 did provide for several stages in the proceedings but that it was really his intention and had been such that agreement on all of the points be announced at the same time. Mr. Welles said he regarded agreement upon the amount of the claims as the first step. The Mexican Ambassador seemed pleased with this statement and while indicating the difficulty of paying \$40,000,000, suggested that Mexico might increase its offer of \$30,000,000. The Ambassador said that he expected to receive tomorrow detailed instructions from the President of Mexico with relation to the various matters, including silver, and that he would embody these instructions in a memorandum which he would deliver on Friday or Saturday to the Under Secretary. It was agreed that a further meeting between the Ambassador and the Under Secretary would be held on Monday, November 18.

The Under Secretary emphasized the desirability of concluding all of these negotiations prior to the Ambassador's departure from Washington for the Mexican Presidential inauguration and suggested that in order to expedite matters, it would be appreciated if, in so far as practicable, the Ambassador would communicate with Mexico City by telephone. Mr. Welles said that, of course, an agreement for the solution of the oil controversy was of outstanding importance in connection with these negotiations.

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412.11 (41) Agreement/21

*The Mexican Embassy to the Department of State*

[Translation]

MEMORANDUM

After several conversations in the months of August, September and the beginning of October in which there participated, on behalf of the Department of State, Mr. Sumner Welles, Commissioner Lawson and Mr. Duggan, and, on behalf of the Government of Mexico, Ambassador Castillo Nájera, Mr. Espinosa de los Monteros, Under Secretary of Treasury, and Commissioner-Engineer Serrano, Mr. Welles delivered for the consideration of the Government of Mexico a memorandum dated October 7, 1940 containing a general plan for the settlement of a number of the problems pending between the two countries.

This memorandum was handed to President Cárdenas in the City of Mexico by Ambassador Castillo Nájera on October 11. The President, in various conferences, discussed with the Ambassador each one of the sections of the document, hearing the opinions of certain members of his Cabinet and of Engineer Serrano. Later the President

instructed the Ambassador to continue negotiating these matters on the bases which the Government of Mexico considered practicable and just, following the Ambassador's return to Washington.

In the meetings held from the end of October to the eleventh of November, 1940, Messrs. Welles, Hackworth and Bursley, on behalf of the United States, and Ambassador Castillo Nájera and the legal counselor, Córdova, on behalf of Mexico, set forth fully the points of view of the two Governments, particularly with relation to the section on claims, having touched, in general terms, on the other parts of the memorandum of the United States dated October 7.

The conferees were in agreement that a global settlement for all the claims pending between the two countries, without classification by items or other reasons, would be the most satisfactory solution of this problem. The American officials maintained that the minimum sum acceptable to the United States, for the accomplishment of this settlement, is forty million dollars. The Mexicans, on the other hand, stated that they found that sum very high and, in the name of their Government, proposed thirty millions as a maximum figure, emphasizing that in their opinion even this sum was excessive, since their most liberal estimates do not justify a payment greater than twenty-five millions.

It was not possible for the representatives of the two sides to make concessions; each of them stating that, in determining the sums mentioned, they had reached the minimum that the United States could accept and the maximum that Mexico could offer.

At the meeting of November 11, Mr. Welles considered that the success of the negotiations depended upon the acceptance by Mexico of the indicated sum of forty millions and pointed out also that, through the general operation of the project contained in the memorandum of October 7, Mexico would obtain economic benefits which would surely facilitate the fulfillment of the pecuniary obligations which it would contract in accordance with the said plan.

The Ambassador pointed out that he was not authorized by his Government to exceed the amount of thirty millions offered and that, therefore, he would be obliged to consult [his Government]<sup>94</sup> again.

The appropriate instructions having been received, another meeting was held on November 13. The Ambassador stated at that meeting that the Government of Mexico, having studied the question once more, remained of the opinion that the figure it had proposed—thirty millions—constituted not only just and adequate, but excessively liberal compensation; that, nevertheless, impelled by the desire to conclude a settlement and thereby manifest its friendly disposition towards the United States, it would consent to increase the indicated sum if,

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<sup>94</sup> Brackets appear in the file translation.

through the functioning of the general plan, there would be brought about an economic situation making it possible for Mexico to fulfill, in a regular and uninterrupted way, any monetary commitments which it accepts. The Ambassador added that his Government could not assume any commitment in that sense without having the certainty that, at the end of some years, it would not see itself obliged to declare moratoriums or definitive suspension of the payments.

Mr. Sumner Welles referred to the forthcoming agrarian expropriation of the properties of the "El Potrero" company, and the Ambassador of Mexico stated, regarding it and other expropriations which have to be carried out in the near future, that, as he had had the honor to explain to Mr. Welles in the conversation on the eleventh, the Mexican Government had delayed the application of the agrarian law in certain cases in which properties of American individuals or companies would be affected because of its desire that the work of the Serrano-Lawson Commission might be completed without incidents, but that this suspension could not be indefinite since, in order to avoid having the rural population, which has a right to the possession of such lands, continue in an agitation which might become serious, the Mexican Government has found itself obliged to comply with the respective laws and to continue the agrarian proceedings in each case. The Ambassador said that the Mexican Government had already formulated the evaluations of these properties and is disposed, in the settlement being negotiated, to have included additional just and adequate sums which would be employed to compensate the affected owners. He also pointed out that, according to the calculations of the Agrarian Department, more than three million hectares of lands belonging to Americans remain unaffected, principally in the States of Sonora, Chihuahua, Sinaloa, Durango, Nayarit, Veracruz, Campeche and the Territory of Lower California. Regarding the lands presently the property of nationals of the United States, and since it is a question principally of cattle lands, it would be advisable for the owners to hasten to apply for the certificates of agrarian non-affectability in order to be duly protected by the law.

In view of the conversations above referred to, and taking into account the foregoing reasons, the Mexican Ambassador submits to the consideration of Mr. Welles the following minimum bases of a general agreement.

#### *I—Claims:*

*a.* There is accepted, in principle, the amount of forty million dollars as payment of all the claims specified in the memorandum of October 7, 1940, referred to above, it being understood that this acceptance shall be subject to final agreement on the plan contained in these same bases;

b. The installments on and periods in which the foregoing sum is to be paid will be discussed and fixed definitively when it is possible to estimate the economic advantages which the carrying out of the other bases would produce.

c. The agreement will contain a clause by which the Government of the United States will agree to refrain from resorting to diplomatic action in those cases in which agrarian legislation is applied in the future to lands belonging to Americans which they may have acquired subsequent to the date of the agreement drawn up.

With regard to this last paragraph, the clarification should be made that the Mexican Government has definite reasons for fearing that in a fairly near future, lands which now are the property of Mexicans or of foreigners of nationality other than American will be transferred by real or simulated sales to the possession of nationals of the United States in an attempt thus to seek the protection of the Government at Washington and cause to arise a problem similar to that which it is now sought to resolve. To avoid the difficulty indicated, which would involve new friction between the two Governments, that of Mexico considers it indispensable that, after the conclusion of this agreement, lands which do not now belong to American nationals, if they are later the subject of expropriation, shall remain subject to the general law and that, therefore, diplomatic action will not be in order in those cases in which, by real or pretended transfer, these lands appear as owned by Americans.

## II—*Monetary Stabilization.*

Since, in the various conversations which have been held, this section of the negotiations has been touched on in a very superficial way, my Government considers it indispensable, without going into minute details, to establish certain fundamental points which must be decided:

a. The conclusion of an agreement between the appropriate American institution and the Bank of Mexico by means of which there would be opened a credit in favor of the latter for the amount of \$30,000,000, in current account, with the right, on the part of the Bank of Mexico, to make dollar deposits in the said account. Mutual interest on balances. The said fund would be used for the objects of monetary and exchange regularization, it being understood that a relative stability would be sought. Mexico would have the right, when the economic condition of its balance of payments so requires, to change the rate in an adequate manner.

b. The foregoing agreement would be supplemented by a stipulation in the sense that after five years of operation, if it should not be extended by mutual accord, the balances would be liquidated and it would be agreed, moreover, that those [balances]<sup>96</sup> remaining against Mexico would be paid through the issuance of long-term bonds with a low rate of interest. Mexico would have the option of paying in silver, at a fixed price, if this should suit it better.

<sup>96</sup> Brackets appear in the file translation.

c. The agreement would also contain a clause through which the dollars in any balance in favor of or against Mexico would be computed in gold at the rate of \$35 per ounce.

### III—*Petroleum*:

The Government of Mexico is disposed, as it has always been, to come to an agreement with the interested companies both with regard to the amount of the indemnity pertaining to them and with regard to the form of payment.

a. The Mexican Government would consider any project of settlement on bases similar to those which served for the agreement with the Sinclair group, or on any others proposed by the interested parties, provided that the control of the direction and administration of the industry remains in the hands of the Government of Mexico through an adequate organization or organizations.

The negotiations would be initiated between representatives of the Government and of the companies in the city of Mexico or in the city of Washington.

This acceptance by the Government of Mexico conforms to the alternative contained in paragraph 8 of the memorandum of October 7.

b. Independently of the foregoing, Mexico believes it just and suitable that the quota assigned to it for the importation of petroleum and its derivatives into the United States be increased while enjoying the exemption of 50 percent of the import duty.

Regarding this last paragraph, I permit myself to recall that when the present quotas were fixed in December last year, I had several conversations with Mr. Duggan in which I set forth the reasons upon which Mexico based its desire, and that official promised to seek means of obtaining an increase in this quota. Subsequently, Mr. Duggan informed me that for the present year 1940 it would not be possible to modify the allocation of the quotas, but he added that for the coming year the wishes of Mexico would be taken into account.

In order not to increase the length of this memorandum, I shall not recite the extensive, pertinent arguments; I limit myself for the moment to expressing the conviction that the American experts should have no great difficulty in agreeing that the quota granted Mexico could be increased five or six times over that presently in effect without harming anyone.

### IV—*Silver*:

An agreement will be made for the sale of newly-mined silver to the United States in quantities and at prices greater than at present and for a period of not less than five years.

### V—*International Waters*:

Although Mr. Welles, in one of our former talks, designated this problem as political in character, for Mexico it has an economic aspect



of great importance since the development of extensive agricultural regions depends on its solution.\* My Government cannot but be concerned about this matter and exert itself for its definitive solution. The passage of time works unfavorably for my country and the interests being created in the United States continually make an adequate solution more difficult.

The Ministry for Foreign Relations of Mexico has presented,—or is about to present,—to the Embassy of the United States in the capital of my country, a note<sup>96</sup> protesting against the performance of acts which impair or may impair the right which international law gives Mexico to the use and enjoyment of the waters of the international rivers, or which may damage its territory, and protesting against the injurious effects for my country of the construction of a gravity and storage canal in the Rio Grande Valley.

In view of the injuries which we have already suffered and those which seemingly still menace us, my Government considers it necessary that this subject be discussed simultaneously with the others herein mentioned. Because of the special importance which Mexico has attached to this problem, our experts believe they have completed the study thereof and are ready to negotiate with the American experts regarding the results of their arduous work, which for many years has been the constant subject [of study]<sup>97</sup> of numerous technical commissions.

My Government is ready to propose a treaty, based on a proposal which could solve the problem, granting to each one of the countries reciprocal advantages which fully satisfy the desiderata of the two nations.

The other parts of the memorandum of October 7 are, in the belief of my Government, of much lesser importance and therefore could be considered later.

If the Government of the United States accepts the general principles enunciated in this document, it would be possible to proceed to the discussion of the treaties or agreements which may be reached in the partial † negotiations, the initiation of which can be immediate.

WASHINGTON, November 16, 1940.

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\* N. B. The Under Secretary has been incorrectly quoted. This should be clarified in the Department's reply to the Mexican memorandum. [Footnote in the file translation.]

<sup>96</sup> Not printed.

<sup>97</sup> Brackets appear in the file translation.

† i. e. Presumably, separate negotiations on the various parts of the general agreement. [Footnote in the file translation.]

812.6363/71851

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

[WASHINGTON,] December 16, 1940.

Participants: Señor Dr. Don Francisco Castillo Nájera, Mexican  
Ambassador;  
Mr. Welles;  
Mr. Duggan;  
Mr. Bursley.

The conversation related mainly to the oil settlement aspects of the Department's memorandum of October 7 and the Mexican Ambassador's reply of November 16.

Mr. Welles emphasized the extreme desirability of the prompt initiation of discussions between representatives of the Standard Oil Company of New Jersey and the Mexican Ambassador. The Under Secretary also emphasized the advisability of deferring until considerably later any discussion of the evaluation of the expropriated oil properties. He said that a general agreement should be worked out and that the question of figures on evaluation could be worked out later. In reply to a statement by the Ambassador indicating that he might propose a settlement to Standard practically identical with the Sinclair settlement, Mr. Welles said that he wanted to make it clear that the settlement with Standard need not necessarily follow precisely the terms of the Sinclair settlement.

The Mexican Ambassador appeared to be in entire agreement with Mr. Welles' suggestions. The Mexican Ambassador said that conversations were now going on between the Mexican Government and Penn-Mex (?) and that as a matter of fact no difficulty was anticipated in effecting settlements with all the American companies including California Standard; he said, however, that the real difficulty was with Standard of New Jersey.

Mr. Duggan, having in mind the two plans referred to in the Department's memorandum of October 7, asked whether some arrangement should not be made whereby there would be an alternative plan for settlement, inferentially between the two Governments, in the event the Mexican Government and the oil companies were not able to reach an agreement reasonably soon. The Ambassador replied to the general effect that if the companies would not reach an agreement with the Mexican Government, they would have to fall back upon the findings of the Mexican courts and experts, adding that the position of the Mexican Government was very strong and as he had done several other times in the course of the conversation, rehashed many of the stock Mexican arguments in the oil matter.

The Under Secretary said that with a view to saving time, it would be well to begin soon preliminary discussions relating to the question of distribution of international waters. Before taking up this point, Mr. Welles referred to a statement in the Mexican Ambassador's memorandum of November 16 regarding an earlier statement of Mr. Welles' on this subject. The statement in question indicated that Mr. Welles had referred to the matter of distribution of the Colorado River waters as a political one. Mr. Welles said that what he had previously stated was that this problem had important domestic political aspects in the United States. He emphasized that he had not said the matter was an international political question. The Mexican Ambassador said that his Government would be very glad to go ahead with discussions of the water problem and inquired whether Mr. Serrano should be brought to Washington. Mr. Welles said that he did not think this was necessary as yet.

Mr. Welles inquired whether the Mexican memorandum of November 16 contemplated a discussion of the public debt of Mexico. The Mexican Ambassador said that it did not but that his Government would desire to go ahead with this matter somewhat later on, perhaps in one or two months, and that the Mexican Government would prefer to take up this matter direct with the representatives of the bondholders. He said that one of the difficulties in solving the question of the debts was that the banker's committee did not represent all of the bondholders. He also touched lightly upon the fact that most of the bondholders were Europeans. Mr. Welles said that a further complication might be involved if any of the bondholders were Germans.

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**POLICY OF THE UNITED STATES REGARDING CONTROVERSIES ARISING BETWEEN AMERICAN HOLDERS OF FOREIGN BONDS AND FOREIGN GOVERNMENTS**

812.77/1340

*The Secretary of State to the Assistant Vice President, Central Hanover Bank and Trust Company, New York (E. G. Herendeen)*

WASHINGTON, April 4, 1940.

MY DEAR MR. HERENDEEN: Reference is made to your letter of January 17, 1940,<sup>98</sup> signed by:

Central Hanover Bank and Trust Company  
 The New York Trust Company  
 Guaranty Trust Company of New York  
 Manufacturers Trust Company  
 The First National Bank of Boston  
 Old Colony Trust Company

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<sup>98</sup> Not printed.

Boston Safe Deposit and Trust Company  
Safe Deposit and Trust Company  
St. Louis Union Trust Company  
Continental National Bank and Trust Company of Chicago

enclosing a schedule of obligations of the National Railways of Mexico on which no interest has been paid for a number of years and requesting the Department to enter into negotiations with the Government of Mexico with the view of bringing about the commencement either of payments of the amounts due or of the payment of adequate compensation for the expropriated properties of the railways in question. The statement made in the communication under reference that a large part of these obligations are distributed among investors throughout the United States has been noted.

The Department's information indicates that under the terms of a Mexican decree promulgated April 30, 1938, there was created the National Labor Administration of the National Railways of Mexico. Article 12 of the decree reads in translation as follows:

"The Labor Administration shall be obliged to:

"a).—Invest at least 5.36% of the gross revenue in additions and improvements;

"b).—Pay the Federal Government a participation, the amount of which shall be calculated, taking as a base a percentage of the gross revenue and adding a percentage of the remainder in the manner established in the following article. The base percentage shall be 5.64 when the annual gross revenue is 125 million pesos or over, and 3.64 when the gross revenue is less than 125 million pesos."

In an interview had on June 20, 1938 with the Mexican Minister of Finance, a representative of the American Embassy at Mexico City was informed that the contribution of 5.64 percent of gross income would be held by the Government for the payment of the National Railways' obligations, presumably for the account of bondholders.

The Department understands that a tentative agreement was reached in 1938 between the International Committee of Bankers on Mexico and the Mexican Government concerning the bonds of the National Railways. It is further understood that this agreement provided for the conversion of the railway dollar debt into \$240,000,000 Mexican pesos. However, the Department's information does not indicate that the agreement was ever ratified by the interested parties.

As the Department has recently informed you, this Government considers difficulties or controversies arising between American holders of foreign bonds and foreign governments to be primarily matters for negotiation and settlement between the foreign debtors and the American bondholders or their representatives. The Department does on occasion use its good offices when it appropriately can to facilitate negotiations between defaulting foreign governments and the American interests directly affected or their representatives.

However, the Department does not contemplate entering into any discussion at this time with the Government of Mexico regarding the railway bonds under consideration.

The Department is communicating with the American Embassy at Mexico City with the view of determining the amount which has thus far been contributed to the Mexican Government in accordance with Article 12 of the decree of April 30, 1938. As soon as a reply is received from the Embassy I shall be glad to advise you of its purport.

Sincerely yours,

For the Secretary of State:

SUMNER WELLES

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### POLICY OF THE UNITED STATES REGARDING ASYLUM

312.0022/1 : Telegram

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

MEXICO, September 7, 1940—6 p. m.

[Received September 8—1:15 a. m.]

315. The Minister from Colombia<sup>99</sup> called at the Embassy September 5 and suggested that as Dean of the Diplomatic Corps I call a meeting of the chiefs of missions with reference to affording asylum. He said that a few nights before about midnight two Mexicans who said they were supporters of Almazán<sup>1</sup> called at the Legation and requested asylum because as they alleged they feared their lives were in danger. He received them and they are still there. He requested that I call a meeting of the heads of missions to have a cordial talk about what should be done in applications of this character and he thought there ought to be an agreement as to the course to pursue. I told him that my country had not ratified the Treaty of Habana with reference to asylum<sup>2</sup> and its policy was not similar to those countries which, like his own, had ratified the Habana Treaty, and that perhaps the policy of other countries having representatives here was different from that of those countries which had ratified the Habana Treaty. He said he was aware of that but inasmuch as most Pan American countries had ratified the Treaty he wished me to call a meeting for "a cordial discussion". I told him I would give his suggestion consideration. Just upon leaving he handed me a signed paper which he called a memorandum reading in translation as follows:

"First—that there be convoked the members of the Diplomatic Corps accredited to Mexico by the Dean of the Diplomatic Corps so

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<sup>99</sup> Jorge Zawadsky.

<sup>1</sup> General Almazán, unsuccessful candidate in the Mexican presidential elections.

<sup>2</sup> Signed February 20, 1928; for text, see *Sixth International Conference of American States, Habana, 1928, Final Act and Report of the Delegates of the United States of America to the Sixth International Conference of American States.*

that resolutions may be taken regarding the question of asylum in conformity with the convention on this matter subscribed in Habana, Cuba by the plenipotentiaries of the countries of America on February 20, 1928.

Second—that there may be considered in that same meeting the concrete case concerning the question of asylum that will be presented by the Colombian Minister.”

Today when I saw him I suggested to him that the wiser action would be for the diplomats whose countries were parties to the Treaty to discuss the matter among themselves. That I hesitated to call a meeting about a matter in which I could not act except in accord with the policy of my country which was very different from his country's policy. He insisted that even if I could take no part and others might be in somewhat similar position I, as Dean, should call the meeting which would be informal. I expressed the view that because of the difficult situation I could see no good in a meeting. He strongly insisted that as Dean, I make the call. I told him that while feeling that any meeting should be confined to countries that had signed the treaty, I would be glad to see him again Monday afternoon. He stated that he had received word from his Government approving what he had done and instructing him to consult his colleagues.

I wish to be advised what is the Department's policy in this respect—should I as Dean call the meeting for the purpose outlined by the Colombian Minister? My opinion is that the press would broadcast such a meeting (and it could not be kept confidential) as indicative of the belief that Mexico was in immediate danger of revolution and that the diplomats were taking this action because they feared serious trouble was near. I do not entertain that opinion and feel our representative here should not give room for the press to convey such an impression. If a revolution should come, the policy of our Government as I understand it is that our Embassy should not give asylum to any Mexican unless he were pursued by a mob which endangered his life and then only until he could be delivered to the Mexican authorities.

The Colombian Minister told me that when he gave asylum to these two Mexicans who told him they were in danger he sent a communication to the Foreign Office here informing the Minister of his action. He said his communication had not been answered but that the Mexican Minister in Colombia had related the incident to the Foreign Office there and assured the Colombian Government that there was no ground for the fears of the Mexicans who had asked asylum or any one else in Mexico. The Colombian Minister here was evidently aggrieved that the matter had not been taken up with him by General Hay<sup>3</sup> instead of Colombian Foreign Office. I inquired if he would

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<sup>3</sup> Eduardo Hay, Mexican Minister for Foreign Affairs.

like me to take the matter up with General Hay. He said "no" he would not like General Hay to be informed that he thought Hay had done wrong.

I am informed that when the Minister for Uruguay <sup>4</sup> at the Cuban Ambassador's was talking to President Cárdenas some one asked the Uruguayan what he would do if "Mexican reactionaries" asked asylum. The Uruguayan made his reply direct to the President stating that as the Mexican Government had assured protection for everybody there would be no need for granting any asylum and that it would not be granted at his Legation.

The Bolivian Ambassador <sup>5</sup> has taken the position that if any chief of mission requested the Dean to call a meeting of the Corps he had no option but to do so. On this point I would appreciate your telegraphic advice in the light of the experience of other American missions elsewhere so that I may have it as early as possible on September 9. There appears to be no local practice on this point.

My opinion is that if I call a meeting of Corps as suggested the newspapers will carry a sensational story that conditions are so bad here that the whole Diplomatic Corps feels it necessary to prepare for a serious situation which will protect supporters of Almazán whose lives may be in danger by action of the Mexican authorities. No such condition exists here now and this call would be represented to the world as an impression of a situation in Mexico not justified by the facts. It will be helpful to have your instructions before I see the Colombian Minister at 4 o'clock Monday afternoon.

DANIELS

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312.0022/1 : Telegram

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

WASHINGTON, September 9, 1940—6 p. m.

287. Your 315, September 7, 6 p. m. The Department feels there is a clear distinction which you should draw between your duties as American Ambassador and your functions as Dean of the Diplomatic Corps.

You may say to your Colombian colleague that convocation by you of the proposed meeting or attendance by any representative of the American Embassy would in all probability give rise to a feeling that this Government contemplated some change in its well-established and well-known policy in the matter of asylum. Moreover, either action could readily involve the Embassy and perhaps the Department in the controversial question of whether the Mexican do-

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<sup>4</sup> Hugo V. de Pena.

<sup>5</sup> Enrique Finot.

mestic political situation is acute and the related question of whether the Mexican Government is exercising repression on the Almazanistas. Accordingly, the Department endorses the position it understands you desire to take of declining to call the meeting and of non-participation therein.

You may desire to say also that while in most matters the United States sees eye to eye with the other American Republics, it is believed our traditional views on this subject are so well known that our inability to cooperate in this instance will be fully understood.

If you so desire, you are authorized to absent yourself from Mexico City for a few days. The Acting Dean, who it appears is the Cuban Ambassador, (or at any rate a representative of one of the other American Republics which perhaps entertains views more in consonance with the Colombian attitude) could then give consideration to the matter of a meeting.<sup>6</sup>

HULL

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**AGREEMENT BETWEEN THE UNITED STATES AND MEXICO CONCERNING RADIO BROADCASTING, EFFECTED BY AN EXCHANGE OF NOTES SIGNED AUGUST 24 AND 28, 1940**

[For text of the agreement, signed at Mexico City, see Department of State Executive Agreement Series No. 196, or 54 Stat. (pt. 2) 2483.]

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<sup>6</sup> The Colombian Minister in Mexico did not press the issue further with Ambassador Daniels but dealt directly with the Mexican Government.



## NICARAGUA

### POLICY OF THE UNITED STATES OF NON-INTERVENTION IN THE INTERNAL AFFAIRS OF NICARAGUA

817.5151/519

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

No. 376

WASHINGTON, April 16, 1940.

SIR: Reference is made to the Legation's despatches no. 984 of March 6, 1940, reporting on the foreign exchange situation in Nicaragua and no. 1012 of March 15, 1940,<sup>1</sup> with regard to the general political situation, and more particularly that prevailing in the National Guard.

The Department has noted the closing sentence of the despatch first referred to stating “. . .<sup>2</sup> I should urge the immediate necessity of an American manager for the Nicaraguan National Bank or a Financial Supervisor for as much of the country's expenditures as possible, either governmental or commercial”. In the second despatch referred to you raise the question of what the attitude of this Government would be in the event that it were appealed to for aid in “remoralizing the Guardia Nacional” or that President Somoza, “secure in his confidence that we wish him to remain in office”, should turn to us for even more forceful aid. On page three of this same despatch the opinion is expressed that this Government “will shortly be faced with the necessity of determining whether to proffer the services of an American officer or officers to effect a reorganization and a tightening up of the Nicaraguan National Guard if it desires to maintain Somoza in power”.

These statements appear to indicate that there may be a misconception on the part of certain officials of the Nicaraguan Government regarding the fundamental policies of this Government in the conduct of its relations with the other nations of this hemisphere. It is realized that officials of the Nicaraguan Government customarily maintain particularly close and cordial relations with the Department's representatives at Managua and that they not infrequently seek counsel on questions which are purely a domestic concern of that Government. Such consultations may even convey the impression that the Nicaraguan Government in given situations would be

<sup>1</sup> Neither printed.

<sup>2</sup> Omission indicated in the original despatch.

receptive to a return to the situation formerly prevailing in Nicaragua when this Government in various ways exercised a considerable degree of control over internal administrative functions of the Nicaraguan Government.

While this Government is glad to comply, when it appropriately can, with requests from the other American governments for advice and assistance, this is not done to enable any particular individual or faction to gain or maintain control of the government involved. This question is not a matter of proper concern to this Government.

It would obviously be impossible to set down any specific rules for the Legation's guidance when conversations of this nature may be initiated by members of the Nicaraguan Government and the Department must continue to rely on your tact and good judgment on such occasions. However, it would manifestly be inconsistent with the broad policies which have guided this Government in its relations with the other nations of this hemisphere during recent years if the impression should be conveyed in any way to the Nicaraguan Government that there was any slightest desire on the part of this Government to intervene directly or indirectly in the internal affairs of Nicaragua, and the Department is confident that you will carefully refrain from permitting any such impression to be conveyed to the Nicaraguan Government.

In that connection it is desired to recall to your careful attention the Department's instruction no. 24 of April 30, 1936,<sup>3</sup> which—together with its enclosure—a memorandum dated February 18, 1936, set forth the attitude which should be adopted by this Government's representatives in Central America in the event of an effort to obtain their advice on matters of purely domestic concern. While this instruction dealt more particularly with the question of recognition of new governments in Central America, it is desired again to repeat the injunction found on pages two and three thereof:

“Concerning the Department's attitude toward informal advice, whether solicited or not, in connection with the purely internal affairs of the Central American States, I desire to make it clear that the Department expects its diplomatic representatives in Central America to conduct themselves in their relations with the Governments to which they are accredited, and with the people of the countries, in exactly the same manner they would if they were accredited to one of the large republics of South America or with any non-American power; that is to say, they should abstain from offering advice on any domestic question, and if requested to give such advice they should decline to do so.”

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<sup>3</sup> The same as instruction No. 103 of the same date to the Minister in Honduras, *Foreign Relations*, 1936, vol. v, p. 134.

The Department trusts that you have not made any suggestions or recommendations to the Nicaraguan Government with regard to the appointment of an American citizen to supervise Nicaraguan finances or of an American army officer to take a position of command in the National Guard, and you should, of course, exercise the utmost care to avoid conveying to the Nicaraguan Government any intimation that such appointments would be desired by this Government.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

## PANAMA

### NEGOTIATIONS WITH THE PANAMANIAN GOVERNMENT FOR THE LEASE OF TRACTS OUTSIDE THE CANAL ZONE FOR THE DEFENSE OF THE CANAL<sup>1</sup>

711F.1914/141

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

No. 257

WASHINGTON, July 3, 1940.

SIR: The Department refers to your despatch no. 169 of November 9, 1939<sup>2</sup> regarding the desire of the military authorities of the Canal Zone to obtain leaseholds for 999 years on certain tracts in the Republic of Panama for use in the defense of the Canal.

The War Department and this Department have now agreed upon a draft of lease on the basis of which it is believed negotiations with the Republic of Panama may commence. A copy is enclosed. Before instructing you to begin such negotiations, the Department would like to receive any comments you may wish to make regarding the draft and the propitiousness of the present time for such negotiations. The War Department has indicated its desire to obtain the desired leasehold on the Rio Hato tract without delay since it is urgently necessary to begin certain construction work on that property. It is hoped, accordingly, that your comments may be expedited.

Should you find the draft satisfactory and the present time propitious, the Department is prepared to authorize you by telegraph to proceed.<sup>3</sup>

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

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<sup>1</sup> Extensive documentation on this subject including correspondence from American officials has been printed by the Panamanian Government in *Memoria que el Ministro de Relaciones Exteriores Presenta a la Asamblea Nacional en sus Sesiones Ordinarias de 1943 (1940-1942)*, pp. VIII-XXI, and 159-393. 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.

<sup>2</sup> Not printed.

<sup>3</sup> In telegram No. 114, July 11, 1940, the Ambassador in Panama indicated that he and Maj. Gen. Daniel Van Voorhis, Military Commander of the Panama Canal Department, considered the draft of lease "entirely satisfactory and the present time propitious" to begin negotiations (711F.1914/144). Subsequently, by telegram No. 95, July 13, 1940, the Ambassador was instructed "to negotiate lease" (711F.1914/144).

In his despatch No. 653, September 20, 1940, the Ambassador in Panama said that the draft of lease was submitted to Leopoldo Arosemena, the Acting Secretary of Foreign Relations, on July 16. An informal exchange of views on the subject occurred on August 20 between President Augusto Boyd, Narciso Garay,

[Enclosure]

*Draft of Proposed Lease Agreement*

Between the United States of America and the Republic of Panama for the lease to the United States of lands in Panama for use by the military forces in the defense and protection of the Panama Canal.

Whereas, the United States of America and the Republic of Panama, recognize that the utilization of additional lands and waters is necessary for the maintenance, sanitation, efficient operation of the Canal, and for its effective protection, and are desirous to execute fully the provisions of the second paragraph of Article II, of the Treaty of March 2, 1936,<sup>4</sup> which provides:

“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 to insure the maintenance, sanitation, efficient operation and effective protection of the Canal, in which the two countries are jointly and vitally interested.”

Therefore, the undersigned, to wit: Narciso Garay, Secretary of Foreign Relations and Communications of the Republic of Panama, and Cordell Hull, Secretary of State of the United States of America, acting by William Dawson, Ambassador Extraordinary and Plenipotentiary of the United States of America, acting in the name and representation of our respective Governments, by which we are legally and sufficiently authorized, have concluded the following contract:

First. The Republic of Panama hereby leases to the United States for a term of nine hundred and ninety-nine years, beginning with the date of the passage of the decree-law referred to in the tenth article hereof, the following described areas of land situated in the Republic of Panama:

(Herein description of land as contained in the Public Registry, Register of Property, Section of . . . . .)

Panamanian Foreign Minister, General Van Voorhis, and the American Ambassador. At this meeting it was agreed that Dr. Garay would furnish the Embassy with a memorandum embodying Panamanian observations on the proposed lease. Failure to receive a memorandum was attributed by the Ambassador primarily to the circumstance that since their Government would go out of office on October 1, President Boyd and Dr. Garay preferred to have the defense sites negotiation become the responsibility of the incoming administration of President-elect Arnulfo Arias. (711F.1914/146)

<sup>4</sup> Department of State Treaty Series No. 945; 53 Stat. (pt. 3) 1807.

Add:

Excepting from said area a strip of land now used as a part of section of the so-called National Highway extending from (here insert east and west termini and width of road), but with the right of the United States to use said highway for transportation purposes and to construct and maintain road connections therewith, and to cross said highway for access to the areas on either side thereof, and to construct and maintain thereunder, thereover or along the same, utilities and installations necessary in connection with the use of adjacent areas.

Second. The grant of the foregoing Article shall include the right to use the waters adjacent to said areas of land, and to improve and deepen the entrances thereto and the anchorages therein, and generally to do any and all things necessary in connection with the utilization of the premises to insure the efficient operation and effective protection of the Canal.

Third. Aircraft owned by the Republic of Panama and aircraft of Panamanian registry owned by nationals of the Republic of Panama may be permitted, under such rules and regulations as may be prescribed by the United States, to land and take off at any airport established within said areas, but such permission shall be construed as occasional and not exclusive and shall always be subordinate to use by the United States; provided that the United States shall not be responsible for any claims for injuries to persons in such aircraft or damages to said aircraft or property caused by the operation of said aircraft, or which may result incident to the use of said areas by the United States; provided further that such permission to land, take off, and/or the use of the air space above said areas may from time to time be regulated or suspended by the United States when deemed by it to be in the interest of public safety or necessary for the maintenance, sanitation, or efficient operation of the Canal or for its effective protection.

Fourth. The Republic of Panama retains its sovereignty over the above-described areas of land and water but nevertheless consents that during the period of the occupation by the United States of said areas under the terms of this agreement, the United States shall have complete use of 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 and agreed by and between the parties hereto that within a reasonable time after the signing 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 offences committed within the said areas and conferring

jurisdiction for the trial of offenders upon the superior courts of the said Republic to the exclusion of all inferior courts of the said Republic. It is further understood and agreed that if this Article Fourth 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 of the Republic of Panama the exclusive jurisdiction over the above-described areas.

Fifth. The United States shall take such measures as may be necessary to protect from injury by aircraft of the United States persons and property passing over or upon said National Highway.

Sixth. The Republic of Panama covenants that the United States shall peaceably hold and enjoy the said areas during the said term without any interruption whatsoever by the Republic of Panama or any person claiming under the Republic of Panama.

Seventh. All buildings and other improvements erected upon said areas by the United States shall be and remain the property of the United States and may be removed therefrom by the United States prior to the expiration of this lease. In the event of damage or destruction of said buildings and improvements from any cause, there shall be no obligation on the part of the United States or the Republic of Panama to rebuild or repair such damage or destruction; or for the United States to return upon the expiration of this lease, the premises in the condition in which they were when the United States entered into possession.

Eighth. The Republic of Panama covenants that the above described areas of land and property of the United States therein; military and civilian personnel of the United States and their families within said areas and their property having its situs within such areas, shall be exempt from all forms of taxation, assessment and levy by the Republic of Panama during the term of this lease.

Ninth. The Republic of Panama shall not, without consent of the United States, permit the erection or maintenance of any aerial lines or other obstructions constituting hazards to flying in proximity to said areas or enact any legislation curtailing or restricting the United States in the use of said areas.

Tenth. The price of rental for the entire stated period shall be . . . . ., which the United States Government shall pay so soon as a decree-law sanctioning this agreement shall have been proclaimed by the President of the Republic of Panama and published in the Official Gazette.

Eleventh. No Member of or Delegate to the Congress of the United States of America or Resident Commissioner shall be admitted to any share or part of this lease or to any benefit to arise therefrom. Nothing, however, herein contained shall be construed to extend to any

incorporated company, if the lease be for the general benefit of such corporation or company.

Done at Panama, in duplicate, this . . . . . day of . . . . ., nineteen hundred and forty.

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711F.1914/156

*Memorandum of Conversation, by the Ambassador in Panama  
(Dawson)*<sup>5</sup>

PANAMA, November 9, 1940.

The interview was held at the Presidential Palace on November 7, 1940, lasted from 11 a. m. to 12 m., and was participated in by President Arias, Secretary of Foreign Relations De Roux, Lt. General Van Voorhis, and Ambassador Dawson.

With the President taking the initiative, the conversation was conducted throughout in English, in spite of the circumstance that Secretary De Roux does not speak or understand this language. The President had before him a typewritten memorandum which he consulted from time to time.

He opened the interview with the statement that he had been advised by Dr. De Roux that the Army desired to utilize lands in the Republic for defense purposes; and that his Government was prepared to cooperate in the defense of the Canal and in hemispheric defense.<sup>6</sup> At this point and later in the interview, he stated that the Government must take into account Panamanian public opinion. The following specific points were taken up by the President:

(1) He inquired of General Van Voorhis if the military installations contemplated by the Army would not constitute military objectives for the enemy in the event of war. General Van Voorhis replied that in general this would be true. The President pointed out that in consequence military objectives would be spread all over the Republic. (While the President did not specifically say so, it seems clear

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<sup>5</sup> Transmitted to the Department by the Ambassador in Panama in his despatch No. 750, November 9; received November 13.

<sup>6</sup> The Ambassador in Panama, in his despatch No. 719, October 25, reported that he had re-opened negotiations with the new administration on October 11, 1940, when he handed Dr. Raul de Roux, the Minister for Foreign Affairs, the American draft of a lease and a complete list of tracts needed by the United States Army. Subsequently, the Ambassador spoke to De Roux of the urgency of the matter; on October 18, he requested an audience for General Van Voorhis and himself "with President Arias for the purpose of acquainting him in a general way with the defense problem and of furnishing any information which the President might desire." In advising Ambassador Dawson on October 19 that the President would receive them "in due course", the Foreign Minister suggested a preliminary meeting at the Foreign Office so that he might be able to brief President Arias on the matters to be taken up. On October 25, the two American officials had a "satisfactory interview" with De Roux lasting almost 2 hours. (711F.1914/154)



that he brought this question up for the purpose of showing that compliance with the Army's request for lands would subject various districts to the eventual danger of bombardment and would consequently represent a sacrifice on the part of Panamá.)

(2) The President stated that in general the Government was not in favor of the construction of new roads leading from the Canal Zone into the Republic. (In a previous interview with the Secretary of Foreign Relations, General Van Voorhis had pointed out that the establishment of observation posts in the vicinity of the Zone would be accompanied by the building of roads which would open up a good deal of land.) Dr. Arias said that roads from the Zone into Panamá would facilitate smuggling; that this was a serious problem; and that he had had under consideration the closing of certain streets leading from the Zone into the City of Panamá. (It would appear that here again the President was building up Panamá's case.)

(3) The President suggested that, in order to make a clean slate, we might consider in conjunction with the proposed leases a number of other pending matters. He mentioned specifically Río Hato, Taboga, Taboguilla, and Paitilla; the aqueduct (presumably a reference to pending questions pertaining to water works and sewers); the Panama Railroad Company (from his subsequent remarks it appeared that the President had in mind the possibility of arranging for the early reversion to Panamá of lots in Panamá and Colón owned by the Company); and the commissary problem (here the President mentioned as desiderata an increase in commissary prices and/or the limitation of sales to a certain percentage of employees' wages).

Mr. Dawson said that, without implying any lack of willingness to discuss any of these problems, he wished to point out that the question of lands needed for defense was an extremely urgent one and that he hoped that it would not be linked up with other matters which would necessarily entail considerable discussion. The President said that he realized this but that some of the matters which he had mentioned were also very urgent from Panamá's point of view.

(4) With respect to the period for which lands are to be leased, the President said that he was loath to commit succeeding administrations and that he would prefer a lease for a four-year period (or for six years in case the presidential term is extended to six years as is contemplated in the proposed new constitution now under discussion). General Van Voorhis and Mr. Dawson pointed out that four or six years was a very short period; and that as respects certain lands there were planned heavy expenditures the authority for which might make necessary a longer lease. The President said that it should prove possible to work out some satisfactory formula; and General Van Voorhis suggested that a solution might be found by making suitable provision for the renewal of leases.

(5) As regards jurisdiction, the position first taken by the President was that Panamá must retain full jurisdiction. In this connection, he remarked in particular that all crimes must be referred to Panamanian judges. Mr. Dawson made it very clear that no question of sovereignty was involved and that Panamá would of course retain its sovereignty. He pointed out, however, that provision must be made for the maintenance of order and discipline and that our authorities would require a certain measure of jurisdiction. After some discussion, the President said that he would agree to the granting of jurisdiction over military personnel but that this was as far as he could go and that Panamanian courts must have jurisdiction over civilians. General Van Voorhis agreed in principle. The President said further that he would want it understood that the Panamanian Government would have the right to send (giving advance notice to the Embassy) duly authorized officials into the leased areas for the purpose of making inspections. General Van Voorhis replied that there would be no objection to this.

(6) The President requested that a battery (3B on General Van Voorhis' map) to be situated in Panamanian territory very close to the Zone be moved into the Zone. He pointed out that public opinion would not understand why a battery so close to the border could not just as well be located within the Zone. General Van Voorhis said that he would study the matter.

(7) With respect to emergency landing fields (involving no permanent installations), the President inquired if it would not be satisfactory if such fields were to be maintained by the Panamanian Government itself, the United States to make suitable payment for the service and to provide the necessary expert assistance and supervision. General Van Voorhis replied that in principle he considered this feasible.

(8) The President expressed his interest in one road (P-8 on General Van Voorhis' map) and said that this road if built and extended would give Panamá a useful and desired highway. He asked General Van Voorhis if we would be willing not only to extend the road but also to make it a concrete highway. The General made note of the matter and said that he would be willing to recommend compliance with the President's request whenever funds became available.

(9) At one point, the President inquired if we had considered the question of the compensation to be given Panamá for the leases in question. Mr. Dawson replied that we had not. While he made no specific statement, certain of the President's remarks were of a nature to indicate that he hoped that the compensation would be such as to mean some financial assistance to the country. For instance, he referred in passing to Panamá's fiscal burdens mentioning in partic-

ular the \$2,500,000 loan for the Río Hato-Chorrera highway <sup>7</sup> and the service on the foreign debt.<sup>8</sup>

(10) At the conclusion of the interview, the President said that he felt that the point had been reached where Dr. De Roux and Mr. Dawson could proceed with the discussion of further details.

WILLIAM DAWSON

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711F.1914/160

*The American Ambassador in Panama (Dawson) to the  
Panamanian Minister for Foreign Affairs (De Roux)*<sup>9</sup>

No. 426

PANAMA, November 25, 1940.

EXCELLENCY: I have the honor to refer to our recent discussion of the defense problem in the course of the audience which His Excellency the President of the Republic courteously granted to General Van Voorhis and to myself on November 7,<sup>9a</sup> and to state that, pursuant to this exchange of views and in order to clarify certain points, General Van Voorhis has prepared a statement concerning the necessity for installations throughout the Republic of Panama for the effective defense of the Panama Canal. I beg to quote the following passages from this statement for the confidential information of Your Excellency's Government:

"The Necessity for Installations Throughout the Republic of  
Panama for the effective Defense of the Panama Canal:

"1. While provision has been made for the housing of personnel and matériel within the Panama Canal Zone for the defense forces of the United States, it is of the utmost importance, when an active defense of the Canal becomes necessary, that personnel and matériel be deployed at various points throughout the Republic of Panama in order that timely contact may be made with the enemy and that he be promptly engaged with the view that his progress be retarded or that he be defeated before reaching the area in the immediate vicinity of the Canal. This requirement applies especially to the air forces, and to a lesser extent to our ground troops.

"While these installations may be considered military objectives and their distribution throughout the Republic of Panama increasing the combat zone within the Republic, their installations are of such a temporary and limited nature that it is not probable that

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<sup>7</sup> For text of agreement regarding the Río Hato-Chorrera highway, signed at Washington, March 23, 1940, see Department of State Executive Agreement Series No. 449, or 58 Stat. (pt. 2) 1599.

<sup>8</sup> For correspondence on this subject, see pp. 1096 ff.

<sup>9</sup> Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 804, December 7; received December 11.

<sup>9a</sup> See *supra*.

they would become an enemy target as the enemy plans would visualize only those sensitive installations within the Canal Zone.

"2. These requirements are in five categories:

- "(1) Auxiliary Landing Fields
- "(2) Emergency Landing Fields
- "(3) Aircraft Warning Service Stations
- "(4) Searchlight Positions
- "(5) Roads.

"*a. Auxiliary Landing Fields*—Located at Chame, Río Hato, Aguadulce, David and Garachine.

"At the above points, except Río Hato, it will be necessary to provide housing for detachments of approximately twenty-five men with sufficient tents in storage to care for personnel of a bombardment group of approximately one thousand men when it becomes necessary to occupy these stations to meet enemy forces. At Río Hato certain additional temporary housing is now constructed or under construction.

"In addition to the above the storage of bombs and gasoline necessary to meet the requirements of a bombardment group.

"*b. Emergency Landing Fields*—Located at Piñas, Tocume, La Chorrera, Purto, La Mesa, Las Lajas and Almirante.

"It will be necessary to prepare runways of a temporary nature and to provide civilian labor sufficient to keep them in serviceable condition. The purpose of these fields is to provide for emergency landings for planes, to include civilian, having difficulty while passing from one air station to another.

"*c. Aircraft Warning Service Stations*—Located at Almirante, Gorda Pt., Coiba Island, Cape Mala, Jaque Pt., Molineca, and Pto. Sapsuru.

"These are stations at distant points at which are installed mechanical devices for detecting the approach of planes at a great distance. This information thus obtained will be relayed to air stations in order that forces thereat may be alerted. A very small area will be required for these stations with housing sufficient for a detachment of approximately twenty men necessary to operate the detectors.

"*d. Searchlight Positions*: These positions are forty-six in number, located in the vicinity of the Canal Zone advanced beyond the antiaircraft batteries located within the Canal Zone and necessary to illuminate enemy planes approaching the Canal.

"*e. Roads*: To provide access to searchlight positions it will be necessary to construct certain roads. These roads will be metalled ten feet in width and will be available for use by Panamanian Nationals living in their vicinity. These roads to be converted into two-way concrete by the United States Government when, in the opinion of the Panamanian Government such construction is warranted, and when funds become available.

"3. In addition to the above a limited area on the islands of Melones and Bona will be required for searchlight positions and observation stations."

There are enclosed, also for the confidential information of Your Excellency's Government, two maps<sup>10</sup> showing the location of the sites referred to in the above statement.

With reference to the conditions under which the tracts required for defense purposes would be made available for utilization by the United States Army, General Van Voorhis submits the following suggestions bearing in mind the observations made by His Excellency the President in the course of our recent interview :

(a) All negotiations will of course be conducted with the Government of the Republic of Panamá.

(b) All lands, when no longer required by the United States, will be relinquished by the United States and their utilization will revert to the Republic of Panamá.

(c) The term of occupancy shall be for ninety-nine years, the United States Government reserving the right to renew the leases with succeeding administrations.

(d) Rentals will be on an annual basis, the amounts to be agreed upon between the Governments of the United States and the Republic of Panamá.

(e) The Panamanian Government may, upon its request, send a duly authorized representative to visit any installations in order that it may be informed as to the steps being taken for defense in the common interest.

(f) The United States Government will exercise jurisdiction over its own personnel. Other persons guilty of civil offenses will be handed over to the Panamanian authorities for such action as the nature of the offense requires.

General Van Voorhis and I believe that the foregoing conditions are in substantial accordance with the desires of His Excellency the President as expressed in our recent interview and that they offer a mutually satisfactory basis for the further negotiations concerning the leasing of the tracts in question which it will be my privilege to conduct with Your Excellency.

In the meantime, in view of the extreme urgency of the work to be undertaken as already explained to Your Excellency, I have the honor to request by direction of my Government that Your Excellency's Government authorize the United States military authorities to take the immediate steps necessary for the preliminary preparation of the positions referred to above. Such steps would consist principally in the clearing of underbrush necessary for surveys to determine the exact location of positions and the suitability of areas for landing fields, as indicated on the enclosed maps.

It is unnecessary to call attention to the need for prompt action in the present emergency and in view of the interest expressed by His Excellency the President in the cooperation of the Panamanian Gov-

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<sup>10</sup> Not attached to file copy of this document.

ernment in measures having for their object not only the protection of the Panama Canal but also hemispheric defense, I am confident that Your Excellency's Government will grant the authorization requested.

Accept [etc.]

[File copy not signed]

711F.1914/160

*The American Ambassador in Panama (Dawson) to the Panamanian Minister for Foreign Affairs (De Roux)* <sup>11</sup>

No. 427

PANAMA, November 25, 1940.

EXCELLENCY: I have the honor to refer to my note No. 426 of today regarding the defense problem and negotiations for the leasing from the Republic of Panamá of certain tracts required for defense purposes.

As Your Excellency will have observed, it is suggested in my note that the term of occupancy shall be for ninety-nine years.

In this connection, I desire to be permitted to explain that General Van Voorhis and I are not unmindful of the circumstance that His Excellency the President proposed in the course of our recent interview that leases be concluded for the term of office of the Panamanian Administration negotiating them. This proposal was communicated to my Government and has received its careful consideration.

In directing that a term of 99 years (instead of 999 years as contemplated in the original draft) be suggested, the Department of State points out that the proposal to renew the leases with each succeeding Administration would mean in practice that every four or every six years it would be necessary to reopen the whole matter with new officials who could not be expected to be familiar with what had transpired previously. In addition, with short term leases, our authorities would naturally be reluctant to undertake the important work required on certain tracts, such as Río Hato, inasmuch as there would be no definite assurances that the leases would be renewed.

I trust that His Excellency the President will appreciate the reasons making longer term leases essential; and I may add that the Department of State calls attention to the fact that, as indicated in my note No. 426, it will be expressly stipulated in the leases that the United States will continue to use only such lands as are actually

<sup>11</sup> Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 804, December 7; received December 11. The substance of paragraphs 4 and 5 was in accordance with instructions sent to the Ambassador by the Acting Secretary of State in telegram No. 172, November 23, 3 p. m. (not printed). The instruction was read and approved by Gen. George C. Marshall, Chief of Staff, United States Army. (711F.1914/157a)

needed for defense purposes and that, irrespective of the term of occupancy, the lands will revert to the Republic of Panamá, whenever they are no longer needed.

I avail myself [etc.]

WILLIAM DAWSON

711F.1914/161

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

No. 806

PANAMA, December 9, 1940.

[Received December 14.]

SIR: I have the honor to refer to my despatch No. 804 of December 7, 1940,<sup>12</sup> enclosing copies of recent correspondence concerning the leasing of tracts for defense purposes<sup>13</sup> and particularly the Spanish text and an English translation of Note No. 3490 of December 3, 1940,<sup>14</sup> addressed to the Embassy by the Panamanian Secretary of Foreign Relations.

As stated in my despatch, General Van Voorhis and I had found it impossible to meet for a discussion of Dr. De Roux's note before the despatch of Saturday's air pouch, but we hoped to find time for a conference on Sunday. In the meantime, after writing my despatch No. 804, I had with President Arias an interview (for the purpose of discussing the Debt Readjustment Plan) in the course of which he referred to the compensation to be accorded Panamá in return for the leases. This afforded me an opportunity to take up with him certain other aspects of the question and in particular the term for which the leases are to be concluded. I enclose a memorandum covering this portion of my conversation with the President.<sup>12</sup>

This conversation confirmed my belief, already expressed in my despatch No. 750,<sup>12</sup> that the President, while disposed to make available the tracts required by the Army, will seek to use the opportunity to obtain in return every advantage practicable in the form of concessions and financial compensation. It is obvious that he is keenly interested in obtaining very substantial pecuniary advantages for his country; and it seems likely that the extent to which we are able and willing to meet his desires in this respect will prove an important and probably controlling factor in determining how rapidly, smoothly, and satisfactorily we attain our own objectives.

<sup>12</sup> Not printed.

<sup>13</sup> Notes Nos. 426 and 427 to the Panamanian Minister for Foreign Affairs, pp. 1079 and 1082.

<sup>14</sup> English translation not printed; for Spanish text, see Panama, *Memoria . . . de 1943*, p. 162.

This should be borne in mind in considering the following comments on Dr. De Roux's note of December 3, which are submitted after a conference held on Sunday morning with General Van Voorhis (numerals and letters refer to those used in the Foreign Office note) :

(1). The contention that the installations contemplated by the Army constitute a danger to Panamá and would prove a preferential objective for an eventual enemy would seem to be based either on a misconception or the desire to build up a case for Panamá. On the contrary, such installations should reassure the country as respects its own defense, and furthermore the various regions concerned should derive no little economic benefit from the presence of even relatively small bodies of well paid men. These points of view will be discreetly advanced orally as opportunity offers. I strongly doubt the advisability of attempting to engage in any written discussion regarding them.

(2*a*) and (2*c*). There should be no objection to fixing a maximum limit on the number of men regularly stationed at different points in time of peace.

(2*e*). Road P-8, referred to by Dr. De Roux, is precisely the road which General Van Voorhis proposes to make a two-way concrete highway. As respects the suggestion that the United States convert other roads into similar highways at the request of the Panamanian Government, I pointed out to the President (see enclosed memorandum) that it appears excessive, particularly when we are being offered only short-term leases. Such a demand could not be accepted in its present form and I do not believe that it will be insisted upon. There should be no objection to making roads open to general use, provided suitable provision is made for keeping unauthorized persons out of the leased tracts.

(3) No comment required.<sup>17</sup>

(*c*). The term for which leases are to be concluded was discussed further with the President in our interview of December 7 (see enclosed memorandum). Dr. Arias insists on not committing succeeding administrations and considers ninety-nine years tantamount to perpetuity. In his note, Dr. De Roux offers, with the President's approval of course, a seven-year term (the new six-year presidential period plus an additional year to give a new administration time to familiarize itself with the matter). In his conversation with me, the President said that national pride (*amor propio nacional*) was involved, and that on the other hand we must realize that no Pana-

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<sup>17</sup> This section read as follows: "The installations on the islands of Melones and Boná were not mentioned in the previous conversations. Attention is called to the fact that these additions and changes could cause delay or confusion in the negotiation."



manian administration would decline to renew the leases. The argument that Panamá is assured that lands no longer needed for defense purposes will revert to it at once seems to make no impression on the President or his Foreign Secretary.

I do not believe that we can hope to obtain ninety-nine year leases. However, some satisfactory compromise formula may be worked out, particularly if Panamá's desires touching compensation are satisfied.

(f). General Van Voorhis informed me that he would be content with jurisdiction over military personnel. He intends, however, to interpret the term "military personnel" liberally—to include for instance what he terms "camp followers".

As respects Dr. De Roux's suggestion concerning a Mixed Commission for the preliminary study of the tracts required, General Van Voorhis told me that he was prepared to designate at once two officers who will cooperate with the Panamanian representatives. The latter—the Subsecretaries of Treasury and Finance and of Public Health and Public Works—are both young men possessing an excellent knowledge of English and believed to be friendly to the United States. The former is very close to President Arias and through him the President will probably obtain information which will give him a better understanding of the problems involved. General Van Voorhis tells me that the surveys already made by the Army are so advanced as to make the work of the Commission relatively simple.

In his closing paragraph, Dr. De Roux refers to "considerations . . . <sup>18</sup> concerning the articles and merchandise which may be brought" to the leased tracts. He has in mind presumably measures designed to protect the country's fiscal interests and to prevent smuggling. This should offer no serious problem.

Respectfully yours,

WILLIAM DAWSON

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711F.1914/162 : Telegram

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

WASHINGTON, December 28, 1940—2 p. m.

196. Your 231, December 23 <sup>19</sup> and previous. You are requested, after informing General Van Voorhis, to discuss with President Arias personally the question of the lease of additional lands for defense pur-

<sup>18</sup> Omission indicated in the original despatch.

<sup>19</sup> Not printed; it reported the desire of President Arias to be informed of the American position on the main points in the Panamanian note of December 3 so that in his address of January 2, 1941, when the new constitution became effective, he could generally say: In return for leasing the defense sites, Panama would receive adequate compensation; American jurisdiction would cover only military personnel; the tracts would be leased for short terms and revert to Panama when no longer needed.

poses along the following lines, leaving an *aide-mémoire*<sup>20</sup> in the following terms indicating the attitude of this Government:

"1) The arrangement between the United States and Great Britain involving United States over-age destroyers and the lease of bases in British possessions in the Western Hemisphere was based upon considerations of general hemispheric defense, of which Panama is a beneficiary. The only cash payments which may be involved are for the fair market value of any privately owned land within the areas leased. It may be pointed out again that these bases are available for the use of all of the American republics for purposes of hemispheric defense, as has been stated by this Government.

2) While the Department continues its study of the December 3 note of the Panamanian Government, it is desired to recall the pertinent provisions of the General Treaty between Panama and the United States. The last paragraph of Article II states that the two Governments recognize their 'joint obligation to insure the effective protection of the Canal, in which the two countries are jointly and vitally interested.'

It is also the considered view of the Department that the present situation justifies the application of Article X of the General Treaty which provides that:

'In case of an international conflagration or the existence or [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.'

3) Any payments which may be made by the United States to Panama in connection with the contemplated leases will be based solely upon the fair value of the land and buildings in question.

4) With respect to jurisdiction over persons in the leased areas, the United States will, of course, exercise complete and exclusive jurisdiction over its own personnel. It is felt that a detailed statement regarding jurisdiction over other persons can await the drafting of the leases.

5) The period of the leases should be for so long as the tracts may be required for the purposes of defending the neutrality or security of the Canal in which both Governments have signified their vital interest. The Panamanian contention that the leases be renewed with each new Panamanian administration is totally incompatible with this requirement. However, the Government of the United States has already signified its acceptance of the principle that when the lands are no longer required, they will be relinquished by the United States and their utilization will revert to the Republic of Panama."

In bringing the position of the Department to the attention of the Panamanian authorities, you should reiterate the advantages which

<sup>20</sup> For Spanish text of *aide-mémoire* as presented on December 30, 1940, by the American Embassy to the Panamanian Foreign Office, see Panama, *Memoria . . . de 1943*, p. 166.

have accrued and will accrue to the Panamanian economy from the expenditures which have been made and the further expenditures contemplated by the United States Government. As the Panamanian Government is aware, the United States Government is now engaged in constructing an additional set of locks and other major works in the Canal Zone.

The United States has contributed directly to the construction cost of the Rio Hato Highway and has financed the remainder thereof. Surveys are being made for the trans-Isthmian Highway, the whole cost of which will be borne by the United States Government. In this connection, you are authorized to inform the Panamanian authorities that the officials of the Canal Zone are prepared, upon the successful completion of the lease arrangements now under discussion, to submit to the Congress a request for additional funds for the construction of a 20-foot highway between Madden Dam and the City of Panama, which would be available for public traffic, as well as for defense purposes. This highway, known as Access Road P-8, would be constructed by the United States in large part within the territory of the Republic of Panama with the understanding that the maintenance of those portions of the highway within the Republic will be a responsibility of that Government in consideration of the use of the highway.

The Government of the United States is convinced that the economy and trade of the Panamanian people will benefit to a considerable extent, both during the time of construction and during the years to follow from the expenditures made by this Government in constructing these highways. The direct and indirect economic benefits to Panama deriving from the expenditures involved in the defense installations are also of considerable significance.

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711F.1914/165

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

No. 846

PANAMA, December 30, 1940.  
[Received January 4, 1941.]

SIR: I have the honor to refer to the Department's telegram No. 196 of December 28, 1940, concerning the leasing of lands needed for defense purposes, and also to my telephone conversation of December 28<sup>21</sup> with Mr. Bonsal<sup>22</sup> and my letter to him of the same date<sup>23</sup> enclosing a summary of the remarks which President Arias desired to make regarding the matter in his address of January 2.

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<sup>21</sup> Memorandum of conversation not printed.

<sup>22</sup> Philip W. Bonsal, Acting Chief of the Division of the American Republics.

<sup>23</sup> Not printed.

On the evening of December 28, I met the Secretary of Foreign Relations at dinner, at which time the Embassy had received only the first section of the Department's telegram. I told Dr. De Roux that from my telephone conversation with Mr. Bonsal it was apparent that there existed a divergence of views which would probably make it desirable to modify the draft of the President's remarks, that a long telegraphic instruction was on the way, that in the first section thereof I was instructed to discuss the matter personally with President Arias, and that consequently I should be grateful if he would arrange an audience, if practicable for Monday morning (December 30).

The Foreign Office advised me early this morning that the President would receive me at 10:30 a. m. In the meantime, I had seen General Van Voorhis and had shown him the text of the Department's telegram.

I enclose a memorandum<sup>24</sup> covering in detail my conversation of this morning with the President, at which Dr. De Roux was present. Both gentlemen were, of course, disappointed at the Department's reply. However, their attitude was friendly and in the course of a long conversation not a word was said indicating any feeling of hostility towards the United States. On the contrary they both expressed the desire of the Panamanian Government to cooperate with the United States and to cement the friendship uniting the two peoples. The President referred in cordial terms to President Roosevelt's radio address of last evening.<sup>25</sup>

As stated in the concluding paragraph of my memorandum, the President said that the Government would consider the Department's *aide-mémoire* and reply to it. He said that he had hoped that I would plead Panamá's case with the Department. I assured him that I would report faithfully our conversation and the Panamanian point of view. I added that I did not want to raise any false hopes and that the Department's *aide-mémoire* appeared quite definite (*terminante*).

Our conversation revolved largely around the question of compensation, the President and Dr. De Roux putting up a strong plea for financial assistance of some sort in return for the leases. I have repeatedly pointed out in my despatches that the Panamanian Government has from the outset hoped for generous compensation and that this would probably prove an important factor in determining how smoothly and rapidly we attain our objectives. In the light of my conversation of this morning, I believe this still to be the case. I do not mean by this that we cannot obtain the leases without making some financial concession. I believe that we can and that the Panamanian Government, however reluctantly, is prepared to yield to the inevitable.

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<sup>24</sup> Not printed.

<sup>25</sup> Department of State *Bulletin*, January 4, 1941, p. 3.

On the other hand, I feel that, if we can satisfy in some modest measure Panamá's aspirations, the further negotiations should proceed smoothly and rapidly and the general effect on Panamanian opinion and on our future relations with Panamá would be excellent. I believe that President Arias himself would be glad to negotiate the leases as rapidly as possible but that he desires also to be in a position to tell his people that he has obtained something substantial in return. Of late, there have been many indications of a more cordial attitude on the part of the administration towards the United States than appeared at the outset to be the case. In my relations with the President and his Foreign Secretary I sense a distinctly more friendly atmosphere and a greater readiness to adjust satisfactorily the many little matters which crop up almost daily. In spite of all that has been said regarding the President's alleged pro-totalitarian tendencies, I know of no act since he has been in office which would seem to substantiate such charges; and on the other hand the British Minister has told me recently of two satisfactory and cordial interviews which he has had with the President.

The present despatch is being written hurriedly for tomorrow's air mail pouch. I shall endeavor to submit by the following mail further comments on the situation together with suggestions for the Department's consideration.

Respectfully yours,

WILLIAM DAWSON

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**REQUEST BY THE UNITED STATES FOR PANAMANIAN COOPERATION  
IN PREVENTING TRANSFER OF VESSELS TO JAPAN**

819.852/5a : Telegram

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

WASHINGTON, December 7, 1940—4 p. m.

186. The Department has learned recently of the sale to Japanese buyers, presumably for scrapping, of the S. S. *Theodoros Coumantaros* of Panamanian registry. Under the new regulations effective October 16, 1940 licenses for the exportation of all grades of iron and steel scrap will be issued to permit shipments to the countries of the Western Hemisphere and Great Britain only. Furthermore it may be stated for your strictly confidential information, that the United States Maritime Commission has not in recent years authorized the transfer of vessels of the United States registry to Japanese interests.<sup>28</sup>

Please inform the Panamanian Government in confidence of the attitude of this Government toward this question and inquire whether

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<sup>28</sup> For further correspondence regarding economic measures against Japan, see vol. IV, pp. 565 ff.

it would be willing to cooperate insofar as may be possible in preventing in the future the transfer of vessels under Panamanian registry to Japan.

HULL

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819.852/6

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

No. 810

PANAMA, December 11, 1940.

[Received December 14.]

SIR: I have the honor to refer to the Department's telegram No. 186 of December 7, 1940, directing me to advise the Panamanian Government of our attitude as respects the shipment of iron and steel scrap to Japan and the transfer of vessels to Japanese interests and to inquire whether Panamá would be disposed to cooperate with a view to preventing the transfer to Japan of vessels under Panamanian registry.

I discussed the matter orally and confidentially with the Panamanian Secretary of Foreign Relations this morning along the lines of the Department's telegram.

Dr. De Roux said that Panamá was always desirous of cooperating with the United States in so far as this could be done without detriment to its sovereignty. He said that, while he was not prepared to commit his Government immediately, his impression was that in the present case our request would receive sympathetic consideration, particularly since the object pursued was to lessen the danger of an eventual attack directed against the Western Hemisphere. He pointed out, however, that Panamá's shipping laws are incomplete in many respects and that it may well be that they afford the Government no effective means of preventing the cancellation or abandonment of Panamanian registry and the transfer of vessels to foreign interests, particularly in those numerous cases where vessels are not owned by Panamanians and do not visit Panamanian ports. Dr. De Roux said that, before discussing the matter further with me, he would have to inform himself in the premises.

As the Department is aware, the extreme liberality of Panamanian shipping laws and requirements has been taken advantage of by many foreign firms and individuals to place under Panamanian registry a considerable number of vessels which are Panamanian only in name. Even before my conversation with Dr. De Roux, it had occurred to me that in view of this situation the Panamanian Government would perhaps not be in a position to exercise any real control over transfers of vessels to Japanese or other foreign interests. In this connection, it has also occurred to me that, inasmuch as American consular officers are charged with the representation of Panamanian interests at a num-

ber of posts, the Department might wish to communicate with such officers regarding the matter and might instruct them to report to it (for the information of the Panamanian Government and any action practicable) any cases in which the transfer to Japan of Panamanian vessels may be contemplated.

Respectfully yours,

WILLIAM DAWSON

**POLICY OF THE UNITED STATES OF NON-INTERVENTION IN THE  
INTERNAL AFFAIRS OF PANAMA**

819.00/1990 : Telegram

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

WASHINGTON, February 20, 1940—5 p. m.

14. Your despatch No. 307, February 12.<sup>27</sup> This Government is determined by policy and bound by treaty not to intervene directly or indirectly in the internal affairs of Panama. Therefore, the supervision of the forthcoming elections or the disarmament of the national police in connection with those elections are out of the question.

The Department agrees with you that no reply need be made to the communication which you have already received or to others which you may receive in the future.

HULL

819.00/2020 : Telegram

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

WASHINGTON, May 13, 1940—noon.

58. Your letter to the Under Secretary dated May 4.<sup>28</sup> The policy which should be pursued in case disorders occur in the Republic of Panama in connection with the forthcoming election is as follows:

“In case disorder occurs in connection with the presidential campaign, the American military authorities on the Canal Zone should take the necessary precautions within the Zone to ensure that the disorder does not spread to territory under the jurisdiction of the United States.

American citizens seeking refuge in the Canal Zone should be admitted.

Panamanians and other foreigners may be permitted to take refuge in the Canal Zone on condition that their arms, if any, are surren-

<sup>27</sup> Not printed. The Ambassador transmitted a communication from supporters of a Panamanian presidential candidate requesting that the United States disarm the National Police and supervise the elections to be held on June 2, 1940, to insure fair elections.

<sup>28</sup> Not printed. The Ambassador reported a request that a Canal Zone telephone be installed in the Presidential Palace and said he inferred that the President expected trouble and probably wished to be in a position to request military assistance, perhaps for his personal protection.

dered and that they do not re-enter the Republic of Panama during the continuance of disturbed conditions.

Pursuant to the well-established policy of non-intervention in the internal affairs of other countries, it is not anticipated that American military forces would enter the Republic of Panama even if the Panamanian Government should request their intervention.

In the unlikely event that the operation of the Canal, or its safety, were threatened by disorder in the Republic of Panama, this Government would wish to consult with the Panamanian Government as to the course which should be followed in eliminating this peril.

In view of the importance of this matter, no military action by American forces should occur that might affect the Republic of Panama until specific instructions therefor have been received from the State and War Departments respectively."

The War Department requests that a paraphrase of the above be handed to General van Voorhis,<sup>29</sup> who is being instructed simultaneously to adopt this policy for his guidance in the premises. General van Voorhis is being asked to keep in constant touch with you in the handling of any situation which may arise.<sup>30</sup>

HULL

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CONCERN OF THE UNITED STATES REGARDING OMISSION FROM  
DRAFT OF NEW PANAMANIAN CONSTITUTION OF EXPRESSED  
RECOGNITION OF JURISDICTIONAL LIMITATIONS ARISING FROM  
TREATIES WITH THE UNITED STATES

819.00/2088 : Telegram

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

WASHINGTON, November 15, 1940—8 p. m.

168. Your despatch no. 739, November 2,<sup>31</sup> and previous. Please seek an interview with the Panamanian Foreign Secretary and advise him of your desire to obtain an audience with President Arias for the purpose of presenting the following note :

"Pursuant to the instructions of my Government, I have the honor to invite Your Excellency's consideration of the proposed new Constitution of the Republic of Panama as it has been submitted to the National Assembly of the Republic, and to observe that, so far as its text is known to the Government of the United States, there is not included therein the expressed recognition of the jurisdictional limitations arising from treaties with the United States which is found in Article III of the present Constitution of Panama.<sup>32</sup>

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<sup>29</sup> Military Commander of the Panama Canal Department.

<sup>30</sup> The election passed without serious disorders calling for the application of this instruction.

<sup>31</sup> Not printed.

<sup>32</sup> For text of the Constitution of 1904, see *Foreign Relations*, 1904, p. 562.



"In taking note of this omission, my Government desires to invite the attention of Your Excellency's Government to the rights in connection with the Panama Canal which it has acquired by agreement with the Republic of Panama, and would be pleased to receive at this time from the Panamanian Government its assurances that the omission referred to, if it should persist, does not signify that these rights are not fully recognized by Panama."

Please endeavor in discussing this subject briefly with Señor de Roux<sup>33</sup> and President Arias to learn what motive has inspired the Panamanian Government to omit the provisions of Article III of the present Constitution from the new draft. Please report briefly by telegraph and fully by air mail.

The Department is giving consideration to other features of the proposed new Constitution which may impair the rights of the United States and its nationals.

WELLES

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819.00/2089 : Telegram

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

PANAMA, November 16, 1940—2 p. m.

[Received 10:47 p. m.]

198. Department's telegram 168 of November 15. I had an interview this morning with the Panamanian Foreign Secretary and requested an early audience with the President for the purpose of presenting the note, the text of which I handed the Secretary informally for his information and that of the President. He said that he would bring the matter to the President's attention today.

In a brief conversation in which De Roux stressed with considerable warmth the friendly sentiments of the President and his administration towards the United States he said that throughout the discussion of the new constitution he personally had taken particular care to see that it did not conflict with Panama's international obligations with special reference to the United States and that in his opinion there is nothing in the proposed constitution which [is] anyway incompatible with Panama's treaties with the United States whose rights there is no intention not to recognize.

With minor changes the new constitution has now been approved by the National Assembly in the decisive second reading and it will presumably be approved early next week and perhaps on Monday without further discussion in third reading which is usually perfunctory. As soon as the official text as revised and approved by the Assembly can be obtained it will be transmitted to the Department.

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<sup>33</sup> Raúl de Roux, Panamanian Minister for Foreign Affairs.

Apparently the President has not yet reached a decision as to the further procedure to be followed with a view to placing the new constitution in effect.

In its consideration of the new constitution the Department may find helpful the enclosures to my despatch 761 of November 12.<sup>34</sup>

DAWSON

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819.011/78 : Telegram

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

PANAMA, November 20, 1940—1 p. m.

[Received 9 p. m.]

199. With reference to Department's telegram 168 of November 15; my telegram 198 of November 16; and my telephone conversation of this morning with Duggan:<sup>35</sup>

The audience requested with the President for the delivery of the note was fixed for this morning. Yesterday afternoon in reconsidering several articles of the new constitution the National Assembly approved an addition to article IV reading in translation as follows: "There are recognized the jurisdictional limitations stipulated in public treaties celebrated prior to this Legislature [*Legislative*] Act amending the constitution." Since the inclusion in the constitution of this provision disposed of the matter satisfactorily I told the President when I saw him this morning that if he preferred I would refrain from delivering the note. He considered this preferable and I consequently did not deliver the note. However, as reported in my telegram 198, the unsigned text was handed to the Secretary of Foreign Relations in our interview of November 16.

DAWSON

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819.00/2090

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

[Extracts]

No. 777

PANAMA, November 20, 1940.

[Received November 23.]

SIR: . . .

When I called on the President this morning (after my telephone conversation with Mr. Duggan) I explained briefly my reasons for requesting the audience, adding that the President had no doubt already been apprised of the circumstances by Dr. De Roux. [Here

<sup>34</sup> Not printed.

<sup>35</sup> Laurence Duggan, Adviser on Political Relations.

follows account of conversation given in telegram No. 199, November 20, 1 p. m., *supra*.]

Dr. Arias told me that in the preliminary discussion of the draft of the new constitution the question of the recognition of jurisdictional limitations had come up on several occasions, and that it had been held by the jurists who participated in the work that the references to existing treaties found in the original draft covered the situation adequately. He said that some time last week the question had come up for reconsideration and that out of abundant caution and in order to leave no room for doubt it had been decided to incorporate a clause expressly recognizing jurisdictional limitations. He gave me distinctly to understand that the addition of the clause approved yesterday by the Assembly had been decided upon before my interview of November 16 with the Secretary of Foreign Relations.

In view of this statement, I did not consider it advisable to make any attempt to inquire as to the reasons for the omission of the provision from the original draft. I may point out that the same omission is observed in the draft of a new constitution discussed in 1938 (Page 6 of Mr. Flexer's despatch No. 491 of September 23, 1938<sup>36</sup>). I am inclined to ascribe the omission primarily to the nationalistic tendencies animating the authors of both the 1938 and 1940 drafts. The two projects follow the same general lines and are supposed to represent in the main the aspirations of the Partido Nacional Revolucionario, whose leader was in 1938 and is now Dr. Arnulfo Arias.

Respectfully yours,

WILLIAM DAWSON

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S19.011/80a : Telegram

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

WASHINGTON, November 20, 1940—4 p. m.

171. From Duggan. Department understands from your telephone call today that the Panamanian National Assembly has approved an amendment to the proposed new constitution stating "There are recognized the jurisdictional limitations stipulated in public treaties celebrated prior to this legislative action amending the Constitution."<sup>37</sup>

In view of the adoption of this amendment, the Department approves your action in withholding presentation of the note contained in the Department's telegram no. 168 of November 15. [Duggan.]

WELLES

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<sup>36</sup> Not printed.

<sup>37</sup> The National Assembly adopted the new Constitution on November 22, 1940; a plebiscite was held on December 15, 1940, giving overwhelming approval; the new Constitution became effective January 2, 1941. For Spanish text, see Panama, *Gaceta Oficial*, No. 8403, November 29, 1940, p. 1.

**INTEREST OF THE DEPARTMENT OF STATE IN FACILITATING THE SUCCESSFUL CONCLUSION OF THE PANAMANIAN DEBT REFUNDING PLAN**

819,51/1155 : Telegram

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

WASHINGTON, November 30, 1940—5 p. m.

178. Your 201, November 20,<sup>38</sup> and previous. The Department views with increasing concern the prospect that the refunding plan,<sup>39</sup> which the bankers concerned say would immediately be accepted by 70 percent of the bondholders if it could be announced that 66 $\frac{2}{3}$  percent of the deposits would be sufficient to make the plan effective, may be entirely defeated and allowed to lapse because Panama will not permit the minimum of required deposits to be decreased from 80 percent to 66 $\frac{2}{3}$  percent. This change has been considered by officials of the SEC<sup>39a</sup> and found to be immaterial; the Department understands that the Foreign Bondholders Protective Council has the same opinion. The Council has already recommended the plan as a whole to the acceptance of bondholders. The financial advisers under the plan must not act as underwriters and are estopped from normal activities in the way of publicity and active solicitation of deposits. In the circumstances and with the complication of the cutting off of owners in occupied territories in Europe, the plan appears to have received an unusually full degree of acceptance prior to effectiveness, taking into account the assurances the bankers have received from organized or known holders who are unwilling to tie their assets up indefinitely without assurance that the plan will become effective.

In view of the alternative of confusion and entangled and lengthy litigation which would undoubtedly follow the failure of the plan to become effective, it would be regrettable were the Panamanian authorities to let it fail because of any misconception of the situation. The Department fears that the conjuncture of circumstances may result in the loss of an opportunity definitely to settle the question of the publicly floated foreign debt of Panama on favorable terms and to the immediate benefit of Panama's credit and public standing in this country.

As the situation now stands, the plan will expire December 24 unless by that time it can be declared effective through the deposit of 80 percent of the bonds. The fact that the Panamanian Government has now twice extended the term on the contract from its original expira-

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<sup>38</sup> Not printed.

<sup>39</sup> For text of Plan for the Readjustment of the External Debt of the Republic of Panama, see Foreign Bondholders Protective Council, Inc., *Report for Years 1941 Through 1944*, p. 655.

<sup>39a</sup> Securities and Exchange Commission.

tion date is gratifying but the Department feels that the attitude indicated thereby of continued desire to reach a settlement will be ineffective unless the Government can grant the reduction of required percentage to 66 $\frac{2}{3}$  percent and meet the other conditions required or desirable in order to afford a real chance for the plan to be brought into operation on or before an early fixed date.

The Department regards it as a matter of real importance to Panama that the fullest consideration of this matter by the highest authorities in Panama be assured. You are therefore requested to discuss the matter again orally and informally with the President, setting forth the interest which the Department takes in the matter and its belief that it should now be brought to a favorable conclusion. The Department does not, of course, attempt to express any opinion as to all the technical points of cooperative action which the financial advisers may recommend or as to changes which the Government may wish to suggest in details of the plan. However, it does wish a clear and forceful presentation of its interest in seeing an early definitive solution of the debt problem such as success of the pending plan would afford. The Department knows of no alternative plan which would promise a solution more satisfactory to the Government or to the bondholders, and clearly perceives that failure of the plan after it has so far advanced would produce unfortunate results.

Señor Briceño,<sup>40</sup> who is thought to have arrived at Panamá, recently informed the Department that he regarded the plan favorably and would inform his friend, the President, of his attitude.

HULL

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819.51/1165

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

No. 805

PANAMA, December 9, 1940.

[Received December 14.]

SIR: I have the honor to refer to the Department's telegram No. 178 of November 30, 1940, directing me to discuss the Foreign Debt Readjustment Plan again orally and informally with President Arias setting forth the interest which the Department takes in the matter.

On receipt of the Department's telegram, a note was addressed to the Foreign Office, in compliance with local protocol, requesting an audience with the President. As reported in my telegram No. 218 of today,<sup>41</sup> President Arias received me on December 7. I enclose a memorandum covering in detail that portion of our conversation which dealt with the Debt Readjustment Plan. As stated in my telegram,

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<sup>40</sup> Julio E. Briceño, First Secretary of the Panamanian Embassy.

<sup>41</sup> Not printed.

it is my impression that as a result of my interview with the President the matter will receive further serious consideration within the next few days.

Respectfully yours,

WILLIAM DAWSON

[Enclosure]

*Memorandum of Conversation Between President Arias and  
Ambassador Dawson, December 7, 1940*

The conversation was in Spanish and in informing the President of the Department's viewpoint I referred to notes which I had prepared along the lines of the Department's telegram No. 178 of November 30.

I stated that the Department was seriously concerned lest the Readjustment Plan be defeated in case the Panamanian Government did not accede to the reduction recommended by the Financial Advisers in the percentage of bonds required to place it in effect; that the Advisers assured the Department that, if the reduction in question could be announced in the press, the plan would be accepted immediately by at least sixty-six per cent of the bondholders and probably more; that, as the President knew, a considerable number of bondholders were unable to deposit their holdings for reasons connected with the European war; and that, taking into account this and other circumstances, the Department felt that the percentage deposited showed that the plan had had a very favorable reception on the part of the bondholders. I pointed out that, if the plan were to fail, the immediate result would be a very confused situation and a series of lawsuits the duration of which could not be foreseen (I referred here briefly to litigation already pending); and that on the other hand the plan offered a unique opportunity to settle the debt definitively on favorable terms and to the immediate advantage of Panamá's credit and prestige. I added that in my opinion this would create an excellent impression and represent a success for the new administration.

Continuing, I said that the fact that the Government had granted two extensions was encouraging and evidenced a desire to reach a definitive settlement; but that this desire would prove ineffective unless the Government consented to the reduction of the percentage which was indispensable if the plan were to be placed in operation. I stated that, believing the matter to be one of real importance to Panamá, the Department had instructed me to request an audience for the purpose of expressing to the President its great interest in the success of the plan and its belief that it should be brought to a favorable conclusion very soon. I added that the Department did not attempt to express any opinion as to technical details or changes which the Panamanian Government might wish to suggest. I concluded this

phase of my remarks by stating emphatically that the Department was sincerely interested in an early solution of the debt problem; that it considered that the present plan offered such a solution; that it knew of no other solution more satisfactory to the Government or to the bondholders; and that it saw clearly that the failure of the plan, after it had advanced so far, would entail unfortunate consequences.

At one point (just before I referred to the extensions already granted) the President interrupted me to say that he had never liked the plan and did not consider it advantageous, that it entailed undue expense for commissions and other items, that it would leave Panamá still in default as respects unassented bonds, and that it was his hope that in return for leases on the Río Hato and other tracts desired by the Army the Panamanian Government would receive such generous treatment from the United States as to permit it to settle its foreign debt in full and "clean the slate". I asked his leave, before discussing these points, to complete my statement regarding the Department's position. Having completed my statement, as set forth above, I reverted to the President's objections to the plan. I said that, as respects commissions, the matter was one which could no doubt be discussed with Mr. Train, representing the Financial Advisers; that the same applied to any other changes which the Government might desire to suggest for the improvement of the plan from its standpoint; and that with regard to the unassented bonds I did not believe the Government's concern justified since it was to be anticipated that, once the plan went into effect, the status of nonassenting holders would be relatively so much less favorable that they would presumably hasten to join up. (It may be noted that my statements in this connection were in line with conversations which I had had with Mr. Train who on the basis of his talks with the Secretary of Finance <sup>41a</sup> had foreseen the points which the President would raise.)

I took advantage of the President's reference to compensation in return for leases (of tracts needed for defense purposes) to endeavor to ascertain what he had in mind and also for some further discussion of other details pertaining to the lease negotiations. This will be dealt with in a separate memorandum.<sup>42</sup> With respect to his idea of linking this matter up with a debt settlement, I pointed out that in my opinion this was inadvisable. I said that the present settlement was a good one for Panamá and that it had been approved by the Council of Foreign Bondholders and accepted by a very substantial number of bondholders. I expressed the opinion that there was no occasion for Panamá to do anything more and that the best course for all concerned would be to bring the proposed plan to a successful conclusion

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<sup>41a</sup> Enrique Linares, Jr.

<sup>42</sup> Not printed.

as promptly as possible. (While I did not so say to the President, I do not for a moment believe that the Panamanian Government would, when the time came, find it desirable or perhaps even feasible to use eventual rental funds for the purpose of offering bondholders terms more favorable than those already negotiated and accepted by the bondholders.)

In conclusion, I reiterated to the President the Department's lively interest in the success of the present plan and in the speedy conclusion of a settlement. I said that the Department does not participate in negotiations and that the Embassy would not of course do so either. I said, however, that if my informal good offices could be of any assistance as respects the Government's conversations with Mr. Train, I should be happy to help in any proper way. The President said that he and his advisers would proceed to give further study to the plan in the light of what I had said; and that some way might be found, as respects one or two points, of making it more acceptable from the Panamanian viewpoint. He left me with the impression that the matter is going to receive further serious consideration within the next few days. Incidentally, I pointed out to the President that any changes suggested should concern details only and should not affect the structure of the plan, since a change in structure would entail great delay and probably necessitate the issuance of a new prospectus. The President said that he fully appreciated this.

I may explain that the offer of my informal good offices was made in agreement with Mr. Train largely for the following reason: Mr. Train has been authorized to make certain changes which should, he believes, please the Panamanian Government. For the psychological effect, instead of proposing these changes immediately himself, he would like to see the situation develop in such a manner as to make it appear that the Panamanians have had the initiative and that the present administration can claim credit for having materially improved the plan of its predecessor.

WILLIAM DAWSON

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819.51/1164 : Telegram

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

PANAMA, December 12, 1940—11 a. m.

[Received 10:50 p. m.]

220. My telegram 218<sup>43</sup> and despatch 805 of December 9. The Panamanian Secretary of Finance told Train in confidence yesterday that at a Cabinet meeting on Tuesday it had been decided to transfer to

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<sup>43</sup> Not printed.



Washington further conversations concerning the debt readjustment plan. The Secretary said that the new Panamanian Ambassador would handle the matter and that in all probability he, the Secretary, would proceed also to Washington sooner or later to assist the Ambassador. In his conversation with Train the Secretary referred to the interest of the Department of State in the matter as expressed to the President by me. He referred also to the possibility of linking up a debt settlement with compensation to be received by Panama from the United States in connection with other pending questions. The Secretary pointed out that in any case any changes in the plan would have to be submitted to the National Assembly which will not convene again until January. He said that a further extension of the plan would be granted.

Train has sent by air mail a full account of his interview to his principals who will no doubt communicate with the Department.

DAWSON

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**REVISION OF CERTAIN AMERICAN LEGISLATION WHICH HAD DENIED  
EQUALITY OF TREATMENT TO PANAMANIAN IN EMPLOYMENT BY  
THE PANAMA CANAL**

811F.504/175a : Telegram

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

WASHINGTON, January 13, 1940—5 p. m.

6. From the Under Secretary. There will be introduced into the Congress early next week, with the approval of the Administration, a bill providing the necessary authorization for the appropriation required to undertake the construction of the third set of locks. This bill, like the legislation passed in the last session of Congress,<sup>45</sup> will not contain a provision making it possible for citizens of the Republic of Panama to be employed on a basis of equality with citizens of the United States. The Secretary of War has explained to the Secretary and myself that the War Department considers it urgent to get this legislation enacted so as to make it possible to obtain bids from contractors for the work involved by February 7, and that if the amendment making it possible for citizens of the Republic of Panama to be placed on a basis of equality with citizens of the United States were inserted in the present bill, there would be protracted discussion resulting from opposition on the part of the labor unions, which would delay inordinately the enactment of the legislation. The Secretary of War, however, has stated that immediately after the enactment of the legislation referred to there will be introduced a bill amending both the act

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<sup>44</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 749 ff.

<sup>45</sup> Public Law 391 (H.R. 5129), approved August 11, 1939; 53 Stat. (pt. 2) 1409.

passed at the last session of the Congress as well as the act which is now to be passed so as to place Panamanian citizens on a par with American citizens, thus providing for strict compliance with the terms of the notes exchanged at the time of the signing of the treaty of 1936.<sup>46</sup>

Please inform the Minister of Foreign Affairs confidentially of the above so that there may be no misunderstanding and assure him that this Government will press in every appropriate manner for the speedy enactment of this amendatory legislation. [Welles.]

HULL

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811F.504/178 : Telegram

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

PANAMA, January 25, 1940—3 p. m.

[Received 4 : 55 p. m.]

12. The Construction Quartermaster of the Panama Canal Department has circulated to prospective bidders on a number of military construction projects notices which include the following statement:

“All intending bidders are hereby further placed on notice that, with a view to the incorporation thereof in any contract to be awarded as a result of this advertisement, the War Department is seeking early legislative enactment of provisions in substance as follows:

(a) That all personnel employed in such work and occupying skilled, technical, clerical, administrative, and supervisory positions shall be citizens of the United States.”

Embassy is informed that Panamanian contractors are preparing to petition Panamanian Government to protest against this restriction as contrary to spirit of general treaty and policy to which our Government is pledged.

DAWSON

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811F.504/181 : Telegram

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

PANAMA, January 26, 1940—9 a. m.

[Received 12 : 05 p. m.]

13. My telegram No. 12, of January 25, 3 p. m. The Minister of Foreign Affairs<sup>47</sup> discussed this matter with me yesterday afternoon. He expressed great concern over the proposed extension to military construction of provisions restricting employment opportunities for Panamanians. He said that although remedial legislation were enacted later considerable delay might ensue and that in the meantime

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<sup>46</sup> Department of State Treaty Series No. 945; 53 Stat. (pt. 3) 1807.

<sup>47</sup> Narciso Garay.

Panamanians would be deprived of opportunities and an embarrassing situation would result for Panamanian Government. He showed me a petition regarding the matter from the Panamanian Society of Engineers which will probably be transmitted to the Department through the Panamanian Embassy in Washington.

DAWSON

811F.504/198

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

[WASHINGTON,] January 27, 1940.

MR. DUGGAN: Mr. Briceño, the Panamanian Chargé d'Affaires, telephoned to say that he has received instructions from his Government to make representations to us with regard to the failure to include provision in the now pending bill for new construction of works in the Canal Zone for the employment of Panamanians. He said Dr. Garay had received protests from the Panamanian Society of Engineers with regard to this.

I told Mr. Briceño that ten days or two weeks ago Mr. Dawson had discussed this matter with Dr. Garay at the request of Mr. Welles. It had been pointed out that in this second bill, we were not unmindful of our commitments to Panama in this regard. However, we did not wish to raise the labor question in connection with these new works and thus divert attention from the defense aspects of the measure. Mr. Dawson had assured Dr. Garay that following the passage through Congress of the present bill, another bill would be introduced to take care of the labor aspect.

Mr. Briceño said he would cable this to his Government and would not make formal representations until he had again heard from his Government.

811F.504/192

*The Panamanian Chargé (Briceño) to the Secretary of State*

[Translation]

No. D-37

WASHINGTON, January 30, 1940.

MR. SECRETARY: I have the honor to advise Your Excellency that I have received instructions from my Government to transcribe to you, for your information, the resolution approved recently by the Panamanian Society of Engineers:—

“The Panamanian Society of Engineers,

Considering:

1—That the Treaty between Panama and the United States gives the citizens of the United States and Panamanian citizens equal rights

in the Canal Zone, and that, notwithstanding, the United States Congress saw fit to pass a law whereby Panamanian technicians are excluded from positions in the construction of the third set of locks;

2—That at the present time the passage of another law is being contemplated in Congress, whereby Panamanians, from the highest class to the peon class, will be excluded from the works which the Army is carrying out in the Canal Zone:

Resolves:

To authorize the President of the Society, in the name of the Society, to request the Executive Power, through its Ambassador in Washington to intervene with the Department of State, in order that Panamanians may not be excluded from works for the Army in the Canal Zone, either by law or in practice, and to express its gratitude to President Roosevelt for his promise to abolish the clause, in the present legislation, which excludes Panamanians from participation in the works of the locks.

Given in the City of Panama, January 23, 1940.

(Signed) M. F. Zárate, President.

(Signed) Victor N. Juliao, Secretary.”

My Government could do no less than accede to the request of the Panamanian Society of Engineers, recognizing therein the expression of the concern felt by part of our citizenry which sees the national interests menaced by the passage of laws in which it is apparent that there has been a failure to bear in mind international obligations undertaken in an Exchange of Notes annexed to the Treaty signed March 2, 1936, between our two Governments.

The Government of Panama maintains full confidence that Your Excellency's Government will be good enough to take the most effective measures which it may deem fit, in order that no impediment may be placed in any form in the way of the good understanding and cordial friendship which has always existed between our two nations and which it is the daily concern of my country to strengthen still further; and this confidence rests on firm bases in that, as is noted in the resolution of the Panamanian Society of Engineers, the matter has already won the distinguished attention and comment of His Excellency the President of the United States of America.

I have [etc.]

JULIO E. BRICEÑO

811F.504/213

*Memorandum by President Roosevelt to the Secretary of War  
(Woodring)*

[WASHINGTON,] February 8, 1940.

I have your letter of February fifth<sup>48</sup> in regard to bills relating to the employment of American citizens by contractors in the Canal Zone.

<sup>48</sup> Not found in Department files.

I cannot in good conscience sign the present bills, H. R. 7941 and S. 3130,<sup>49</sup> on the mere chance that another bill submitted through the Budget will later become law and thus remove restrictions on employment of Panama citizens. I must uphold the Treaty and it is, therefore, essential that the language relating to Panamanian citizens should be incorporated in the present bills before they are passed.

Please tell this to the Committees and to the introducers of the bills.

F[RANKLIN] D. R[OOSEVELT]

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811F.812/1110

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

No. 245

[WASHINGTON,] June 15, 1940.

SIR: The Department refers to your despatch no. 88, dated September 5, 1939,<sup>50</sup> transmitting the text of note No. DD 1954 addressed to you by the Panamanian Secretary for Foreign Affairs in which there is expressed the appreciation of the Panamanian Government for a public statement made by the President on August 11, 1939 to the effect that he would request the Congress at its next session to amend H. R. 5129 so as to bring it in conformity with the commitments entered into with Panama which pledge to the citizens of Panama opportunity and treatment in employment in the Canal Administration and the Panama Railroad Company equal to that offered to citizens of the United States.

You are requested to inform Dr. Garay that the Department has not ceased during the present session to urge upon the Congress to the utmost of its ability the adoption of language in bills providing for construction work in the Canal Zone which will assure equality of opportunity for employment and treatment in employment to Panamanian citizens in accordance with this Government's commitment to the Government of Panama in an exchange of notes accompanying the General Treaty under date of March 2, 1936. It has been pleased to note, therefore, that in Section 6 of Public No. 588, 76th Congress, "An Act Making Appropriations for the Navy Department and the Naval Service for the Fiscal Year ending June 30, 1941, and For Other Purposes",<sup>51</sup> the Congress has incorporated and the President has approved language which it is confidently believed amply and fully complies with the commitment referred to. You may add that the Department confidently trusts that similar language will be incor-

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<sup>49</sup> For texts, see *Congressional Record*, vol. 86, pt. 1, pp. 745 and 906.

<sup>50</sup> *Foreign Relations*, 1939, vol. v, p. 751.

<sup>51</sup> Approved June 11, 1940; 54 Stat. 265.

porated by the Congress in all other pending legislation affecting employment in the Canal Zone.<sup>52</sup>

A copy of Public No. 588 is enclosed, from which you may quote to Dr. Garay the provisions of Section 6 for his information.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

811F.504/301 : Telegram

*The President of Panama (Boyd) to President Roosevelt*

[Translation]

PANAMA, June 18, 1940—2:37 a. m.

The Government which I have the honor to head and the citizens of Panama express to Your Excellency, through my intermediary, their deep gratitude for the favorable results that have crowned Your Excellency's efforts to obtain amendment of the law of August 11, 1939 passed by the Congress of the United States with a view to ensuring equality of treatment for Americans and Panamanians [employed]<sup>53</sup> in the Panama Canal Works and the triumph of the ideals of international justice which form the basis of the Good Neighbor policy proclaimed by Your Excellency, to whom I renew [etc.]

AUGUSTO S. BOYD

811F.504/301 : Telegram

*President Roosevelt to the President of Panama (Boyd)*

WASHINGTON, June 19, 1940.

I have received Your Excellency's gracious telegram expressing the appreciation of the Government and people of Panama for the assurance to Panamanian citizens contained in recently enacted legislation in this country of equality of opportunity for employment and treatment in employment in the Canal Zone. I am gratified, as will be the members of the Senate and House of Representatives, to learn from Your Excellency that this legislation is acceptable to the people of Panama whose cooperation in all that concerns the Panama Canal is so much desired and appreciated.

FRANKLIN D. ROOSEVELT

<sup>52</sup> Similar language was incorporated in the War Department Appropriations Act, approved June 13, 1940 (54 Stat. 350), and in the Civil Functions War Department Bill, approved June 24, 1940 (54 Stat. 505).

<sup>53</sup> Brackets appear in the file translation.

PANAMANIAN OBJECTIONS TO THE IMPORTATION OF JAMAICAN  
LABORERS INTO THE CANAL ZONE BY THE UNITED STATES

811F.504/165

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

No. 231

PANAMA, January 3, 1940.

[Received January 9.]

SIR: I have the honor to enclose for the information and files of the Department a copy of a note (No. 142 of January 3, 1940) concerning the contemplated importation of labor to be recruited in Jamaica for work in the Canal Zone. This note has been addressed to the Panamanian Foreign Office by the Embassy at the suggestion of Governor Ridley.<sup>54</sup>

Respectfully yours,

WILLIAM DAWSON

[Enclosure]

*The American Ambassador (Dawson) to the Panamanian Minister  
for Foreign Affairs (Garay)*

No. 142

PANAMA, January 3, 1940.

EXCELLENCY: Governor Ridley has requested me to advise Your Excellency's Government that the Canal Zone is faced with a very large construction program requiring the employment of labor beyond the capacity of the Isthmus, and that for this reason arrangements have been made with the British Government whereby the additional labor required will be recruited in Jamaica. It is expected that on January 5 a representative of the Panama Canal will be sent to Jamaica to make the necessary preliminary plans and arrangements.

Governor Ridley requests particularly that, in bringing this information to the attention of the Government of Panamá, Your Excellency be informed that he is proceeding on the following principles:

First, in general, labor will be brought from Jamaica only to the extent that the Isthmus is not able to furnish it.

Second, all labor brought from Jamaica will be housed on the Canal Zone.

Third, all labor brought from Jamaica will be repatriated immediately after discharge.

In conclusion, Governor Ridley asks me to state that every effort will be made to protect the interests of the Government of Panamá in the contemplated importation of labor, and that the labor is being brought in only because the labor supply on the Isthmus is not sufficient to perform the work to be done.

Accept [etc.]

[File copy not signed]

<sup>54</sup> Brig. Gen. Clarence S. Ridley, Governor of the Panama Canal.

811F.504/168

*The Panamanian Minister for Foreign Affairs (Garay) to the  
American Ambassador in Panama (Dawson)*<sup>55</sup>

[Translation]

D. D. No. 59

PANAMA, January 6, 1940.

MR. AMBASSADOR: I have the honor to acknowledge receipt of Your Excellency's courteous note No. 142 of the 3rd instant in which Your Excellency is good enough to advise me that in view of the great demand for labor existing in the Canal Zone to carry out the vast construction program facing it, the Governor of the Canal, General Ridley, has made arrangements with the British Government to recruit in Jamaica the additional labor which cannot be obtained from Panamá.

After taking note of the foregoing information, Your Excellency will permit me to set forth certain considerations in defense of Panamanian interests, which latter my Government believes cannot be by any means indifferent to the United States of America nor finally to the high officials of the Panama Canal.

The news transmitted by Your Excellency has caused profound surprise and disappointment in the minds of His Excellency the Encargado del Poder Ejecutivo and of the entire Panamanian Government.

Some days ago the Foreign Office received a communication from the Association of Commerce of Panamá in which its President repeated rumors circulating among the people concerning the importation of Antillean labor into the Canal Zone and issued a warning to our authorities. The undersigned Secretary of State hastened to allay the fears of Panamanian businessmen giving them the written assurance that such a danger did not exist.

In thinking and proceeding in this manner the Foreign Office had as a basis categorical statements made to three of the members of the present Cabinet by General Stone, commanding the military forces charged with the protection of the Panama Canal, when we discussed the subject at the last session of the National Aviation Commission, Admiral Sadler also being present. General Stone is now charged with the supreme command of the Panama Canal since the President of the United States of America proclaimed a state of emergency and placed under his (General Stone's) command all local civil, military, naval, and air authorities. His words could not leave the slightest doubt in the minds of the Secretaries of Government and Justice, of Health, Welfare, and Public Works, and of Foreign Relations and

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<sup>55</sup> Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 245, January 8; received January 12.



Communications who were present, when without circumlocution or subterfuge of any kind he gave us the most absolute assurance that the Government of the United States would not import Antillean labor into the Panama Canal either for the work of the third set of locks or for any other work connected with plans for extending and reinforcing the defenses of the Canal. On this occasion the General added that in case the available supply of Panamanian laborers proved insufficient, the United States intended to have recourse to the American people, principally the unemployed, in order to abstain from aggravating the disastrous conditions which the Republic (of Panamá) faces today from an ethnical point of view as the result of the importation of Antillean labor by the authorities of the Panama Canal during the construction period from 1904 to 1923.

This Government could not suspect that two months after the meeting mentioned here it would unexpectedly receive as hard a blow as that represented for Panamanian aspirations and interests by the contents of Your Excellency's note under reply.

Please appeal, Your Excellency, to the principles of cooperation and the policy of good neighborliness in which Panamanian-American relations have recently been inspired in order to obtain from your illustrious Government through the most adequate and efficacious means that a single stroke of a pen may not compromise the work of closer relations and reciprocal good-will accomplished after long years of patient labor and efforts which culminated in the treaties and conventions of 1936 and in order to prevent at any cost that a question of such vital interest for this Republic be settled without taking it into account and without consulting its needs and desires.

The freedom of transit between Panamá and the Zone stipulated in the General Treaty of 1936<sup>56</sup> would nullify the effects of the Panamanian immigration law if new Antillean colored masses were to invade the Canal Zone; and the Panamanian community would be deprived of the economic benefits to which it is entitled by its special geographic situation if there were to be organized in the Canal Zone concentration camps for the Antillean laborers in order that they might not pass the dividing line between the two communities. In such circumstances my Government believes that there has never been felt as at present the need for consultation and mutual agreement between our two Governments in order to solve on equitable bases questions of such importance and transcendence for both.

Please accept [etc.]

NARCISO GARAY

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<sup>56</sup> General treaty of friendship and cooperation, and exchanges of notes, signed at Washington, March 2, 1936. For correspondence regarding negotiations, see *Foreign Relations*, 1933, vol. v, pp. 852-868; *ibid.*, 1934, vol. v, pp. 581-612; and *ibid.*, 1935, vol. iv, pp. 889-910. For text, see Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807.

811F.504/274: Telegram

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

WASHINGTON, April 24, 1940—3 p. m.

51. Unless objection is perceived by the Governor of the Panama Canal, please deliver the following note to the Panamanian Secretary for Foreign Affairs:

“Excellency: I have the honor to refer to Your Excellency’s note DD No. 59, dated January 6, 1940, relating to the objections entertained by the Panamanian Government to the further importation into the Canal Zone of labor from the British West Indies.

My Government has given the most careful thought to its needs for additional labor in the Canal Zone and to the sources from which labor can be obtained, having always in view the desires of Your Excellency’s Government.<sup>57</sup>

I am accordingly pleased to inform Your Excellency that should it be desired by the Panamanian Government, my Government in cooperation with the Government of Puerto Rico will undertake a survey to determine the possibility of obtaining suitable workers from that territory.

Furthermore, my Government will undertake to employ experimentally such labor from other countries as may be found suitable for its purposes and which may be brought to the Isthmus of Panama by the Panamanian Government. The Governor of the Panama Canal is being instructed to arrange in cooperation with the Panamanian Government the terms upon which such labor, if brought to the Isthmus, may be employed in the Canal Zone.

Meanwhile, the authorities of the Panama Canal have informed me that they urgently need additional workmen not only in the construction of the new works, but in the operation of the Canal itself. Pending the results of the experiments noted above, they will be obliged therefore to proceed with the recruitment of several hundred laborers in the British West Indies where labor is known to be readily available. No objection will be raised by my Government, however, should the Government of Panama deny permission for these workers to enter territory under the jurisdiction of the Republic of Panama and the most careful precautions will be taken to insure that at the termination of their employment these workers will be returned to their homes.

In conclusion, permit me to say that in the development of this Government’s plans in the Canal Zone, the most sympathetic consideration will be given to the desires of Your Excellency’s Government in order that the Canal may continue to be of mutual benefit to both the countries which have cooperated in its construction.

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<sup>57</sup> President Roosevelt visited the Panama Canal February 27, 1940, while on a vacation cruise and met President Boyd of Panama. One topic of conversation was the question of bringing in laborers to work on the Panama Canal. No record of the conversation was sent to the Department of State but President Roosevelt later approved the emergency bringing in of Jamaicans with the understanding that the War Department should cooperate with Panama in securing laborers from Spain or Colombia or both and with the help of the Government of Puerto Rico bring in laborers from that island.

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

The War Department has approved the above text.

Please report by telegraph when the note has been delivered.<sup>58</sup>

HULL

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811F.504/353 : Telegram

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

WASHINGTON, October 10, 1940—7 p. m.

148. The Secretaries of War and Navy have been informed by the President that unless objection is interposed by the State Department a plan for recruitment of labor in the Canal Zone will be set up along the following lines: (1) The Canal stands ready to accept competent laborers from Colombia or other countries of the Western Hemisphere acceptable to the Republic of Panama, which that Government may bring or induce to come to the Isthmus; (2) representatives of the Canal are making preliminary arrangements with the Government of Puerto Rico for the importation of several hundred laborers from that island; (3) the Governor of the Canal requests authorization to import approximately 1,000 additional laborers from Jamaica as an emergency measure.

The Secretary of War has informed the President that the Government of Panama would interpose no objections if Jamaican labor were imported to meet immediate needs. He also stated that the proposed importations are regarded as of an emergency nature, and the laborers will be returned to their homes as soon as their places can be filled by other competent laborers from sources more acceptable to Panama.

Before acquiescing in the proposed plan the Department wishes to receive by telegraph your recommendations.

HULL

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811F.504/354 : Telegram

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

PANAMA, October 11, 1940—4 p. m.

[Received 7: 17 p. m.]

178. Department's telegram No. 148 of October 10. It is improbable that the Panamanian Government will be able to arrange to bring laborers from Colombia or other countries in any considerable numbers in the near future. In spite of efforts to expedite matters the

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<sup>58</sup> The note was delivered April 25.

importation of Puerto Rican labor is being held up by absence of transportation facilities. There is urgent need for additional labor in the Canal Zone and the demand will increase greatly during the coming months. It is difficult to see how the demand can be met without further importation of Jamaican labor. Whatever might have been the reaction of the previous Panamanian administration there is reason to believe that President Arias<sup>59</sup> may entertain objections to any further importation of Jamaican labor even for emergency purposes and on a temporary basis. In the circumstances my recommendation is that before action is taken Governor Edgerton<sup>60</sup> and I request an interview with the President of Panama for the purpose of discussing the situation frankly and explaining to him the urgency of the present need. General Van Voorhis<sup>61</sup> and the Governor concur in this recommendation. The Department's further instructions are requested.

DAWSON

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811F.504/354 : Telegram

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

WASHINGTON, October 12, 1940—1 p. m.

150. Your 178, October 11, 4 p. m. Interview authorized. Please expedite reply.

HULL

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811F.504/357

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

No. 711

PANAMA, October 18, 1940.

[Received October 22.]

SIR: As reported in my telegram No. 182 of October 17,<sup>62</sup> Governor Edgerton and I had yesterday a very satisfactory interview with President Arias, and in view of this conversation the Governor and I agree that the plan for recruitment of labor set forth in the Department's telegram No. 148 of October 10 can be put into effect at once.

There is enclosed a full memorandum<sup>62</sup> of the interview which, as will be observed, was most cordial throughout.

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<sup>59</sup> Arnulfo Arias took office as President of Panama, October 1, 1940.

<sup>60</sup> Successor to General Ridley as Governor of the Panama Canal.

<sup>61</sup> Successor to Major General Stone as Military Commander of the Panama Canal Department.

<sup>62</sup> Not printed.

It is, of course, apparent (and was already known) that the further importation of Jamaican labor is distasteful to the President, as it is to Panamanians in general. However, when informed of the situation and of the necessity of importing labor from Jamaica, he interposed no objection. He did, however, request that the Jamaican laborers imported (including those recently brought to the Zone) be kept out of Panamá, a request which is in accordance with the statement contained in the Embassy's note No. 256 of April 25, 1940 (addressed to the Foreign Office by direction of the Department<sup>63</sup>) to the effect that no objection would be raised by our Government, should the Government of Panamá deny permission for the workers in question to enter territory under the jurisdiction of the Republic of Panamá.

The President did not of course specifically approve or authorize the proposed importation of Jamaican labor; nor did we ask him to do so. It has not, I believe, ever been contemplated that we would place ourselves in the position of requesting the approval or authorization of the Panamanian Government for such action. Furthermore, I do not believe that President Arias or any other official would wish to place himself in the position of having approved or authorized the action in question. In my opinion, the most that we could expect—and what we require—is that, having been advised of the action contemplated, the President interpose no objection.

I desire to call particular attention to the fact that, when asked by the President how many Jamaican laborers would be needed, Governor Edgerton replied that he would probably need two or three thousand. The Department's telegram No. 148 of October 10 refers to the importation of approximately one thousand additional laborers from Jamaica as an emergency measure. While I believe that every effort should be made to keep to a minimum the number of Jamaicans brought into the Zone, I think that the Governor did well to mention two or three thousand in view of the strong probability that the figure of one thousand will have to be exceeded.

In conclusion, I wish to state that in my opinion, in order to show our good faith and in the interest of friendly relations with Panama, no effort should be spared to expedite the arrival of a substantial contingent of Puerto Rican laborers. This should have an excellent effect on Panamanian opinion.

Respectfully yours,

WILLIAM DAWSON

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<sup>63</sup> See telegram No. 51, April 24, 3 p. m., to the Ambassador in Panama, p. 1110.

PANAMANIAN REPRESENTATIONS REGARDING ORDER OF CANAL  
ZONE MILITARY AUTHORITIES CLOSING CERTAIN TRADE TO PANAMA-  
MANIAN MERCHANTS

811F.24/47

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

No. 290

PANAMA, February 1, 1940.

[Received February 6.]

SIR: I have the honor to refer to my despatch No. 167 of November 7, 1939,<sup>65</sup> in which I reported regarding an order issued by General Stone<sup>66</sup> to the effect that as of December 1, 1939, supplies of certain perishable commodities required by the Army would be purchased exclusively from the Commissary Department of the Panama Railroad Company. While the commodities in question are of American origin, certain Panamanian firms had been participating on a rather extensive scale in their sale to the Army under a system of competitive bidding. As explained in my despatch, the order closing this trade to Panamanian firms had been taken up with me informally by the Panamanian Secretary of Foreign Relations and had been discussed with General Stone by the Secretary of Labor, Commerce and Industries.

The Embassy has now received from the Foreign Office a lengthy formal note (D. D. No. 218, January 23, 1940) regarding the matter. I enclose copies of the Spanish text and an English translation of the note as well as copies (and, where pertinent, translations) of the several enclosures<sup>67</sup> which accompany it.

As will be observed, in his note Dr. Garay<sup>68</sup> refers at considerable length to our declared policy of enabling Panamá to take advantage of its commercial opportunities, citing in detail treaty provisions and statements relating to this policy. He sees in these texts evidence that "the deliberate purpose of protecting the Republic of Panamá economically" inspired the agreements of 1936. He asserts that General Stone's order "not only does not harmonize with the policy of the good neighbor and with the measures agreed upon by the two Governments in the application of that principle, but is fundamentally incompatible therewith." He states that the declaration of an emergency situation does not affect "contractual stipulations or the economic structure of the Treaty"; and that

To persist in the measures taken by the military authorities of the Panama Canal dislodging Panamanian merchants from the Zone and

<sup>65</sup> Not printed.

<sup>66</sup> Maj. Gen. David L. Stone, former Commanding General of the Panama Canal Military Department.

<sup>67</sup> None printed.

<sup>68</sup> Narciso Garay, Panamanian Minister for Foreign Affairs.

taking out of their hands a business whose annual value exceeds two million dollars, in order to turn it over to the Canal Commissaries less than a year after the ratification of the 1936 Treaty<sup>69</sup> by the United States Senate, would be a very marked recession toward the epoch when the neighborly relations between the Panamanian and American communities on the Isthmus were regulated by means of unilateral measures of disagreeable memory, an epoch and methods which, according to the statement of the Under Secretary of State, the Honorable Sumner Welles, recorded in the minutes of the sessions of the Negotiating Commissions, the new Treaty and its additional Conventions were intended to replace and to cause to be forgotten.

In conclusion, Dr. Garay requests me to lay the matter before the Secretary of State and in the name of the Panamanian Government to urge him to use his good offices with the War Department with a view to obtaining the abrogation of the order in question.

In acknowledging receipt of the note, I have advised Dr. Garay that it has been referred to the Department.

For full information regarding General Stone's order, the circumstances which led up to it, and its effects in so far as Panamanian merchants are concerned, reference is made to my despatches No. 167 of November 7, and No. 172 of November 13, 1939.<sup>70</sup>

Respectfully yours,

WILLIAM DAWSON

[Enclosure—Translation]

*The Panamanian Minister for Foreign Affairs (Garay) to the  
American Ambassador (Dawson)*

D. D. No. 218

PANAMA, January 23, 1940.

MR. AMBASSADOR: As of the first of last December, as Your Excellency well knows, the Military Department of the Panama Canal suspended the purchases of articles of the classes called "perishable" and "semi-perishable" which it previously made of merchants of the Republic, and decided to confine its orders to the Commissaries of the Panama Railroad Company, that is, to the Government of the United States of America, owner of all the shares of that Company. The value of these purchases amounted to an average of \$180,000.00 monthly, or more than two millions annually, of which a part fell to the Government of Panamá on account of fiscal taxes, and another considerable part entered into circulation in the Republic in the form of wages, commissions, and other services, exception being made of that part of the sum which was exported to the United States for

<sup>69</sup> Signed at Washington, March 2, 1936; for text, see Department of State Treaty Series No. 945, or 53 Stat. (pt. 3) 1807.

<sup>70</sup> Neither printed.

supplies which could not be produced in Panamá. The matter is, consequently, one in which the Panamanian Treasury, Panamanian commerce, the Panamanian people and the Government and people of the United States of America are jointly interested if they view the problem with a criterion superior to that of dollars and cents.

Until now the Secretary of Labor, Commerce and Industry of Panamá has been having interviews with the military chiefs of the Panama Canal Department and endeavoring to have them reconsider their resolution and to induce them to revoke the order suspending purchases from merchants of the Republic, even though the measure taken by them is, according to the statements of the said chiefs, of a temporary character and will not outlive the existing emergency situation created by the present European war. But in view of the fact that the result of these conversations has been negative, I have received instructions from the Executive Power to address Your Excellency setting forth this Government's points of view regarding the subject motivating this note and in the light of the international obligations stipulated in the pacts and documents which govern our reciprocal relations.

In the enclosures to this note there appear true copies of the letters exchanged between Secretary Méndez and General Stone, until yesterday Commanding General of the Panama Canal Military Department; of the report from Secretary Méndez to this Office; of the order suspending purchases from Panamanian merchants published in the local newspapers; and of an interview granted by the same Secretary to local newspapermen and published by them in past months. These enclosures speak for themselves and do not require any comment on my part. The reflections which I take the liberty of advancing in the body of this note are of another kind, although they are in perfect harmony of purpose with the above-mentioned action of my Cabinet colleague.

There is a series of declarations and stipulations in the last pacts agreed upon by our two Governments which translate into positive obligations the intentions of the parties in their desire to give concrete form to the policy of the good neighbor proclaimed by President F. D. Roosevelt, of the United States of America, and to the policy of loyal and friendly cooperation proclaimed unceasingly by the Chiefs of State of the Republic of Panamá. At the risk of repeating well known truths, I reproduce below the pertinent texts.

Article I of the American-Panamanian General Treaty of March 2, 1936 already speaks of the common purpose of "insuring the full and perpetual enjoyment of the benefits of all kinds which the Canal should afford the two nations that made possible its construction".

Article II of the same Treaty ends by mentioning the Canal "in which—it adds—the two countries are jointly and vitally interested",



that is to say, that the Canal is not only the lifeline of the United States but also that of Panamá.

In accordance with this conception of the situation of both countries in the Isthmus of Panamá, Article III stipulates various clauses agreed upon by them "in order to enable the Republic of Panamá to take advantage of the commercial opportunities inherent in its geographical situation".

Among these advantages are the restriction of sales by the Commissaries of the Canal, limiting them to employees, and their dependents, of that enterprise and of the Panama Railroad (Sections 1 and 2 of Article III); the prohibition against leasing and subleasing houses in the Zone to persons other than employees, and their dependents, of the two said enterprises (Section 3); the cooperation of the Government of the United States in order to prevent the violation of the Panamanian immigration and customs laws (Section 4); the prohibition against admitting new private commercial enterprises in the Zone other than those existing there when the Treaty was signed (Section 5); the opportunities offered to the merchants of Panamá to do business with the ships which transit the Canal which were in previous years obliged to make their purchases in the Canal Commissaries exclusively (Section 7).

Along with these fundamental declarations there exist certain exchanges of notes signed on the date of the General Treaty by the same negotiators and incorporated into the Treaty as an integral part thereof. In these notes there is applied and developed what could be called the philosophy of the Treaty, principally in the notes which refer to the gradual suppression of the agricultural licenses granted to private persons in the the Canal Zone; to the abandonment of the hotel business on the part of the Canal in favor of the Panamanian industry as soon as the latter is capable of adequately satisfying the necessities of the clientele; to the voluntary withdrawal from the business of storage warehouses in the Zone on the part of the Government of the United States just as soon as there are a sufficient number of storage warehouses in satisfactory conditions and at reasonable prices in Panamá; to the suppression of the competition which the hospitals, dispensaries, restaurants, lunch rooms, army dining rooms, clubs, moving picture houses, laundries, cleaning and pressing establishments of the Canal Zone formerly carried on to the detriment of establishments of the same kind under the jurisdiction of the Republic; to the constitution of a mixed board to prevent and suppress smuggling into Panamá of articles imported free of duty into the Canal Zone; to the prohibition against selling luxury or tourist articles to ships transiting the Canal, this business to be reserved for the merchants of Panamá; to the obligation undertaken to increase the

prices of other classes of articles which are sold to ships transiting the Canal in order not to offer unfair competition to Panamanian merchants; to the promise that when Panamanian merchants can supply these articles at all times in satisfactory quantities and quality, and at reasonable prices, the Canal commissaries shall refrain from selling them to ships; to the constitution of a mixed board charged with arranging the details of the system of cooperation instituted with regard to sales to ships; to the revision of the contracts in force concerning water works and sewers in Panamá and Colón; to the principle of equality of treatment of Panamanians and Americans employed by the Canal or the Panama Railroad, etc.

In addition, the Government of the United States, through the Under Secretary of State, the Honorable Sumner Welles, made a written declaration at the 107th session held by the negotiators of the Treaty on February 1, 1936, reaffirming therein its declared policy of giving preference in purchases for the consumption of the Canal to the native products, agricultural and industrial, of Panamá which may be satisfactory as to price and quality. The minutes of the respective session carry the complete text of that very important declaration.

Reading all these texts, it is impossible to avoid the conclusion that the deliberate purpose of protecting the Republic of Panamá economically as a nation closely associated with the United States in the protection of the security of the Canal and in the maintenance of its neutrality, inspired the elaboration of the General Treaty, the exchanges of additional notes, and the Washington Agreements of March 2, 1936. It is impossible, on the other hand, to deny that the recent gesture of the military authorities charged with the protection of the Panama Canal in entirely eliminating the participation of Panamanian merchants in supplying the United States military forces stationed in the Zone not only does not harmonize with the policy of the good neighbor and with the measures agreed upon by the two Governments in the application of that principle, but is fundamentally incompatible therewith.

I do not wish to say here that the concessions made to Panamá by the United States of America in the last General Relations Treaty were made gratuitously as a simple favor. On the contrary, the Treaty is perfectly bilateral and the concessions which it contains in favor of Panamá are compensated by other very important ones which Panamá, in turn, makes to the United States. To justify my assertion it would be sufficient, if that were necessary, to refer to the very numerous clauses regulating situations created between Panamá and the United States which, although there might be disagreement between the two Governments about classifying them as illegal (*para*

calificar de ilegales), there would be none in declaring that they were the source of vexatious controversies for the two Governments in the light of the 1903 Treaty <sup>71</sup> and, consequently, of constant friction between them.

The emergency situation recently declared in the Panama Canal Zone in no way affects the obligation of our contractual stipulations or the economic structure of the Treaty, since this was entered into for time of peace as well as for time of war, without any distinction in this respect.

To persist in the measures taken by the military authorities of the Panama Canal dislodging Panamanian merchants from the Zone and taking out of their hands a business whose annual value exceeds two million dollars, in order to turn it over to the Canal Commissaries less than a year after the ratification of the 1936 Treaty by the United States Senate, would be a very marked recession toward the epoch when the neighborly relations between the Panamanian and American communities on the Isthmus were regulated by means of unilateral measures of disagreeable memory, an epoch and methods which, according to the statement of the Under Secretary of State, the Honorable Sumner Welles, recorded in the minutes of the sessions of the Negotiating Commissions, the new Treaty and its additional Conventions were intended to replace and to cause to be forgotten.

Please, Your Excellency, bring to the attention of His Excellency the Secretary of State of the United States of America the foregoing considerations and urge him in the name of this Government to use his good offices and his high influence with the War Department of that Government to obtain from the military authorities charged with the command of the forces which protect the Panama Canal the abrogation of the measures adopted by them ignoring the spirit of our new bilateral pacts and of the "good neighbor" policy with which the Administration of President F. D. Roosevelt has known how to win the good-will and sympathies of the Spanish-American nations.

Accept [etc.]

NARCISO GARAY

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811F.24/58

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

No. 231

WASHINGTON, May 15, 1940.

SIR: The Department refers to your despatch No. 290 dated February 1, 1940, transmitting a copy and translation of Foreign

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<sup>71</sup> Convention . . . for the construction of a ship canal to connect the waters of the Atlantic and Pacific oceans, signed at Washington, November 18, 1903, *Foreign Relations*, 1904, p. 543.

Office note DD No. 218 dated January 23, 1940 which voices the objections entertained by the Government of Panama to an order effective December 1, 1939, issued by the Commanding General, Panama Canal Department, United States Army, prohibiting the purchase of perishable and semi-perishable supplies—with certain exceptions—from other than United States Government agencies.

In case no objection is perceived by the Embassy or by the Governor of the Panama Canal, you are requested to deliver the annexed note to the Panamanian Foreign Office and to notify the Department by air mail when delivery has been made.<sup>72</sup>

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

[Enclosure]

*The Secretary of State to the Panamanian Minister for Foreign Affairs (Garay)*

WASHINGTON, May 15, 1940.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note DD No. 218 dated January 23, 1940, which notes the objections entertained by the Panamanian Government to an order issued by the Commanding General, Panama Canal Department, United States Army, effective December 1, 1939, prohibiting, with specified exceptions, the purchase of perishable and semi-perishable foodstuffs by the United States Army through other than United States Government agencies.

Your Excellency points to the economic loss which the operation of this order has occasioned directly to commission merchants in the Republic of Panama who theretofore provided the United States Army with some of these commodities, and indirectly to the Panamanian Treasury which is now deprived of the taxes levied upon this business. Your Excellency contends, moreover, that the order is contrary to the spirit, if not the letter, of the General Treaty between the United States of America and the Republic of Panama which became effective July 27, 1939.

Your Excellency's communication has received the very careful attention of my Government which is animated by a sincere desire to ensure that the Republic of Panama, its citizens and its residents obtain every legitimate advantage from the operation of the Panama

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<sup>72</sup> The note was delivered to the Panamanian Minister for Foreign Affairs on May 21, 1940.

Canal, an enterprise in which the two countries are so closely associated.

The inquiries which have been made establish the fact that the perishable and semi-perishable foodstuffs to which Your Excellency's note relates are commodities of United States origin. The question which is raised therefore is whether these foodstuffs of United States origin should be purchased directly from American suppliers through United States Government agencies or whether they should be purchased indirectly through the intermediary of commission merchants established in the Republic of Panama.

Until recent years none of the perishable and semi-perishable supplies of the United States Army on the Isthmus of Panama were purchased otherwise than through United States Government agencies. From time to time during the past few years some purchases of these products have been made experimentally from commission merchants in the Republic of Panama. It was hoped that savings to the United States might thereby result since commission merchants, because of fortunate speculation, are sometimes able to furnish products at prices lower than those obtainable through non-speculative Government agencies.

Experience has now proved without question that, generally speaking, perishable and semi-perishable foodstuffs of United States origin can be purchased by the United States Army at lower prices through United States Government agencies than commission merchants in Panama. In special instances, however, the reverse might be the case. In normal times the Army would wish to reserve its right to purchase from the cheaper source.

In the present emergency it must be noted, however, that other factors than that of price have become of paramount importance. It is of course necessary to assure a certain supply of foodstuffs both to the Army and the civilian population in the Canal Zone. Distance from American continental markets complicates this problem. It has become evident that commission merchants in the Republic of Panama cannot maintain stocks adequate for the purposes which the United States Army has in view and the uncertain availability of refrigerated shipping space places them at a considerable disadvantage in guaranteeing the prompt and timely arrival of supplies. These factors, rather than that of price, have accordingly dictated the decision of the military authorities of my Government to prohibit purchases of perishable and semi-perishable foodstuffs through other than United States Government agencies for the duration of the emergency.

While it regrets the losses which will be occasioned to the commission merchants of Panama, and the relatively small losses which

will be suffered by the Panamanian Treasury as a result of the enforcement of this order, my Government confidently believes that the greatly increased flow of money which has already resulted from the vast new construction works undertaken in the Canal Zone will more than compensate Your Excellency's Government and the citizens and residents of Panama for these losses. It confidently believes, moreover, that little if any unemployment from the operation of the order will occur, in as much as available information indicates that unemployment in Your Excellency's country is almost nonexistent as a result of the activities undertaken by the United States in the Canal Zone.

Reference was made in Your Excellency's note to the discussion which took place at the 107th meeting of the treaty negotiators on February 1, 1936 relating to the purchase by the United States Government agencies on the Isthmus of Panama of Panamanian products. I need not here recall the attentive consideration which is given to Panamanian bids on supplies whenever they are tendered other than to allude to a recent contract by which 4,500 head of Panamanian beef cattle are to be supplied to agencies of the United States in the Canal Zone. It is appropriate to point out, however, that the discussion in the 107th meeting did not relate to American products.

While my Government, therefore, is as desirous as that of Your Excellency that the Republic of Panama shall receive every possible commercial advantage from its geographical position in close proximity to the Panama Canal, it is constrained to point out that it has undertaken no commitment to purchase American foodstuffs for consumption by its own armed forces on the Isthmus of Panama through the intermediary of commission merchants established in the Republic. The adequate rationing of the Panama Canal is vital to its operation and defense, particularly in this time of emergency, and I am confident that the successful pursuit of these objectives at this time is of equal concern to the Government of Panama as to the Government of the United States.

Accept [etc.]

CORDELL HULL

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**ARRANGEMENT BETWEEN THE UNITED STATES AND PANAMA ESTABLISHING A TRANS-ISTHMIAN JOINT HIGHWAY BOARD**

[Effected by exchanges of notes signed at Panama, October 19 and 23, 1939, December 20, 1939, and January 4, 1940. For text, see Department of State Executive Agreement Series No. 168, or 54 Stat. (pt. 2) 2278.]

**AGREEMENT BETWEEN THE UNITED STATES AND PANAMA SUPPLEMENTING THE CONVENTION OF MARCH 2, 1936, RELATING TO A TRANS-ISTHMIAN HIGHWAY**

[Effected by exchange of notes signed at Washington, August 31 and September 6, 1940. For text, see Department of State Executive Agreement Series No. 448, or 58 Stat. (pt. 2) 1593.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PANAMA CONCERNING THE INTER-AMERICAN HIGHWAY BETWEEN RIO HATO AND CHORRERA, EFFECTED BY EXCHANGE OF NOTES SIGNED MARCH 23, 1940**

[For text of agreement, signed at Washington, see Department of State Executive Agreement Series No. 449, or 58 Stat. (pt. 2) 1599.]

## PARAGUAY

### REQUEST BY PARAGUAYAN GOVERNMENT FOR ECONOMIC AND FINANCIAL ASSISTANCE FROM THE UNITED STATES<sup>1</sup>

834.51/312½

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

No. 1271

ASUNCIÓN, September 2, 1940.

[Received September 13.]

SIR: I have the honor to inform the Department that matters are developing along the lines indicated in the last paragraph of my confidential despatch No. 1257 of August 22.<sup>2</sup> Some persons in the government feel that President Estigarribia acted somewhat prematurely in gratuitously offering to go the whole road with us in the matter of hemisphere defense without first having assurance that the main weakness of his administration—its difficult financial position—could be remedied.

I understand unofficially that to meet this situation some members of the cabinet have been attempting to elaborate some sort of plan for further financial assistance from our Government, each one throwing into the pot such ideas as particularly appealed to him.

A few days subsequent to President Estigarribia's remarks mentioned in my despatch above cited, Mr. Pablo Max Insfran, the Minister of Public Works, and Dr. Justo Pastor Benitez, Minister of Hacienda and Acting Minister of Foreign Affairs, requested an opportunity to discuss the matter and explain their points of view. I replied that I would be glad to listen to anything they had to say as it was always a pleasure to me to be of assistance to Paraguay when possible. I cautioned them, however, that in so doing I would be acting in a purely personal capacity as a friend of the family and that nothing I might do or say would imply any opinion or course of action on the part of my Government. I added that this could be ascertained when a definite plan was formally presented.

They discussed general conditions in Paraguay for the better part of an hour, pointing out the desire of their government to cooperate with our own in defensive measures. They emphasized the fact that Paraguay could not render effective cooperation unless the Estigar-

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<sup>1</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 758 ff.

<sup>2</sup> *Ante*, p. 155.



ribia Administration were firmly maintained and that this depended in large measure upon its financial stability now seriously threatened by conditions resulting from the war.

They then went on to mention in a general way several projects which in their opinion would tend to bring about the desired stability but they did not present any proposition in detail. I questioned the feasibility of some of the projects mentioned and stated that as to others I would want to have more detailed information before attempting to form an opinion even in my own mind. They stated that they would consider the matter further, doing a little checking up and formulating a more definite plan.

On August 30 I was again requested to meet with the two Ministers in informal conversation. At that time a rough draft of a plan for financial assistance and an accompanying memorandum were read over. Several projects which had been previously suggested and which had seemed somewhat fantastic to me were not included in the discussion. I pointed out that this plan was still in a nebulous state in that they had not presented full or detailed information showing the necessity or advisability of the various projects nor as to a feasible manner of carrying them to successful conclusion. I asked them to tell me frankly just what they had in mind and what they expected of me. They admitted the vagueness of their plan stating that it did not pretend to be more than a general summary which they desired me to know and to inform the Department of what they were trying to do. They stated that a definite plan with supporting data would be formally presented through the Paraguayan Legation in Washington and that during the present month someone from here, probably Dr. Pedro Espínola, would be sent with full information to assist their minister in the presentation.

I inquired as to whether they had discussed this matter with their financial adviser, Mr. Eric Lamb, suggesting that he could probably be of assistance to them in whipping the plan into shape. They told me that the matter had not yet been discussed with Mr. Lamb since a request for financial assistance in conjunction with the project for hemisphere defense was still a secret between the President and the three of us there present.

The following day the so-called financial plan and accompanying memorandum were delivered to me. In compliance with the request of the Ministers to inform my Government of what they were trying to do, a copy and translation of each are enclosed. Due to the summary nature of the plan and the absence of supporting data, and also the fact that a detailed plan with such data is to be presented to the Department through the Paraguayan Legation in Washington, no comment as to the individual projects is being made at this time.

From my previous conversations with President Estigarribia, from the memorandum submitted by the Ministers and from the general tone of their conversation it is evident that Paraguay is ready and willing to actively cooperate with us in defensive measures, even to the extent of granting such naval, military or air bases as we may desire. In fact, Mr. Insfran stressed the idea that an air base in Paraguay would best serve for the protection of both coasts and all this section of South America. He stated that such a base should be prepared and ready for emergencies even though for the time being no planes might be stationed here. He further remarked that the establishment of such a base in Paraguay could not be objected to and would not be open to the same criticisms which might ensue in Brazil or the Argentine were it to be established in either of those countries.

I do not mean to imply that the raising of a question of financial assistance at this time is solely a case *quid pro quo* for I am convinced that President Estigarribia and his government, as well as a great majority of the Paraguayan people, are friendly to us, opposed to the totalitarian powers, and disposed to join with us in defensive measures of protection against them. However, I do believe that they hope and expect financial assistance from us to strengthen the internal position of the government if they are to cooperate effectively with us.

If I read the situation here aright, the financial difficulties of the Estigarribia Administration constitute its greatest weakness and may well become acute.

The Administration's point of view, as I interpret it, may be summarized as follows:

If the present Government of Paraguay is willing to go along unreservedly with us in political and military defense measures, we should be willing to grant the financial assistance necessary to support it in carrying out that program.

Respectfully yours,

FINDLEY HOWARD

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834.51/316

*The Paraguayan Minister (Fernandez) to the Secretary of State*

[Translation]

D. 45

WASHINGTON, September 17, 1940.

EXCELLENCY: I have the honor to address myself to Your Excellency with the object of presenting the following Memorandum with regard to the program of economic and financial cooperation with Paraguay, to which I have referred substantially in numerous conversations, which were confirmed by His Excellency the Minister of

Foreign Affairs of Paraguay, Doctor Don Tomás A. Salomoni, in his recent visit, which formed part of the program elaborated by the late President of the Republic of Paraguay, General Don José Félix Estigarribia,<sup>3</sup> whose directive norms are continued by the present Government, an official declaration which I take pleasure in bringing to the attention of Your Excellency, fulfilling precise instructions of the National Chancery.

The program to which I allude has been studied carefully, taking into account the economic and financial possibilities of Paraguay, and their realization will be made progressively in such manner that the services of amortization and interest of the sums invested may be paid regularly with the orderly recourses of the National Treasury and with the product of the charges and the taxes which may be created from time to time and because of the realization of the projected works.

*Financial Readjustment.* When the Government of General Estigarribia was inaugurated in August of last year, it was hoped that the expropriations with which the Bank of the Republic built up its conversion funds would give a normal return; but the European war affected the expropriation business in such a manner that to date the return has been considerably reduced.

The conversion funds of the Bank of the Republic have decreased consequently in a very marked manner and a credit of \$2,000,000 to the said institution is indispensable in order to maintain and regulate the monetary stability. The Bank of the Republic is able to service the interest and the amortization of the said credit with complete regularity, it being understood that the credit mentioned would not be used all at once nor in its entirety, since it will be opened for the said sum in accordance with the conditions which will be stipulated.

*Financing the Unexported Surpluses.* One of the consequences which has made itself most felt in Paraguay because of the dislocation of the financial economy since the start of the European War was the lack of the possibility of placing exportable products since the export market and the placement of the export products is found in Europe.

The principal products which are now without possibility of being exported are tobacco, cotton, hides, tannin, petit-grain oil, et cetera, the financing of which would require the investment of the sum of \$3,000,000.

*Financing of the Port of Asunción.* In the month of December of the present year the concession for the port works of Asunción, financed and constructed by the "Asunción Port Concession Corporation", an entity organized in the United States of America, will terminate. In conformity with the concession contract, the Para-

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<sup>3</sup> Estigarribia had been killed in an airplane accident.

guayan State must take charge of all the remaining debt and must pay it in five years, a debt which to date amounts to the sum of \$4,000,000 more or less.

The regularization of this situation is the object at the present time of a study with the concessionaire company; but it is indispensable in order to make a satisfactory arrangement for both parties to obtain a long-term loan for the payment of the same.

This loan of \$4,000,000 will be paid regularly since for the payment and the interest of the amortization of the same there will be available the port charges whose annual return is \$200,000 more or less.

*Public Works.*

(1) *Highway Program:* In the eastern district of Paraguay there is necessary around 800 kilometers of good roads to give effective circulation to the national production. Through lack of roads Paraguay lacks internal economic connection and pays exorbitant freight rates which make difficult on the one hand production and on the other the entry into foreign markets on advantageous conditions in view of the competition.

This network of roads of more or less 800 kilometers would not be entirely with permanent surfacing since the paving would be made only partially of concrete or asphalt and the remainder would be of stone. The principal sections would be:

(a) Paraguairí to Misiones	170 kilometers
(b) Pilar to Misiones	130 "
(c) Asunción-Paraguairí (Through Itá and Yaguarón)	70 "
(d) Coronel Bogado to Encarnación, passing through various plantations	60 "
(e) Concepción to Pedro Juan Caballero	286 "
(f) Siding to Bella Vista from the previous road	96 "
(g) Vicinity of Asunción	50 "
Total	<u>862</u> "

Of this network of 862 kilometers approximately half would be roads finished with permanent surface. For this construction there would be necessary about \$4,250,000, including in this sum the machinery, equipment, bridges, culverts and other improvements.

In the foregoing network there is not included the prolongation of route 2 of the central highway to its termination at Iguazú. This branch would have a length of 200 kilometers of surfaced road and would cost around \$2,500,000.

With the construction of the network indicated above, the consumption of combustibles in general would have to increase considerably and said works would be amortized with the entire revenue from the customs charges or internal taxes on combustibles.

(2) *Wharves*: The construction of three important wharves, one in Pilar, another in Concepción and a third in Encarnación and wharves which would constitute the indispensable complement for the roads, is indispensable. The approximate cost of the same would be distributed in the following form:

Pilar	\$100, 000
Concepción	80, 000
Encarnación	120, 000
	\$300, 000
Total	\$300, 000

The revenue arising from the exploitation of the said wharves would make up the payment for the same.

(3) *Sanitary Works in Asunción*: The construction of sanitary works in Asunción would contribute to one of the most urgent necessities of the capital of the Republic and is by its nature one of those which could most easily be paid for. It is not necessary to go at length into the considerations to describe the importance of this work and the fact that the construction of the same would constitute one of the remunerative investments. The price of the same is estimated in the sum of \$2,600,000.

(4) *Creation of a Merchant Marine*: The problem of creation of a national merchant marine for Paraguay is of vital importance for the development and the progress of its great riches and natural products, whose exportation is impeded by the permanent high freight rate. There is necessary a merchant marine capable of transporting 150,000 tons per year, composed of four to six units of 1,000 to 2,000 tons capacity each, and of lesser ships controlled and directed by the state. The merchant marine would produce a sufficient return to insure the payment of the amortization and the interest on the capital employed for the same, which is computed in the sum of \$500,000 more or less.

(5) *Agricultural Development*:

	<i>Dollars</i>
(1) For silos, refrigerating plants and fruit storage warehouses -----	600, 000
(2) For implements (10,000 sets) plows, <i>carpidoras</i> , harrows, sowing machines, groups at \$35 for each set -----	350, 000
(3) Ten sets of stump removers at \$5,000 each --	50, 000
(4) Capital for the Agricultural Bank of Paraguay -----	500, 000
(5) Mortgage Bank (Section of the Bank of the Republic) -----	500, 000
	\$2, 000, 000

*Form of Payment*

The sum for silos for fruit would be reimbursed with the charges which are charged those who utilize them. The sum

for implements would be reimbursed with the income from the sale of the same on long terms. The sums for the stump removers, for capital for the Agricultural Bank, and for the Mortgage Bank would be reimbursed by the State.

The foregoing program of financial and economic reconstruction of Paraguay contains a general outline of the same in each case. Each one of the points will be the object of a detailed study. I must point out once again to Your Excellency that the program set forth is in conformity with the economic and financial possibilities of Paraguay, it being indispensable only that there be agreed upon the manner of payment in reasonable periods. In requesting Your Excellency to be good enough to pay favorable attention to the request for economic cooperation for Paraguay, I take advantage [etc.]

HORACIO A. FERNANDEZ

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834.51/316

*The Secretary of State to the Paraguayan Chargé (Fehringner)*

WASHINGTON, October 30, 1940.

SIR: Reference is made to note no. D.45 of September 17, 1940 with regard to a program of further economic cooperation with Paraguay which was left at the Department by the Honorable Horacio A. Fernández prior to his departure for Paraguay.

The Department is now very actively considering the various projects in which the Paraguayan Government is interested but is handicapped by lack of detailed information in regard to some of the projects proposed. In order that the Department's investigations may be as complete as possible it would be most helpful if the Paraguayan Government would designate Mr. Eric C. Lamb, who is now acting as Financial Adviser to the Bank of the Republic of Paraguay, to prepare for the Department's use and for its discussions with other interested agencies of this Government, a more detailed memorandum regarding the economic desirability and the probable cost of the specific projects mentioned in the Minister's note under reference.

It would therefore be appreciated if you would communicate with your Government informing it of the Department's hope that it will permit Mr. Lamb to make an investigation of this nature for use in the consideration of these problems.

Accept [etc.]

For the Secretary of State:  
SUMNER WELLES

834.51A/75a : Telegram

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

WASHINGTON, October 30, 1940—4 p. m.

39. Reference your despatch no. 1271 of September 2, 1940. A note has been handed the Paraguayan Chargé d'Affaires requesting that Lamb be designated to prepare a report on economic desirability and the probable cost of specific projects mentioned in your despatch. Please get in touch with Lamb and assist him in any way possible.

HULL

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834.51/319

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

No. 1377

ASUNCIÓN, December 28, 1940.

[Received January 3, 1941.]

SIR: I have the honor to acknowledge receipt of instruction No. 187, December 12, 1940,<sup>4</sup> referring to my despatch No. 1271 of September 2, 1940 on the desire of the Paraguayan Government for financial assistance in connection with a number of projects, and enclosing copies of two Departmental memoranda dated October 4th and 14th<sup>5</sup> in which recommendations are made with regard to certain of these projects.

The Legation is directed to report its recommendations and observations on the various questions raised regarding these problems, and particularly on the relation of the extension of further economic assistance of this nature to the present political situation in Paraguay.

In telegram No. 39 of October 30, 1940, the Department advised that the Paraguayan Government had been requested through its mission in Washington to have Mr. Eric Lamb prepare a report on the economic desirability and the probable cost of the specific projects mentioned in despatch No. 1271 under reference. On November 12th the Paraguayan Minister of Finance called upon Mr. Lamb as Financial Adviser for such a report which has now been completed and delivered. The Legation has been able to borrow Mr. Lamb's personal copy of this report, copies of which are enclosed<sup>4</sup> for the Department's confidential information.

It is found that this report presents a carefully studied picture of the feasibility of the various projects other than the refinancing of the Port of Asunción, the situation of which has subsequently changed, for additional financial assistance under present economic

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<sup>4</sup> Not printed.

<sup>5</sup> Neither printed.

conditions which, it will be noted, are taken to be somewhat different at this time than as set forth in the Departmental memorandum of October 4th. Whereas the memorandum recommends an increase in the banking line of credit\* to the Banco de la República by \$500,000 "to prevent a complete collapse of the Paraguayan exchange in the first half of 1941", the Financial Adviser's report concludes that such an increase is undesirable. On the other hand, the Financial Adviser indicates that a scheme to finance exportable surpluses—particularly cotton—might serve to offset the economic misery of the country and at the same time permit the Government to maintain its exchange position. Mr. Lamb estimates that a credit of \$1,200,000 or more might be required for this purpose.

If the actual economic depression of the country is relieved by sufficient financial assistance for the Government to carry over until more normal export revenues can be expected and to bolster up farm production, on which a large part of the population depends exclusively, by providing an internal outlet for crops through Government purchases, then the progressive development of transportation facilities, especially roads, and ports, takes on the form of a cohesive long-term program for the opening up of the country so that the natural forces of agricultural expansion may come into play. It will be noted in this connection that the Financial Adviser's report rejects any idea of direct financial assistance to the Banco Agrícola until such time as that somewhat anomalous institution has been thoroughly overhauled.

The building of feeder roads to widen the influence of the trunk route under construction between Asunción and Villarrica seems advisable in so far as those proposed in the Financial Adviser's reports do not further parallel the existing Paraguay Central Railway and, if of low cost construction, would apparently be justified in the relatively productive regions selected. Additional credits of, say, the \$900,000 estimated at this time should admit of their construction simultaneously with the trunk route, leaving any large projects, such as a network joining Asunción, Pilar and Encarnación, until the Hebard equipment becomes available sometime after 1942. However, the construction of a low cost road inland from the port of Pilar to the Misiones region might be justifiable in direct relation to the proposed improvement of the port there, so as to open up a large stretch of country at present practically without transportation facilities save the railroad which runs at cross purposes to an economical export trade.

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\*Certain commercial aspects of the handling of the original banking credit line granted to the Banco de la República are discussed in memorandum prepared in the consular section of the Legation annexed hereto. [Footnote in the original. Memorandum not printed.]



The Department's stand with regard to refinancing the Port of Asunción is not clear from the memoranda under consideration. It will be seen that the Financial Adviser advances some considerations in his report on this subject which in his view would appear to make feasible a certain type of financial aid in this matter. However, his report was submitted as of December 17, 1940, before the port was actually taken over by the Government—see recent Legation despatches on this topic. The outcome of the Government studies of the port question has not yet become known to this office, but it is of interest to note that the Interventor (Captain Bozzano) named to take over the port works resigned directly thereafter. It is the view of the Legation that no action should be taken in this matter until the present administration has definitely shown its intention to respect the just rights of the company as they may be determined by arbitration or an amicable agreement. Otherwise it is in substantial accord with the Financial Adviser regarding the port question.

The projects for sanitary works in the Capital, and for a merchant marine are readily deferrable it is believed, the latter at least until the ship-building industry is released from war-time pressure (unless, of course, old river boats adapted to local conditions could be cheaply acquired).

Interesting additional projects covered by Mr. Lamb's report are the construction of crop storage warehouses and the vitally necessary outfit for dredging the river. It is thought that these items deserve consideration.

It is believed that the foregoing observations taken in conjunction with Mr. Lamb's detailed survey of these projects present as nearly accurate a view of the economic feasibility of further financial assistance to Paraguay as can be had at this time. Naturally the extent to which such assistance may be effective, the surety of its application to the purposes designated, and its ultimate repayment, will depend on the ability and good faith of those comprising the Paraguayan Government.

This brings up the whole question of policy with regard to financial assistance to Paraguay. Thoughtful Paraguayans point out that if the Estigarribia program for development of the country through United States aid had only not been so slow to start and so little advanced at the moment of his untimely death, the confused political and administrative situation since prevailing would never have arisen. Paraguay would have been thoroughly bound to its course of cooperation with the United States and disruptive forces could not have come to power. However that may be, it is seriously alleged today that if the road credit were now stopped the present administration would not last many weeks in face of the resulting public outcry.

On the other hand, since General Morínigo took over the constitutional presidency and cast out all but one of Estigarribia's cabinet as well as most of his appointees in the Army and the public service, the outward attitude of the administration to United States aid can hardly be classified as one of great concern but rather as one which, particularly in Army circles, takes it for granted that such aid will be forthcoming in any event. A program of "nationalism" and army direction of public works is held forth as the ultimate goal, returning for inspiration to the whitewashed dictatorships of Francia and the Lopez when a "strong state" led the people to alleged prosperity. This attitude is further tinged by a naïve expectancy that Paraguay can obtain assistance whichever way she may wish to turn—from the United States, Argentine, Brazil, Uruguay—it being reliably reported that the present Foreign Minister, Dr. Luis Argaña, is confident of receiving full economic cooperation for the country as an outcome of the much-postponed River Plate Regional Conference now scheduled for January 15th in Montevideo.

The problem thus presents itself of whether it is more expedient to await a change or consolidation of regime and some sure evidence of willingness and ability to go along with the United States in the program of continental solidarity, a period of waiting that would be fraught with danger of both economic and political upheaval, or to go on granting credits, without too much consideration as to the present economic possibilities of the country to repay, in the hope that the reaction to such largesse will be what is desired and that Paraguay will become a sure friend of the United States in South America.

In connection with this last point, it may be noted that there is a local train of thought which wonders at the enormous credits granted by the United States to Argentina which it is said will never be more than a lip-service friend, while Paraguay, forming by her geographic position a wedge for American influence, is given little, although a strong Paraguay developed as she could be by American financing and technical aid would constitute a primary influence in South American politics.

The above political commentary has been drawn out to some length since from the instruction and accompanying memoranda under reference it is not possible for this Legation to know to what extent the United States may see fit to go in the matter of financial assistance to Paraguay over and above strictly a businesslike credit program. Whatever action is taken, the local interpretation will be tortuous. If further credits are withheld or those granted withdrawn, the present administration would look upon such action as directed against them; while should additional assistance be forthcoming now it would no doubt act as a further obstacle to the return of civil elements to the government.

Respectfully yours,

FINDLEY HOWARD

## PERU

### FINANCIAL ASSISTANCE BY THE UNITED STATES TO PERU<sup>1</sup>

823.5151/117 : Telegram

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

LIMA, May 22, 1940—5 p. m.

[Received 10:45 p. m.]

52. The Minister for Foreign Affairs<sup>2</sup> yesterday requested me to meet with him and the Minister of Finance<sup>3</sup> relative to the deterioration of the exchange and trade situation principally resulting from British trade and financial pressure. The Finance Minister stated: (a) That it is expected that Great Britain within a few days will block surplus exchange for Peru; (b) that the disappearance of free sterling exchange would result in such a depreciation of the sol that unrestricted imports would be impossible, (already automobile importers have been asked to substitute Canadian-made for American built cars); (c) that Peru is opposed to import restrictions and exchange control; and (d) that the Peruvian Government hopes that some plan for immediate assistance can be developed.

The Minister of Finance suggested that the most practical form of assisting would be a credit of about \$5,000,000 against some 160,000 bales of the 1940 cotton crop, representing normal British cotton purchases during the rest of the year. He contemplates an operation by means of which warrants issued by Peruvian banks to Peru producers or exporters for cotton stored in Peru would be discounted in the United States, the proceeds being left in the United States for financing Peruvian purchases.

He believes the credit would be self-liquidating by continued demand for Peruvian cotton in spite of the outcome of the war. The Japanese have offered to buy more Peruvian cotton on a barter basis, but Peru does not want to obligate itself further to Japan.

The Minister of Finance also observed: (a) That he thought borrowing against legal reserve gold would be contrary to existing legislation and that borrowing against gold production would mean withdrawing of needed exchange since most of this gold is exported; (b)

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<sup>1</sup> For previous correspondence, see *Foreign Relations*, 1939, vol. v, pp. 773 ff.

<sup>2</sup> Alfredo Solf y Muro.

<sup>3</sup> Oscar Ramos Cabieses.

that he recognizes the difficulty raised by Peru's debt default <sup>4</sup> and that he admits that some token settlement now would be very useful; (c) that this country has agreed in principle to participate in the Inter-American Bank but that \$600,000 is as much as the nation can afford at present; (d) that he hopes that in the circumstances it will be possible for the two Governments to cooperate in a plan that will lead to permanent and profitable relationship, including comprehensive industrial and agricultural development, on a complementary basis, in Peru with capital from the United States; and (e) that the results of this effort to obtain a credit of some kind from the United States will influence the policy of the Peruvian Government in the near future regarding possible restrictions on imports to conserve foreign exchange.

There was no mention of a trade agreement.<sup>5</sup> The details of the different organizations of the United States Government through which financial assistance may be extended to foreign governments were explained to the Minister. The two Ministers agreed to inform Beltrán<sup>6</sup> by telephone regarding our conversation. An airmail despatch<sup>6a</sup> including a memorandum by the Minister of Finance will be sent in the pouch leaving May 24.

. . . The present government is a good moral risk and there is reason to believe that our action in this case may have a decided influence on the success or failure of the Prado administration. However, the present request may be assumed to be a preliminary to further similar requests for assistance.

It would be appreciated if the Department could telegraph its observations or any alternative suggestions.

NORWEB

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823.5151/117 : Telegram

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

WASHINGTON, May 24, 1940—4 p. m.

49. Your 52, May 22, 5 p. m. You may inform the Ministers of Foreign Affairs and Finance that the situation presented to you by them is receiving the active and careful consideration of officials of this Government. Beltrán took up this question in general terms with the President of the Export-Import Bank last Saturday.

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<sup>4</sup> For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 874 ff.

<sup>5</sup> For correspondence, see pp. 1142 ff.

<sup>6</sup> Pedro Beltrán, special Peruvian commercial delegate at this time in the United States.

<sup>6a</sup> Not printed.

In order to facilitate consideration of these matters please provide the Department by telegraph with up-to-date information regarding the points listed in the Department's 66, October 31, 1939, 2 p. m.<sup>7</sup> In addition, the Department would appreciate an indication of what types of projects might be included in the long term cooperative program suggested, and an expression of your views in the whole matter.

HULL

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823.5151/119 : Telegram

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

WASHINGTON, May 31, 1940—7 p. m.

56. Your 61, May 29, 4 p. m.<sup>7a</sup> and the Department's 49, May 24, 4 p. m. Please present to the Department by June 3 your views in the whole matter of credits and a cooperative program with Peru, with special emphasis on what projects might be suitable for long run development, and on the extent of Peru's immediate need for credits to tide over the exchange situation.

The undertaking by Peru of some sort of a temporary arrangement with regard to the dollar debt would tend to place this Government on more solid ground with respect to domestic reaction within the United States, as well as in relation to arrangements already entered into with others of the American Republics. Please inform the Department as to what sort of temporary arrangement the Peruvian authorities may have had in mind in your conversation with them, and what type of arrangement you believe might be feasible.

HULL

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823.5151/120 : Telegram

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

LIMA, June 1, 1940—6 p.m.

[Received 11:26 p. m.]

64. Department's telegram No. 56, May 31, 7 p. m.

1. The credit contemplated by the Minister of Finance would be for the purpose of supplying exchange heretofore obtained from cotton exports. This credit would only help meet the situation until about the end of the year. On the basis of 1938 exports cotton furnished about 25% of foreign exchange.

2. The Government took steps to secure additional foreign exchange through an agreement on May 22 with gold producers whereby the

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<sup>7</sup> *Foreign Relations*, 1939, vol. v, p. 782.

<sup>7a</sup> Not printed.

Central Reserve Bank will purchase the annual production of gold bars amounting to about 23,000,000 soles. Payment will be made in soles and the producers will be supplied their needs in foreign exchange. Gold so acquired will remain in the hands of the bank available for foreign exchange.

3. The Government no doubt could obtain the cooperation of commercial banks in Peru for a loan in soles against the cotton but this plan would notably weaken the liquid position of the banks and would not supply the foreign exchange needed.

4. A third alternative would be the floating of an internal loan but this would not be looked upon with favor and also would fail to supply needed foreign exchange.

5. The Minister of Finance admits that a remedy is available through curtailment of imports which may be brought about by allowing the sol to seek its own level. However, he states that his objective is to maintain the present level of commercial and industrial activity and that so long as this is possible no exchange control measures would be adopted. On the other hand it is difficult to reconcile these statements with actual developments namely: The gold purchase referred to in paragraph 2 and the Minister's own statement that within the next few days 80 to 90 per cent of all foreign exchange coming into Peru is to be turned over to the Central Reserve Bank at the current rate of exchange for allocation.

6. Since my conversation with the Minister of Finance I understand through a reliable source that the Minister now is thinking in terms of a 2 to 3 million dollars credit instead of the original 5 million. Also I believe that if the Finance Minister could see how Peru's participation in the Inter-American Bank would result in some [solution?] of the exchange problem he would endeavor to find funds to meet Peru's installment.

7. On basis of the estimate mentioned in paragraph 1 cotton supplied about 60 million soles in foreign exchange. If the credit required during the next half year were based upon these figures the amount would approximate the 5 million dollars originally mentioned. However, if a credit is to be granted I should recommend that an initial amount of from 1 to 2 million be made available on a trial basis with further credits dependent upon the successful operation of any plan developed.

8. The Peruvian Government has not furnished any additional information regarding the long term cooperative program but has promised to do so. This is a matter apparently requiring long and careful study. Furthermore the question of credit and the long term credit are in the minds of the Peruvians two distinct [distinct?] projects. The former is regarded as of immediate urgency. The latter

has not yet progressed beyond the nebulous stage outlined in the memorandum of the Minister of Finance transmitted with my despatch No. 109.<sup>8</sup>

9. From statements of the Minister of Finance it is almost certain that the Peruvian Government has no intention to make even a temporary arrangement in the near future with respect to the dollar debt and Beltran has been given no instructions in the matter. The Minister declared today that not even the sum of 31½ million soles included in the current budget for use in connection with the dollar debt could be devoted to that purpose during the present emergency and added that there is no need to give serious thought to the dollar debt until Peru is able to increase its exports to the United States by an appreciable amount. In spite of these statements, if credits are to be contingent on a debt arrangement I would be willing to request the Minister to reconsider his position. However, an offer made when Peru was more prosperous was rejected by the bondholders as inadequate. Any offer that might be made now would be no better.

11. A full report is contained in despatch No. 130<sup>8</sup> going forward by airmail Monday.

NORWEB

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823.5151/123 : Telegram

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

LIMA, June 9, 1940—11 a. m.

[Received 1 p. m.]

71. The Minister of Finance is reported by an American broker to have informed a committee of the local Cotton Exchange that within 8 days he expected a credit of 40 cents per bale on the cotton now held in Peru.

Could the Department inform me if there is anything to warrant this statement.

NORWEB

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823.5151/123 : Telegram

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

WASHINGTON, June 10, 1940—7 p. m.

66. Your 71, June 9, 11 a. m. You may inform the Ministers of Foreign Affairs and Finance that in response to their request and

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<sup>8</sup> Not printed.

in view of the economic circumstances described in your reports, the Department has recommended and the Export-Import Bank has approved the extension of a credit of 2 million dollars to the Peruvian Central Bank to be used for exchange advances for imports purchased subsequent to May 1. The Federal Loan Agency expects to announce this on the morning of June 11. The President of the Export-Import Bank<sup>9</sup> intimated to Beltrán a few days ago that the credit might shortly be forthcoming.

This form of assistance was decided to be expeditious for alleviating the pressure on Peruvian exchange and a more direct method than advances against cotton or other Peruvian exports. The credit is intended as a temporary measure, with the understanding that study will be undertaken on a more comprehensive longer-term program of cooperation which would include consideration of the dollar bonded debt situation.

HULL

823.5151/128 : Telegram

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

LIMA, June 13, 1940—2 p. m.

[Received 9:30 p. m.]

77. Reference the Department's telegram No. 66, June 10, 7 p. m.

1. The Finance Minister called yesterday to express appreciation for the assistance rendered by the Export-Import Bank credit.

2. He said that due to the cooperative measures adopted between the banks, business, gold producers, and the Government, and the curbing of speculation, the exchange situation had been brought under control at least temporarily, and that in view of this favorable development it is his intention to hold in reserve for the present the \$2,000,000 credit.

3. He added that the latter would have an important psychological effect; and that now he was prepared to permit a moderate orderly decline in the sol before utilizing the credit for exchange advances for imports. The Minister expressed the hope that if it should not be so utilized, some arrangement might be made to apply the credit to the development of economic measures which would create additional exchange for its repayment.

4. Apparently the Minister now foresees the possibility that the fund may not be wholly required for the purpose for which it was originally granted and desires to use it for the development of new enterprises which he believes will be productive of export commodities which in turn will increase the volume of foreign exchange. The

<sup>9</sup> Warren Lee Pierson.



Minister particularly mentioned an increase in gold production. If he has in mind the purchase of American [products?] for these purposes it would appear that such procedure would be covered by the terms of the credit.

5. No notice of the credit has appeared in the local press nor has the Government made any announcement.

6. The Minister said that he would immediately designate the personnel to make studies of the projects he has in connection with his long term cooperative program.

7. Report of conversation going forward tomorrow by air mail despatch No. 157.<sup>10</sup>

NORWEB

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823.51/1378 : Telegram

*The Chargé in Peru (McGurk) to the Secretary of State*

LIMA, November 26, 1940—6 p. m.

[Received 8 : 19 p. m.]

184. The Ministry of Finance informed us that Beltrán is now negotiating with the Export-Import Bank for credit of \$13,000,000 to support exchange. He stated that reserves now amount to \$1,200,000 over and above the \$2,000,000 credit granted last June and that it will not be possible to maintain the sol at its present rate much longer. He said that with exports declining sharply especially since the Japanese have stopped buying cotton there was no sources of exchange likely to relieve the situation which would continue to decline and that the credit he was asking would secure the sol at its present level until the latter part of 1941.

Considering that the reserve fund now amounts to the appreciable total of \$1,200,000 over and above the \$2,000,000 credit which has not been touched no reason is seen for hasty action without reference to such a large credit. It will be recalled that his request of last June for \$5,000,000 was satisfied by a grant of \$2,000,000 at a time when circumstances were as uncertain as they are at present.

Further report by air mail.

McGURK

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823.51/1388a : Telegram

*The Secretary of State to the Chargé in Peru (McGurk)*

WASHINGTON, December 16, 1940—8 p. m.

149. The Export-Import Bank has approved the extension of a credit of \$10,000,000 to the Central Reserve Bank of Peru at 4 percent

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<sup>10</sup> Not printed.

interest and to be amortized over a 6 year period. The proceeds of the credit are to be used for general imports of United States goods, and the earlier \$2,000,000 credit is to be canceled. Details of the arrangement are being worked out with Beltrán, and no public announcement is to be made at this time.

HULL

823.51/1392

*The Chargé in Peru (McGurk) to the Secretary of State*

No. 648

LIMA, December 28, 1940.

[Received January 4, 1941.]

SIR: I have the honor to inform the Department that in one of our recent conversations, the Finance Minister took occasion to express his most sincere appreciation for the prompt and cooperative action of the United States government in extending to Peru the new Export-Import Bank credit to be used for exchange purposes. He mentioned, also, that this represents another of the numerous acts which demonstrate clearly that Pan American cooperation is actually operating.

On December 27, the Minister stated that the exchange reserve fund remains at approximately \$1,000,000 exclusive of any of the credit obtained in the United States. However, in his statements explaining the various budgetary items to the Senate on December 26, he remarked that it would not be surprising if Peru should make use of the Export-Import bank credit in the near future, in order to accomplish the object for which the credit was solicited.

Respectfully yours,

J. F. MCGURK

PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT  
BETWEEN THE UNITED STATES AND PERU<sup>11</sup>

611.2331/172: Telegram

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

WASHINGTON, May 3, 1940—6 p. m.

43. Your despatches 33 and 39, April 18 and 23.<sup>12</sup> As the Peruvian Government is aware, this Government has been desirous in recent years of concluding a trade agreement with Peru. A thorough study has been made by this Government of the possible bases of an agreement and these bases have already been explored on a number of

<sup>11</sup> Continued from *Foreign Relations*, 1939, vol. v, pp. 769-773.

<sup>12</sup> Neither printed. The Ambassador reported that the Peruvian Government was sending Señor Pedro Beltrán on a special mission to the United States primarily in connection with a trade agreement (611.2331/171, 172).

occasions, both in Washington and in Lima, with the Peruvian authorities. Unfortunately, at the time when this Government was in a relatively favorable position to proceed, the Peruvian Government was apparently reluctant to do so.

The situation today presents difficulties to the early conclusion of a trade agreement by this Government. Although there might be a certain amount of preliminary ground work that could now be covered with Beltrán, it would seem desirable to point out to him and to the Foreign Office that from our point of view the prospects for a trade agreement, particularly one involving sugar and cotton, are not encouraging at this time. If because of other duties entrusted to Mr. Beltrán the Government decides to send him to this country, it would seem desirable that publicity regarding the trade agreement phase of his mission be avoided.

WELLES:

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611.2331/175

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Commercial Treaties and Agreements*

[WASHINGTON,] May 16, 1940.

Participants: Señor Pedro Beltrán, Honorary Commercial Delegate  
of Peru  
Señor Juan Chavez, Commercial Counselor of Peruvian  
Embassy  
Mr. Hawkins, TA <sup>13</sup>  
Mr. Daniels, RA <sup>14</sup>  
Mr. Smith, TA

Señor Beltrán, who had just arrived from Lima, and Señor Chavez called by appointment to resume the preliminary conversations which had taken place in November 1939 looking toward the establishment of a basis for trade-agreement negotiations between the United States and Peru.

At Mr. Hawkin's request, Señor Beltrán reviewed economic developments in Peru during the past several months. He indicated that the situation with respect to the principal export products had been developing normally up to the present time but it was anticipated, particularly because of developments in the war situation in Europe during the last few days, that Peruvian exporters, particularly of sugar and cotton, would face considerable marketing difficulties about July.

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<sup>13</sup> Harry C. Hawkins, Chief of the Division of Commercial Treaties and Agreements.

<sup>14</sup> Paul C. Daniels, Assistant Chief of the Division of the American Republics.

Señor Beltrán stated that in view of this outlook, Peru was anxious to develop new markets to replace those in Europe which would probably be closed as a result of war developments.

Mr. Hawkins outlined the situation here over the past several months, pointing out that the trade-agreements organization had been, up until a few weeks ago, completely absorbed in the work in connection with the renewal of the Trade Agreements Act by Congress. He indicated that there were various difficulties in the way of the conclusion of a trade agreement with Peru at an early date but that the question of whether or not negotiations could be undertaken at this time was one which would have to be decided by higher authorities in the Department. Señor Beltrán stated that he was planning to be away from Washington for about ten days and he was informed that by the time he returned, it was expected that the general question of a trade agreement with Peru would have been discussed in the Department and an answer secured for the Peruvian representatives.

There was some discussion of individual commodities which might come within the scope of trade-agreement negotiations with Peru, and the Peruvian representatives were promised certain factual information in answer to questions which they had raised regarding certain of those commodities.

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611.2331/177

*Memorandum by the Chief of the Division of Commercial Treaties and Agreements (Hawkins)*

[WASHINGTON,] May 24, 1940.

I discussed with Mr. Welles today the question of going forward with trade-agreement discussions with Peru. He said that in addition to the difficulties of going ahead with negotiations which have been already indicated to Señor Beltrán, there is the extremely unsettled world situation which makes it difficult to negotiate an agreement at this time; that it is very difficult to consider concessions on any product when the price situation and other factors may be vastly different a few months hence than they are today. He said further that other means of cooperation with Peru have been suggested, and that he, personally, will look into the situation with a view to seeing what can be done along these other lines.

Mr. Welles said that I might advise Señor Beltrán in the above sense.

HARRY C. HAWKINS

611.2331/179

*Memorandum of Conversation, by the Chief of the Division of  
Commercial Treaties and Agreements (Hawkins)*

[WASHINGTON,] May 28, 1940.

Mr. Beltrán and Mr. Chavez called today to learn the result of our consideration of the possibility of going forward immediately with the discussion of the proposed trade agreement. In accordance with Mr. Welles' decision (my memorandum of May 24), I said that it seemed to us impracticable to work out a trade agreement in the immediate future; that in addition to the domestic considerations previously indicated to them, the unsettled state of trade and prices makes it difficult to work out an economic arrangement with Peru on as long a range basis as this; that we are fully cognizant of immediate economic needs of Peru and that when I discussed the matter with Mr. Welles, he had said that there were other possible means of cooperation to which he would give personal study. I said that this does not, of course, mean that the idea of a trade agreement with Peru is abandoned, but only that it is not considered feasible to go forward with it now or in the immediate future.

Mr. Beltrán indicated that he understood the situation and gave the impression that the decision for the immediate future was the one he had expected. His attitude throughout the conversation was very cordial and friendly.

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611.2331/184

*Memorandum of Conversation, by Mr. H. Gerald Smith of the Division  
of Commercial Treaties and Agreements*

[WASHINGTON,] November 15, 1940.

Participants: Señor Pedro Beltrán, Special Commercial Delegate of Peru;  
Mr. Hawkins;  
Mr. Smith.

Señor Beltrán called to renew preliminary conversations which he had held with officers of the Department several months ago regarding the possibility of concluding a trade agreement between the United States and Peru. Señor Beltrán's call was with particular reference to the difficult situation which he anticipated in Peru in the near future with respect to the balance of payments of the country and with regard to the concessions which the Government of Peru was desirous of obtaining in a trade agreement. Señor Beltrán left detailed statistical

material on the former subject, together with a revised list of the concessions in which Peru was interested.

Señor Beltrán was informed that we would study with interest the data which he had left and it was also stated that our exploratory work with regard to the general feasibility of a trade agreement was being pushed rapidly.

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611.2331/186

*Memorandum of Conversation, by Mr. H. Gerald Smith of the  
Division of Commercial Treaties and Agreements*

[WASHINGTON,] December 10, 1940.

Participants: Señor Pedro Beltrán, Special Commercial Delegate  
of Peru  
Señor Chavez, Commercial Counselor of the Peruvian  
Embassy  
Mr. Hawkins, TA  
Mr. Smith, TA

Señor Beltrán and Señor Chavez called at the Department to continue previous preliminary conversations looking to the possibility of a trade agreement between the United States and Peru. The meeting was for the chief purpose of indicating to the Peruvian gentlemen the work which was being done and the progress made in studying the possibilities of concessions on products in which the Government of Peru was interested. The work thus far done was reviewed, with particular reference to long-staple cotton and sugar and it was promised that we would get in touch again with Señor Beltrán and Señor Chavez as soon as there was further information to report.

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU FOR A NAVAL  
MISSION, SIGNED JULY 31, 1940**

[For the text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 177, or 54 Stat. (pt. 2) 2344.]

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**AGREEMENT BETWEEN THE UNITED STATES AND PERU FOR A NAVAL  
AVIATION MISSION, SIGNED JULY 31, 1940**

[For the text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 178, or 54 Stat. (pt. 2) 2355.]

## URUGUAY

### CONCERN OF THE UNITED STATES OVER NAZI ACTIVITIES IN URUGUAY; VISITS OF UNITED STATES NAVAL VESSELS TO THE EASTERN COAST OF SOUTH AMERICA

833.00N/32 : Telegram

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

MONTEVIDEO, May 15, 1940—10 a. m.

[Received 10:35 a. m.]

68. For the Secretary and Under Secretary. Since my return from Brazil 10 days ago I have noted an increase in Nazi activities here. In the face of this there is indifference and apathy on the part of Government officials and in certain cases something worse. While there is no immediate danger the situation has serious possibilities.

Report by mail follows.

WILSON

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833.00N/38½

*Memorandum by President Roosevelt to the Under Secretary of State (Welles)*

WASHINGTON, May 20, 1940.

The enclosed dispatch<sup>1</sup> worries me. Is there some way in which the Ministry of Uruguay in Washington and Mr. Wilson in Montevideo can get word to the Uruguayan Government that the United States is concerned and that it would be a pity for Pan American solidarity if reports of this kind were to get into the public press, whether they are true or not?

F[RANKLIN] D. R[OOSEVELT]

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833.00N/38½

*The Under Secretary of State (Welles) to President Roosevelt*

[WASHINGTON,] May 20, 1940.

MY DEAR MR. PRESIDENT: With reference to your memorandum of May 20 concerning Nazi activities in Uruguay, the Uruguayan Gov-

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<sup>1</sup> *Supra.*

ernment authorities, the day following the receipt of this telegram from Minister Wilson, took steps to investigate Nazi activities in Montevideo, and it is my understanding that several alien propagandists are being tried.

I am, however, talking to the Uruguayan Minister here with regard to the report and I am asking Mr. Wilson to do the same thing in Montevideo, since I think that this indication of interest on our part would probably be useful and stimulate effective action by the Uruguayan Government.

Believe me

Faithfully yours,

SUMNER WELLES

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833.00N/39 : Telegram

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

MONTEVIDEO, [May 26, 1940.]  
[Received May 27—5:45 a. m.]

84. For the Secretary and Under Secretary. Guani<sup>2</sup> asked me to call on him this noon and told me the following:

Last night he received a telegram from his Minister at Berlin<sup>2a</sup> reporting that he had been called to the Foreign Office by Weizsaecker<sup>3</sup> and informed of the receipt of advice from Montevideo that the Uruguayan Government was preparing the way to break off diplomatic relations with Germany. Guani had immediately instructed the Minister to inform the German Foreign Office that the report was wholly without foundation and that the policy of the Uruguayan Government was one of strict neutrality. Guani then told me that he had sent for the German Minister<sup>3a</sup> this morning, informed him of the report from the Uruguayan Minister at Berlin, and asked him point-blank if he had sent such advice to his Government. The German Minister replied in the negative, but went on to say that he had informed his Government concerning the searching of homes and business premises belonging to Germans in Uruguay and the rough methods employed by the police in connection with the present investigation into Nazi activities here.

Guani had replied that the searches were being made in conformity with the constitution and laws; that he knew nothing about rough methods of the police but would at once request the Minister of the Interior to see that the searches were conducted properly. He had

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<sup>2</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>2a</sup> Virgilio Sampognaro.

<sup>3</sup> Ernst, Baron von Weizsäcker, State Secretary of the German Foreign Ministry.

<sup>3a</sup> Otto Langmann.



asked the German Minister if the latter knew that the police had just found 80 automatic rifles in the house of a Nazi sympathizer in the suburbs of Montevideo. The Minister replied that the owner was a Pole, not a German.

Guani told me that he thought it possible that the German Government, aware that the investigation might result in startling disclosures, was seeking a pretext to break off relations with Uruguay, and that the German Government might soon make a formal protest against these searches.

He said that he considered that the Uruguayan Government which possesses information indicating subversive activities in the country, is justified in exercising the legal right to search premises of people suspected of such activities; and in such case the Uruguayan Government would be justified in refusing to admit the right of a foreign government to protest against such searches. He said that he would appreciate greatly knowing your opinion as soon as possible regarding these points. He also intends to inquire of the Argentine Government and the Brazilian Government.

He added that his idea was that if the German Government should make a protest, he would reply refuting their arguments and declining to receive the protest; and if they then repeated the protest the Uruguayan Government would give the German Minister his passports.

WILSON

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833.00N/39 : Telegram

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

WASHINGTON, May 27, 1940—1 p. m.

42. Your 84. It is our view that if the Uruguayan Government under its constitution and laws possesses a legal right to search the premises of persons suspected of subversive activities there would be no justification for a protest by a foreign government against such searches. It is a well-known principle of international law that foreigners must submit to the laws of the country in which they find themselves unless such laws are contrary to generally accepted international law. Inasmuch as generally accepted international law admits the right of a country, in accordance with its municipal legislation, to make such searches, there would seem to be no ground for protest.

In conveying the foregoing to Dr. Guani, please express to him our gratification regarding this further evidence of confidence of the Uruguayan Government in this Government.

HULL

833.00/6641

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

[WASHINGTON,] May 27, 1940.

The British Ambassador <sup>4</sup> called to see me this morning. The Ambassador inquired what action the United States Government would take in the event that German agents engineered a sudden *putsch* in Uruguay which would result in the overthrow of the present government and its replacement by a government sympathetic to the present German Government. The Ambassador said that his nationals and his ministers were greatly alarmed with regard to the present situation and he inquired what our feelings would be, in the event that British nationals in Montevideo were attacked by Nazi sympathizers or the agents of a new revolutionary government in Uruguay which was favorable to Germany, were the British to land some of the marines available on their cruisers in that vicinity.

I said that I would reply first to the second contingency mentioned by the Ambassador. I said I felt that any such action on the part of the British authorities would have highly prejudicial effects and that it would give rise to many serious problems with the nature of which the Ambassador of course was familiar. I stated that the situation which would arise from a German engineered revolutionary movement of the kind he mentioned would obviously create a situation which would be of the utmost gravity and of immediate concern to the United States, as well as to all of the other American Republics. I said that I assumed that a revolutionary movement of this kind, if successful, would be undertaken under the guise of a domestic movement and that the sponsors of it would allege that inasmuch as it was purely an internal question involving the Uruguayan people, any action taken by the other American Republics or by any other foreign country would constitute direct intervention in the domestic concerns of the Uruguayan people. I said that consequently this Government would undoubtedly act with the greatest circumspection and that presumably the first move would be to request immediate consultation on the part of all of the other American governments to determine what the facts might be and that if it were then clearly shown that such a revolution had been undertaken as a result of foreign instigation, together with the use of foreign monies, and that it was not in any sense responsive to purely internal politics in Uruguay, the American Republics together would undoubtedly adopt a policy which they considered would serve to isolate the danger and to prevent the independent people of Uruguay from being subjected to a government

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<sup>4</sup>The Marquess of Lothian.

directed by a foreign and non-American power. The Ambassador inquired whether by this he was to understand that this Government would view with the utmost seriousness an incident of this kind. I said that he was entirely correct in his understanding.

S[UMNER] W[ELLES]

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833.00N/41 : Telegram

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

MONTEVIDEO, May 28, 1940—noon.

[Received 12:30 p. m.]

85. Your telegram No. 42, May 27. I conveyed your views to Guani this morning who expressed appreciation. He said that yesterday he received a telegram from his Minister at Berlin reporting that he had carried out his instructions (see my telegram 84, May 26), that the German [apparent omission] expressed his gratification, said that he regarded this message as a friendly act on the part of the Uruguayan Government, and voluntarily withdrew his earlier statement to the effect that he had been informed that Uruguay was preparing to break off relations with Germany.

In view of the foregoing Guani said that he did not now expect any protest from the German Government about the searches.

I received the impression that, in view of the news from Belgium this morning, Guani was less anxious to discuss the question of Nazi activities here.

WILSON

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833.00/671 : Telegram

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

MONTEVIDEO, May 30, 1940—10 a. m.

[Received 4:16 p. m.]

88. For the Secretary and the Under Secretary. The situation is deteriorating here; the Government is well meaning but weak, undecided and confused; things are drifting; people are climbing on the Nazi band wagon; an armed movement is a possibility.

My estimate of the way thinking people here regard the situation is as follows: Unless the United States intervenes effectively and without delay in the struggle against Nazism, it must be expected that these countries—certainly Uruguay—will fall under Nazi controlled regimes. The standing aside of the United States in the face of increasing indications of a Hitler victory over Britain and France and

of the entrance of Italy into the war leads people to feel that the United States either is blind to the dangers confronting it and South America or else is too weak to give effective assistance. This encourages the pro-Nazi elements and disheartens those who still are prepared to combat them.

WILSON

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811.3310/1605½ : Telegram

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

MONTEVIDEO, May 31, 1940—noon.

[Received 8:11 p. m.]

90. For the Secretary and Under Secretary. Ambassador Armour,<sup>4a</sup> who is now here, and I are in accord in submitting the following suggestion for your consideration:

That if the situation in the Far East permits, a large United States naval force, 40 or 50 vessels, should make a visit as soon as possible to the east coast of South America. During this visit the fleet would be reviewed by the Presidents of the countries in question. At the conclusion of the visits a squadron composed of, say, a battleship, an aircraft carrier, cruisers, destroyers and submarines, would be stationed for an indefinite period in these waters.

Our thought in making this proposal is the following: (a) The Governments of these countries desire to oppose Nazism, but in some instances are inclining towards defeatism in view of German successes in Europe and of lack of confidence in the ability of the United States to give them effective assistance in case of aggression either from overseas or from subversive elements with Nazi support within their own countries. This lack of confidence has perhaps in part been due to the feeling that recent proposals for armament increases in the United States indicate that the United States will not for some time be in a position to lend effective aid; (b) a naval visit of the character described would strengthen the position of those who desire to combat Nazism, as well as restore the confidence of those who are now wavering; (c) the stationing of a squadron more or less permanently in these waters would be an added assurance that we were prepared to give effective and immediate assistance if required.

We of course do not know what the views of the Governments of these countries would be to the foregoing proposal. It would seem, however, to be in their obvious interest to agree.

WILSON

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<sup>4a</sup> Norman Armour, American Ambassador in Argentina.

833.00/671 : Telegram

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

WASHINGTON, May 31, 1940—4 p. m.

46. Your 88, May 30, 10 a. m. Please keep the Department closely informed by telegram of any developments.

By order of the President the heavy cruiser *Quincy* now off Guantanamo has been instructed to proceed immediately to Rio de Janeiro and from there directly to Montevideo for "friendly visits of courtesy". You will be informed subsequently by telegram of the date of arrival.

I think it would be well for you to consider, possibly in consultation with the appropriate members of the government, any special arrangements which could be made to give significance to the call of the *Quincy*.

HULL

811.3310/1628

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

[WASHINGTON,] May 31, 1940.

MR. WELLES: It is daily clearer that the situation in Argentina, Uruguay and Brazil is deteriorating in the sense that a successful revolution backed by the Nazis is becoming a more likely possibility.

In as much as you mentioned to me in confidence the decision of the President to detach two or three cruisers to go down the east coast, I have not mentioned this plan to anyone. May I raise for consideration the desirability, however, of that information now being made public in order to put a little iron in the veins of our friends in those countries.

Since it is not likely that those cruisers will be able to reach the east coast in the near future, may I suggest the desirability of a flight of a half-dozen Army bombers up and down the east coast. I think that this would be very helpful at this particular stage.

LAURENCE DUGGAN

811.3310/1605½

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, June 1, 1940.

MY DEAR MR. PRESIDENT: With reference to the attached telegram from our Minister in Montevideo,<sup>5</sup> I realize that the specific suggestion

<sup>5</sup> Telegram No. 90, May 31, noon, p. 1152.

made is impracticable. However, I do feel strongly that something more is required than a visit every ten days or so by one of our naval vessels. I still feel that if some way can be found by which at least three or four heavy cruisers and a reasonable number of destroyers can be kept on the East Coast this summer, the insurance value of such a step will be very great.

May I ask if it is not possible to let at least another two cruisers be sent to those waters, bringing them from Pearl Harbor for that purpose.

Believe me

Faithfully yours,

SUMNER WELLES

811.3332/91a : Telegram

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

WASHINGTON, June 1, 1940—2 p. m.

148. From the Under Secretary. Reference Department's 146, May 31, 3 p. m.<sup>6</sup> As you have no doubt surmised, it is our intention in having the U.S.S. *Quincy* make this special trip at this time to Rio de Janeiro June 12 to 17 and to Montevideo June 20 to 25 to furnish a reminder of the strength and the range of action of the armed forces of the United States. Accordingly I suggest that every effort be made to emphasize the importance of this visit to the Brazilian Government and the Brazilian people, and to this end you may care to arrange for a schedule more comprehensive than usual on such visits. Captain Wickham is receiving similar instructions from his Department and will be prepared to cooperate in every way to make the visit a success. [Welles.]

HULL

811.3310/1606½

*President Roosevelt to the Under Secretary of State (Welles)*

WASHINGTON, June 3, 1940.

Please read enclosed from Admiral Stark, sent me last night, Sunday.

Stark is absolutely right and gives in paragraph #13 the only solutions possible.

F[RANKLIN] D. R[OOSEVELT]

<sup>6</sup> Not printed.

[Annex]

*The Chief of Naval Operations (Stark) to President Roosevelt*

[WASHINGTON,] June 2, 1940.

## Memorandum for the President:

1. This memorandum contains the report requested by you in your note of yesterday, June 1st, enclosing a despatch from Mr. Wilson and a memorandum from Mr. Welles.

2. In regard to the withdrawal of any of our forces in the Pacific, that is, the weakening of the fleet in Hawaii:

(a) This might and probably will be interpreted by Japan as an indication that we do not intend to oppose her in the East Indies; in other words, the deterrent effect on Japan will be weakened.

(b) Another, and certainly not an impossible interpretation of such a move, will be that we expect the Allies to lose and are making the first of a redistribution of our naval forces to that end.

(c) In weakening our fleet in the Pacific we are to a certain extent weakening the position of the Allies in the Pacific. Our presence there, in force, undoubtedly relieves their minds of concern over Pacific affairs, which in turn strengthens their effort in Europe.

3. The barometer of Nazism in South America may go up and down as the position of Germany in Europe grows stronger or deteriorates. The absence of any show of force by the United States might encourage subversive elements. On the other hand, the presence of some of our ships may have a deterrent effect on Nazi activities or may at least encourage the Army and Navy of an affected country to remain loyal to their government.

4. Just how much of a deterrent to a flare up of Nazism in South America the presence of some of our ships will be, is highly conjectural. The days of the old fashioned landing party and bluff such as occurred when I was a midshipman in Caribbean and South American waters are over. If a test should come and our ships should take no physical action, the ultimate effect might be unfavorable.

5. I would like to point out that Mr. Wilson's idea would seem to be that sending ships to South America is for the purpose of giving "effective assistance in case of aggression either from overseas or from subversive elements with Nazi support within their own countries".

6. In regard to giving effective assistance to oppose "Subversive elements with Nazi support within these countries",

I believe it would be dangerous to make any such commitment or to create any such impression in South American countries at this time. By the Monroe Doctrine we are committed to effective assistance in the

case of aggression from overseas. It is believed that Squadron 40T (our light cruiser and two destroyers in Europe) and the *Vincennes* group en route Europe, the *Quincy* in the South Atlantic, as well as the vessels of the Atlantic Squadron in our own waters contribute to accomplishing this obligation.

7. It seems to me that interference in the internal affairs of a temperamental and suspicious people may have the opposite effect to that which is desired; it may be likened to interfering in a family quarrel.

8. The movement of a large group of ships to South America is almost certain to be accorded Mr. Wilson's interpretation, that is, one ready to oppose actively a Nazi inspired subversive movement. This may raise the old cry of imperialism and should be very carefully considered at this time. Such a move might also affect the conversations we are just now initiating with South American governments through our Army and Navy officers. Just what the effect would be is a matter of conjecture.

9. It appears then, that we must balance the probable weakening effect on stability in the Pacific against a possible strengthening of the situation in Latin America—In the last analysis our own hemisphere is of course the vital consideration.

10. Pending development immediately ahead in Europe it would seem well to hold on in the Pacific for the time being.

11. In addition to the *Quincy* now enroute to Rio de Janeiro we could send immediately one more heavy cruiser, namely the *Wichita*, Admiral Pickens' flagship. We can follow this with the *Vincennes* on completion of her present mission in Europe. The fourth ship of this division, the *Tuscaloosa*, is undergoing overhaul, and due for completion at the Navy Yard, New York on 30 June. The *Vincennes* is scheduled to go in the yard when the *Tuscaloosa* comes out, but her going to the yard could be delayed temporarily at least.

12. If the above were put into effect this would distribute our ships in the Atlantic as per attached sheet.

13. I offer the following solutions:—

- (a) Dispatch one additional 8'' cruiser to South America.
- (b) Continue destroyer shakedown cruises to South America.—
- (c) If desirable at a later date:—Reinforce the above by another heavy cruiser, and or a squadron (9DD) of destroyers.
- (d) For the present utilize ships now in the Atlantic, thus not weakening the fleet in the Pacific.

14. I have gone into the above at some length, because I want to give you my thoughts. Of course you know you have my cheerful Aye, Aye, to whatever you decide.

15. I should be glad to come and talk this over if you would like to have me.

H. R. STARK



811.3310/16063

*The Under Secretary of State (Welles) to President Roosevelt*

WASHINGTON, June 3, 1940.

MY DEAR MR. PRESIDENT: I have your memorandum of June 3, with which you were kind enough to enclose Admiral Stark's memorandum to you of June 2 commenting upon my letter to you of June 1.

I fully understand the reasons for your belief that the solutions outlined in paragraph 13 of Admiral Stark's memorandum are the only solutions possible.

I hope, however, that you will instruct the Navy Department to despatch promptly the additional 8-inch cruiser as indicated in Admiral Stark's paragraph 13; to continue the destroyer shakedown cruises; and to take steps now so that an additional heavy cruiser may be sent in any event in the near future.

As indicated in my letter to you, these steps will carry out the specific recommendations I made.

May I, however, comment upon paragraph 7 of Admiral Stark's memorandum in which he says, "It seems to me that interference in the internal affairs of a temperamental and suspicious people may have the opposite effect to that which is desired; it may be likened to interfering in a family quarrel." My own judgment, as you know, is that the real danger at this time lies in subversive movements, in those East Coast republics where German influence is very strong, financed by German money and instigated by German agents, although under the guise, so far as may be possible, of movements responsive to purely internal and domestic causes.

If a situation of this kind develops and the legitimate government is overthrown and asks for the help and support of the other American Republics, and sufficient evidence is obtained that the subversive elements are in fact responsive to Italian and German instigation, I feel very strongly indeed that the other American governments, including the United States, should at once be responsive to such request. I am sure you will agree that if we acquiesce in the creation, through the connivance of non-American powers, of governments in some of the American Republics subservient to Germany, the Monroe Doctrine would be rendered nonexistent . . .

I agree that situations of the kind I envisage would have to be handled with the utmost care and discretion.

But, if I understand Admiral Stark's paragraph 7 correctly, I cannot at all agree with his apparent recommendation that in such situations we should do nothing.

Believe me

Faithfully yours,

SUMNER WELLES

811.3332/90a : Telegram

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

WASHINGTON, June 6, 1940—5 p. m.

156. From the Under Secretary. The heavy cruiser *Wichita*, the flagship of Admiral Pickens, will sail from Norfolk tomorrow for Guantanamo and will proceed immediately to Brazilian waters. She will join the *Quincy* at sometime in the near future and will remain off the east coast of South America during the coming months.

Please telegraph me whether you think it desirable and whether the Brazilian Government would like to have the *Wichita* visit Rio de Janeiro, where she could arrive on June 18. It has occurred to me that the psychological effect would be good for the *Wichita* to arrive only 3 days after the *Quincy* is due to leave. On the other hand, I appreciate that for domestic considerations the Brazilian Government might prefer not to have an additional visit so soon after the departure of the *Quincy*. Please discuss the matter frankly with Aranha<sup>7</sup> and, in the event that he feels it preferable for the *Wichita* not to go to Rio immediately, ask him what other Brazilian ports would be appropriate points of call for the *Wichita* to visit in southern Brazil before she joins the *Quincy*. [Welles.]

HULL

811.3332/91 : Telegram

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

RIO DE JANEIRO, June 7, 1940—4 p. m.

[Received 10 : 10 p. m.]

253. For the Under Secretary. Department's 156, June 6, 5 p. m. I agree that the *Wichita* should arrive 3 days after the *Quincy* is due to leave. However it should be made very clear that the visit is entirely informal and that no entertaining of any kind is expected.

CAFFERY

833.00N/53 : Telegram

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

RIO DE JANEIRO, June 7, 1940—7 p. m.

[Received 10 : 25 p. m.]

254. Aranha tells me that in accord with the Uruguayan Government, Brazilian troops are being sent in the direction of the Uruguayan

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<sup>7</sup> Oswaldo Aranha, Brazilian Minister for Foreign Affairs.

frontier and a million rounds of ammunition are being turned over to the Uruguayan Government, having in mind the possibility of a Nazi inspired movement in Uruguay.

CAFFERY

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811.3310/1641 : Telegram

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

MONTEVIDEO, June 14, 1940—10 a. m.

[Received 2:06 p. m.]

109. Your 46, May 31, 4 p. m., last paragraph. In connection with the visit of the U.S.S. *Quincy*, Guani plans to give a large luncheon on Saturday, June 22, to which he would invite officers of the ship, members of the Government, the presidents of the Senate and of the Chamber et cetera, and the chiefs of mission of the American Republics. He proposes that he and I make speeches of particular significance on that occasion. He is consulting with the President regarding what he should say.

My thought would be that I should say something along the line of reviewing the steps taken in recent years at Inter-American conferences to achieve American solidarity, with emphasis upon the Declaration of Lima<sup>s</sup> and reaffirmation of the intention of the United States to defend with the other American States [against?] any foreign intervention or activity threatening the sovereignty of the American Republics. [Considering?] the significance which will be attached to a speech on such an occasion under present world conditions, I request the Department to prepare and telegraph to me the text of the substantive portion of the speech, to which I would add a customary introduction and conclusion. I should appreciate receiving the text by June 18 if possible in order to discuss it with Guani.

WILSON

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811.3310/1641 : Telegram

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

WASHINGTON, June 15, 1940—7 p. m.

60. Your 109, June 14, 10 a. m. I concur with your suggestions regarding the tenor of your proposed address. In reviewing the steps taken at recent conferences, it is believed that you might find it a suitable occasion to refer to Resolution 28 of the Lima Conference relating

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<sup>s</sup> See Department of State, *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), pp. 189-190.

to the political activities of foreigners. After referring to the Meeting of the Foreign Ministers at Panama,<sup>9</sup> and the striking example it afforded of inter-American solidarity, you may wish to include a paragraph along the following lines:

"The striking advances made by the American Republics in the attainment of this ideal of inter-American solidarity must not be endangered through carelessness or laxity. In confronting the dangers which threaten us all, we can work more effectively if we work together. For over one hundred years, the American Republics have happily been able to maintain themselves free from the threat of foreign aggression. They oppose all intervention in their internal or external affairs. They are earnestly desirous of preserving the liberty for which they fought in the early days of their independence. Today these liberties are gravely menaced. We of the Americas must accordingly reaffirm our strong determination to defend ourselves against any intervention coming from abroad, and to protect ourselves against poorly concealed activities which threaten our very sovereignty. I am authorized to state that it is the intention and avowed policy of my Government to cooperate fully whenever such cooperation is desired, with all of the other American governments, in crushing all activities which arise from non-American sources and which imperil our political and economic freedom. Here in the Americas we have abundant resources and abundant man power to cope with the task. We are proud of the free and independent spirit of our virile peoples; we are confident of our power to meet and repel any attack."

While you are authorized to insert the foregoing in your proposed address, you may make any modifications in it which you deem desirable. Please forward a copy of the address as delivered.<sup>10</sup>

HULL

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833.00N/62 : Telegram

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

MONTEVIDEO, June 18, 1940—4 p. m.

[Received 6 : 15 p. m.]

114. Referring to my telegram No. 108, June 13th.<sup>11</sup> At least eight Nazi leaders have been arrested. Yesterday afternoon Chamber of Deputies in secret session began consideration of the report of the Parliamentary Commission investigating Nazi activities.

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<sup>9</sup> See *Foreign Relations*, 1939, vol. v, pp. 15 ff.

<sup>10</sup> The address was delivered at an official luncheon in honor of Captain Wickham of the U. S. S. *Quincy*, at Montevideo, June 23, 1940. See Department of State *Bulletin*, July 20, 1940, p. 35.

<sup>11</sup> Not printed.

There is a strong undercurrent here of nervousness and unrest. The apparent defeat of France has been a shock to public opinion, and the rumors and reports concerning sensational discoveries relating to Nazi activities in the country have aroused great indignation. Tomorrow is a national holiday, the anniversary of the birth of Artigas.<sup>12</sup> Patriotic demonstrations are being organized for the day, and it would not be surprising if anti-Nazi disturbances took place.

Arrangements are being made, particularly by the opposition liberal groups, to stage large demonstrations in connection with the arrival of the *Quincy* on the 20th and during the ship's visit. It is possible, despite the efforts of the authorities and ourselves, that incidents may grow out of these demonstrations.

WILSON

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811.3335/91a : Telegram

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

WASHINGTON, June 19, 1940—noon.

114. From the Under Secretary. Following her visit to Rio de Janeiro on June 26 it is proposed to send the USS *Wichita* to Montevideo for a 5-day visit. Please telegraph me if you think it advisable that the *Wichita* should, after the termination of her stay in Montevideo, visit some Argentine port, and if so the number of days this visit should comprise. [Welles.]

HULL

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811.3332/97a : Telegram

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

WASHINGTON, June 19, 1940—noon.

175. From the Under Secretary. Following the termination of her visit to Rio de Janeiro on June 26, it is proposed to send the U. S. S. *Wichita* to Montevideo for a brief visit, and possibly to some port in Argentina. However, if you think it advisable, I am prepared to recommend to the Navy Department that the *Wichita* stop for brief visits in other ports in Brazil on her way north. Will you cable me what ports you think the *Wichita* should visit, together with the suggested length of stay in such ports? [Welles.]

HULL

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<sup>12</sup> José Artigas, leader of Uruguayan independence movement; generally regarded as the Liberator of Uruguay.

811.3332/98 : Telegram

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

RIO DE JANEIRO, June 20, 1940—5 p. m.

[Received June 20—4:51 p. m.]

294. For Under Secretary. Department's telegram No. 175, June 19, noon. I suggest a 3-day informal visit to Recife.

CAFFERY

811.3310/1642 : Telegram

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

MONTEVIDEO, June 22, 1940—10 a. m.

[Received 10:30 a. m.]

121. My 109, June 14, 10 a. m. The Minister for Foreign Affairs' luncheon is tomorrow instead of today. In the remarks which I shall then make I will include textually the section transmitted in your 60 June 15.

WILSON

811.3310/1650½

*Memorandum of Telephone Conversation, by Mr. Selden Chapin, Liaison Officer in the Office of the Under Secretary of State*

[WASHINGTON,] June 22, 1940.

As no reply had been received this morning to our telegram to the Ambassador at Buenos Aires requesting suggestions as to a visit by the *Wichita*, and in view of the necessity of determining a schedule of movements for the two heavy cruisers now in the South Atlantic so as to keep them within easy steaming distance of Montevideo, I called Mr. Armour on the telephone to ask him whether he thought a visit by the *Wichita* to Buenos Aires or to Bahia Blanca—Puerto Belgrano would be agreeable to the Argentine Government.

Mr. Armour stated that he had had the question very much in mind and had deferred replying until he had a further opportunity of speaking with Captain Spears, who returned from Montevideo this morning. While the conversation was naturally guarded, he indicated that he was doubtful of the advisability of a visit by a heavy cruiser to Argentina at this time, but said he would sound out the situation and endeavor to send a telegram today or, at the latest, tomorrow. He intimated further that the presence of the two heavy cruisers in Brazilian and Uruguayan ports had already been seized

upon by certain elements in Argentina to circulate rumors with regard to the designs of the United States, and that the motives of this Government might be further twisted in the event of a visit by these ships to Argentine ports. He said that of course the visit of the new destroyer *O'Brien*, now in Buenos Aires, which had been arranged for some weeks ago, was an entirely different thing and perfectly correct.

He said that the matter was difficult, particularly as the Minister to whom he would have to apply for the permission, presumably the Minister of Marine, held certain rather strong political views. I told him that the Department fully appreciated the situation and thanked him for his information, and would certainly not suggest sending any ships to Argentine ports unless we heard later from him that the visits would be advisable.

Mr. Armour said that the Department would be interested to learn that last night Dr. Cantilo<sup>13</sup> gave out to the press the substance of our note with regard to the conference.<sup>14</sup> The Foreign Minister had informed the press that Argentina had accepted the invitation to the conference in principle but had stipulated that there was to be no general discussion as to the future of the "Malvina" (Falkland) Islands, and that the Argentine Government, before commenting further, was naturally awaiting receipt of the proposed agenda of the conference.

SULDEN CHAFIN

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811.3332/97b : Telegram

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

WASHINGTON, June 22, 1940—2 p. m.

179. From the Under Secretary. In our opinion it is advisable that the U. S. S. *Quincy* and the U. S. S. *Wichita* remain within 3 days' easy steaming distance of Montevideo. Mr. Armour has indicated that a visit to an Argentine port might be undesirable at this time. Accordingly, after consultation with the Navy Department a schedule of visits to Brazilian ports and to Montevideo has been drawn up which it is hoped will be satisfactory.

If you perceive no objection you should request permission from the appropriate Brazilian authorities for the U. S. S. *Quincy* on the termination of her visit in Montevideo June 25 to visit Santos June 28 to July 3, Rio de Janeiro July 5 to July 10, and Rio Grande do Sul July 13 to 18.

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<sup>13</sup> José María Cantilo, Argentine Minister for Foreign Affairs.

<sup>14</sup> See circular telegram of June 17, 10 a. m., to the Chiefs of Diplomatic Missions in the American Republics, p. 180.

You should also request permission for the U. S. S. *Wichita* upon completion of her visit in Rio de Janeiro about June 27 to visit Rio Grande do Sul July 1 to 5 and Santos July 15 to 19. The *Wichita* will visit Montevideo in the interim between her visits to Rio Grande do Sul and Santos.

Please expedite reply. [Welles.]

HULL

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811.3332/99 : Telegram

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

RIO DE JANEIRO, June 24, 1940—3 p. m.

[Received June 24—2: 35 p. m.]

305. For the Under Secretary. Department's 179, June 22, 2 p. m. I have been told very confidentially that President Vargas in private conversation has expressed concern over the recent frequent visits to Brazilian ports and especially to Rio de Janeiro of United States naval vessels. However, as I assume that the situation at Montevideo justifies it I will go ahead with these visits.

CAFFERY

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833.00N/69 : Telegram

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

RIO DE JANEIRO, June 25, 1940—3 p. m.

[Received 3: 37 p. m.]

306. My 273, July [June] 13, 2 p. m.<sup>16</sup> Aranha tells me that the Brazilian military authorities are letting Uruguay have all the arms, et cetera, they ask for: 20,000 rifles, 10,000,000 rounds of ammunition, 500 machine guns, artillery, hand grenades, gas masks. They promise to pay later.

Repeated to Montevideo.

CAFFERY

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811.3332/102 : Telegram

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

RIO DE JANEIRO, July 17, 1940—noon.

[Received 12: 55 p. m.]

357. My 324, July 3, 1 p. m.<sup>16</sup> Notwithstanding my telegram No. 305, June 24, 3 p. m., I am prepared to continue requests for permission for American warships to visit Brazilian ports.

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<sup>16</sup> Not printed.



Naval Attaché this Embassy must arrange docking and other facilities for definite length of time or times. I would appreciate information as to future plans U. S. S. *Quincy* and *Wichita*.

CAFFERY

811.3310/1670a

*The Acting Secretary of State to President Roosevelt*

WASHINGTON, July 19, 1940.

MY DEAR MR. PRESIDENT: I have read with a great deal of interest the letter which you sent to me with your memorandum of July 16<sup>17</sup> and which I am returning herewith.

There is no doubt that Jim Miller of the United Press has long experience with and is an acute observer of inter-American affairs. I fully agree with his point of view that it would have been better for this Government to send a more imposing naval force to the South Atlantic than the two cruisers which are now there. As you know, I urgently recommended that a larger force be sent but after you had gone into the matter very fully with Admiral Stark, you reached the conclusion that this was the best we could do under present conditions. If and when the fleet is withdrawn from Hawaii, I still hope it may be possible to send a squadron down the east coast—not for a protracted stay but solely for a visit of demonstration.

As you know, the confidential conversations between our military and naval officers and representatives of the armies and navies of the other American Republics have been singularly satisfactory and staff conversations are to commence the first week in August. In the long run these clear understandings between the military and naval establishments of the United States and the other American Republics will be more productive than mere demonstrations of naval strength.

Believe me

Faithfully yours,

[SUMNER WELLES]

811.3332/102: Telegram

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

WASHINGTON, July 19, 1940—1 p. m.

218. Your 357, July 17, noon. It is proposed to have the U. S. S. *Quincy* and U. S. S. *Wichita* remain in Rio de Janeiro until July 25 in order that they may pick up their mail. Since their continued

<sup>17</sup> Not found in Department files.

presence in the South Atlantic seems desirable and since Mr. Wilson recommends a return visit to Montevideo sometime in the third week in August, the following schedule of visits to ports north of Rio has been worked out, which it is hoped will be satisfactory. Leave Rio July 25, arrive Bahia July 31, depart Bahia August 5, arrive Pernambuco August 9, depart Pernambuco August 13, arrive Montevideo August 23.

Unless you perceive objection, you are requested to ascertain whether the visits to Brazilian ports in this latest schedule is agreeable to the Brazilian authorities.

Please expedite reply.

WELLES

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811.3332/103 : Telegram

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

RIO DE JANEIRO, July 20, 1940—noon.

[Received July 20—11:20 a. m.]

362. Department's 218, July 19, 1 p. m. Embassy informed orally by Ministry of Marine that visits as scheduled are agreeable.

CAFFERY

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**FINANCIAL ASSISTANCE BY THE UNITED STATES TO URUGUAY**

833.51/900 : Telegram

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

MONTEVIDEO, May 26, 1940—6 p. m.

[Received 9 p. m.]

83. My telegram No. 80, May 25.<sup>18</sup> Guani<sup>19</sup> today asked me to transmit the text of the following memorandum, prepared by the Minister of Finance,<sup>19a</sup> to my Government with the request for a reply at the earliest possible moment:

"1. Whether the Government of the United States is in these moments considering the possibility that long term credits might be granted to the American countries to acquire material destined for national defense?

2. If in the affirmative: (a) Within what period of time is it believed that such credits could be placed at the disposition of the interested countries? (b) If Uruguay should immediately acquire such material, making use of a short term credit granted by the Export-

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<sup>18</sup> *Ante*, p. 162.

<sup>19</sup> Alberto Guani, Uruguayan Minister for Foreign Affairs.

<sup>19a</sup> César Charlone.

Import Bank, could Uruguay later close out this operation making use of a long term credit, in order not to diminish its dollar resources needed for the purchase of general merchandise imports from the United States?"

WILSON

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833.51/900 : Telegram

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

WASHINGTON, June 1, 1940—4 p. m.

50. Your telegram no. 83, May 26, 6 p. m. Under existing legislation the Export-Import Bank is prohibited from making loans "for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition or implements of war by the President in accordance with the Neutrality Act of 1939".<sup>20</sup> If Guani presses you for a reply, it will therefore be necessary for you to inform him that under existing law the facilities of the Export-Import Bank could not be utilized. However, for your confidential information, the question of the policy that should be pursued by this Government in connection with the desire of certain of the other American governments to increase their armament for defense purposes<sup>21</sup> is being taken up with the President. You will be informed immediately if there should be any change in policy decided upon.

The joint resolution introduced at the instance of the Department last year "to authorize the Secretaries of War and Navy to assist the governments of the American Republics to increase their military and naval establishments and for other purposes" has recently gone to the President for signature;<sup>22</sup> it is limited however to "coast defense and anti-aircraft matériel and ammunition therefor" and naval vessels and armament therefor. No credit transactions are authorized thereunder.

HULL

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833.51/902 : Telegram

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

MONTEVIDEO, June 3, 1940—11 a. m.

[Received 12:32 p. m.]

93. Your 50, June 1, 4 p. m. I cannot delay replying to Guani beyond 2 or 3 days more, since the Government is awaiting our reply

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<sup>20</sup> 54 Stat. 4.

<sup>21</sup> For correspondence on this subject, see pp. 1 ff.

<sup>22</sup> Approved June 15, 1940; 54 Stat. 396.

to their memorandum before drafting a message to submit to the Legislature concerning necessary increases in armament.

I therefore propose to inform him as follows: "The general question is still under consideration and it is impossible at present to indicate when conclusions may be reached" and then go on to give him the information contained in your telegram regarding the Export-Import Bank and the joint resolution now before the President for signature.

Please telegraph if the foregoing meets with the Department's approval.

WILSON

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833.51/902 : Telegram

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

WASHINGTON, June 3, 1940—7 p. m.

53. Your 93, June 3, 11 a. m. Suggested statement contained in your telegram under acknowledgment is approved.

HULL

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833.51/906 : Telegram

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

MONTEVIDEO, June 11, 1940—11 a. m.

[Received 12:12 p. m.]

104. My 93, June 3, and Department's 53, same date. I informed Guani on June 5 in the sense indicated. This morning the press carries the text of a message and bill sent by the President to the Legislature yesterday requesting authorization to expend 7,600,000 pesos as a first step in acquiring military equipment such as artillery, anti-aircraft guns, automatic rifles and airplanes. These purchases would be financed by the issue in either pesos or foreign currency of 5-year national defense bonds bearing not more than 5% interest.

WILSON

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611.3331/353 : Telegram

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

MONTEVIDEO, June 17, 1940—10 p. m.

[Received June 18—10:05 a. m.]

113. For the Secretary and Under Secretary. It seems unreal for us to urge Uruguay to stand up against the spread of Nazism and to

promise military assistance for the maintenance of her political independence unless we are at the same time prepared to promise effective assistance for the maintenance of her economic independence. The country must sell its products somewhere. In 1938 Germany and the small buffer states now under German domination bought 35% of Uruguay's exports, Italy bought over 4%, France purchased over 7%, and Great Britain 26%. In other words (if Britain goes the way of France) about 72% of Uruguay's total exports were purchased by Germany or countries which will have since come under German domination. If Uruguay is unable to dispose of these products to other countries, then in order to continue selling to the countries listed above Uruguay will be forced to become economically dependent upon Germany, which obviously implies political dependence as well.

If we hope to keep Uruguay from falling under Nazi control we must face the problem realistically and be prepared to purchase for at least several years most of Uruguay's export products heretofore purchased by Germany and by countries at present dominated by Germany.

Incidentally, Uruguayan meat and wool could well be used for relief purposes.

WILSON

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611.3331/354: Telegram

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

MONTEVIDEO, June 20, 1940—4 p. m.

[Received 6:35 p. m.]

118. Reference my 113, June 17, Guani spoke to me yesterday at considerable length on this subject, stating that it was essential that the question of economic assistance for Uruguay be considered without delay. Several business leaders have spoken to me in the same sense during the past few days.

Uruguay has not yet felt the pinch of closed European markets but will feel it before long.

German commercial agents here are offering deliveries of goods for next October. The Uruguayans feel that while this may be propaganda, it is also a threat that unless Uruguay falls in line, Germany will close the markets of Europe to her.

WILSON

611.3331/354 : Telegram

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

WASHINGTON, June 22, 1940—6 p. m.

65. Your 113, June 17, and 118, June 20, 4 p. m. You are referred to the statement made yesterday by the President<sup>23</sup> (Radio Bulletin No. 148). The Department has given careful consideration of the situation described in your telegrams, and views the Uruguayan position as an integral part of the whole hemisphere picture. This Government is planning to send at once to Argentina an important official to discuss with the Argentine authorities the entire program announced by the President as well as Argentina's particular financial and economic problems.<sup>24</sup> Such official will visit Montevideo and you will be informed as soon as definite arrangements have been made.

HULL

833.51/922 : Telegram

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

WASHINGTON, August 12, 1940—3 p. m.

97. Your 181, August 10, 10 a. m.<sup>25</sup> Legislation now before the Congress for the amplification of the operations of the Export-Import Bank would permit the Bank to extend credits in connection with the purchase of armaments by the other American republics. The bill has already been reported favorably by the Senate Banking and Currency Committee, and is now in hearings in the House. Mr. Jesse Jones,<sup>26</sup> in his testimony has made it clear that modest credits for these purposes would be made. If such legislation is enacted<sup>27</sup> the Department and the Export-Import Bank will be prepared to consider any request of the Uruguayan Government for credits for armament purposes. The Uruguayan Minister in Washington is fully acquainted with the Department's attitude in the matter.

WELLES

<sup>23</sup> Department of State *Bulletin*, June 22, 1940, p. 675; for correspondence on inter-American economic cooperation, see pp. 353 ff.

<sup>24</sup> See pp. 460 ff.

<sup>25</sup> Not printed.

<sup>26</sup> Administrator, Federal Loan Agency.

<sup>27</sup> Approved September 26, 1940; 54 Stat. 961.

833.24/55

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

[WASHINGTON,] September 27, 1940.

The Minister<sup>28</sup> called to say that he wished to consult me with regard to the procedure that he should follow to secure an Export-Import Bank credit of \$5,000,000 for the purchase of armament.

I informed the Minister that the first step was for his Government to furnish this Government with a statement of its armament needs. I suggested that this be done in connection with the forthcoming discussions between Colonel Christian and Captain Brereton<sup>29</sup> which are scheduled to take place in Montevideo in about ten days. Upon receipt of this statement, War and Navy authorities in Washington will consider it in connection with the requests from the other nineteen countries. On the basis of the findings a recommendation will then be made to the Export-Import Bank as to the credits necessary to permit the purchase in the United States of the armament which our authorities believe can advisedly be secured in this country.

The Minister thanked me for this information and stated that he would send a telegram urging his Government to be prepared to furnish a statement of its needs to our officers when they reach Montevideo.

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833.51/957c

*The Under Secretary of State (Welles) to the Uruguayan Minister (Richling)*

WASHINGTON, December 9, 1940.

MY DEAR MR. MINISTER: During the recent visit to Uruguay of Mr. Warren Lee Pierson, president of the Export-Import Bank, he was informed by the Minister of Finance that the Uruguayan Government desired to obtain a loan of \$5,000,000 in order to purchase material for national defense. I understand that you also consulted the officials of the Export-Import Bank with regard to this matter.

This Government will be glad to discuss with the Uruguayan Government the question of credits for defense material. In this connection the military authorities are now formulating a policy to govern

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<sup>28</sup> José Richling.

<sup>29</sup> Lt. Col. R. L. Christian, United States Army, and Capt. W. D. Brereton, United States Navy, representatives of the War and Navy Departments, respectively, in proposed staff conversations.

the procurement of military supplies in the United States by the other American republics and to deal with each request that will be received. It is planned to draw up in each instance a program showing details of estimated delivery schedules and costs in order to permit suitable financial arrangements to be made for each country. The prior preparation of such programs appears to be essential to a proper determination of the amounts to be loaned and the periods of time which such credits should cover.

In this connection I wish to call your attention to requests for material already submitted by your Government, the cost of which would exceed the suggested loan of \$5,000,000. Therefore, it would seem to be in the interests of the Governments of Uruguay and the United States that the determination of the amount of credit should await the completion of the above-mentioned program for Uruguay.

At the request of the War Department I enclose for the information of your Government a unit price list<sup>30</sup> prepared by that Department of the material comprised in the list submitted by your Government in September to the Minister of the United States at Montevideo. I should appreciate, however, if you would be good enough to make it clear to your Government that the transmission of this price list should not be construed as meaning that the materials indicated therein are immediately available for sale at that price.

Believe me,

Sincerely yours,

SUMNER WELLES

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833.51/937 : Telegram

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

MONTEVIDEO, December 12, 1940—11 a. m.

[Received 11:22 a. m.]

301. The newspapers carry a press item from Washington dated yesterday to the effect that Jesse Jones announced that the Export-Import Bank had granted "a loan of \$7,500,000 to Uruguay". The President of the Bank of the Republic<sup>31</sup> has telephoned me to inquire if I have any information regarding this report. He states that he has received no word from the Export-Import Bank subsequent to the message conveyed in the Department's telegram No. 143, November 16, 3 p. m.<sup>32</sup>

Please telegraph me whether this announcement refers to a credit of \$7,500,000 granted to the Government of Uruguay as requested in

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<sup>30</sup> Not attached to file copy of this letter.

<sup>31</sup> Vicente Costa.

<sup>32</sup> Not printed.



Charlone's<sup>33</sup> memorandum of October 1 (my despatch No. 598, October 2<sup>34</sup>), or whether it is an increase to \$7,500,000 of the credit in favor of the Bank of the Republic mentioned in the Department's telegram 143.<sup>34</sup>

The President of the Bank of the Republic evidently has been expecting to receive the text of the "formal agreement" mentioned in the Department's telegram under reference.

WILSON

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833.51/937 : Telegram

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

WASHINGTON, December 12, 1940—8 p. m.

159. Your 301, December 12, 11 a. m. The Export-Import Bank on Monday approved the extension of the credit of \$5,000,000 to the Bank of the Republic mentioned in the Department's no. 143, November 16, 3 p. m.,<sup>34</sup> and in addition a credit of \$2,500,000 to be expended by the Uruguayan Government in individual projects subject to the specific approval of the Export-Import Bank. The Bank is discussing the terms of these arrangements with the Uruguayan Minister, and has suggested that the \$2,500,000 loan be made to the Bank of the Republic with the Government's guarantee. Both credits will be amortized over a period of 6 years.

The Department has brought to the attention of the Export-Import Bank the considerations which you have raised regarding equipment for the Rio Negro hydrographic project, and the Bank will be guided by them in granting its approval to specific projects.

HULL

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833.51/939 : Telegram

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

MONTEVIDEO, December 13, 1940—5 p. m.

[Received 5:25 p. m.]

304. Your 159, December 12, 8 p. m. I have advised both Costa and Charlone of the information regarding the credits.

Charlone was disappointed that no approval has yet been given to the request for \$5,000,000 for national defense. He asked that Pierson be informed that he attaches vastly more importance to the credit for

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<sup>33</sup> César Charlone, Uruguayan Minister of Finance.

<sup>34</sup> Not printed.

this purpose (for as long term as possible) than to the other credits and that he hopes affirmative action on this request will be taken soon. I should appreciate receiving any information available in this connection.

WILSON

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833.51/939 : Telegram

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

WASHINGTON, December 18, 1940—11 p. m.

164. Your 304, December 13, 5 p. m. You are requested to inform the Minister of Finance that this Government will be glad to discuss with the Uruguayan Government the question of credits for defense material, but before determining on a definite figure this Government would appreciate if the Uruguayan authorities would submit a definite request for material as outlined in Department's 158, December 9, 8 p. m.<sup>35</sup> This request will receive immediate consideration in the light of existing manufacturing facilities and requests which have been received from other countries with a view to determining dates of delivery of material and suitable financial arrangements.

In this connection requests for material already received from Uruguay exceed the suggested loan of 5 million dollars. Therefore it would appear advisable in the interest of both countries to follow the above-mentioned procedure in order to determine the final amount and terms of credit.

The foregoing information was communicated to the Uruguayan Minister on December 12.

HULL

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833.6463/45

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

No. 192

WASHINGTON, December 18, 1940.

SIR: The Department has received your despatch no. 672, November 19, 1940<sup>35</sup> with regard to the possible utilization of American equipment or financial assistance to complete at least a portion of the work on the Rio Negro Hydroelectric Project.

The Department is in agreement with the various considerations advanced in your despatch and feels that all necessary precautions

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<sup>35</sup> Not printed.

should be taken to see that the German firm which has contracted for this work is not enabled to complete it through American assistance. This consideration will be borne in mind in connection with any request for financial aid which might be utilized for this purpose. You are authorized, in your discretion, to discuss this matter informally with the Foreign Minister.

On December 9, 1940 the Executive Committee of the Export-Import Bank agreed in principle to extend a credit of \$5,000,000 to the Uruguayan Bank of the Republic for exchange purposes and an additional credit of \$2,500,000 in connection with the Uruguayan Government's request for assistance in public works projects. The Department's position with regard to the possible utilization of this \$2,500,000 credit by the German syndicate constructing the Rio Negro project was brought to the attention of the Executive Committee of the Bank and the considerations advanced at that time will guide the Bank in making allocations from this credit.

Very truly yours,

For the Secretary of State:  
SUMNER WELLES

## VENEZUELA

### REQUEST BY VENEZUELAN GOVERNMENT FOR AN INCREASE IN THE PURCHASES OF VENEZUELAN PRODUCTS BY THE UNITED STATES

611.3131/668

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

No. 429

CARACAS, August 1, 1940.

[Received August 6.]

SIR: I have the honor to inform the Department that a few days ago the Minister for Foreign Affairs<sup>1</sup> in the course of a conversation touching other subjects referred to what he termed "the excessively unfavorable trade balance between the United States and Venezuela". He added that he was sending me two notes on this subject. These notes have now been received, and one, with its enclosure, is transmitted herewith in copy and translation. The other, which opens up again the old question of obtaining a reduction on the duty on meat destined for Puerto Rico, is made the subject of a separate despatch.<sup>2</sup> For the time being the Embassy has merely informed the Minister for Foreign Affairs that these notes have been forwarded to the Department.

The Embassy is checking the figures presented by the Foreign Office to support its claim as to the trade situation between the two countries. It would appear desirable to have an accurate estimate as to the international balance of payments between Venezuela and the United States and any information which the Department can supply on this subject would be most useful. It will be highly desirable also to have an expression of the Department's views or suggestions on the question raised by the Venezuelan note should the Embassy be actively pressed on this matter by the Foreign Office.

Respectfully yours,

FRANK P. CORRIGAN

[Enclosure—Translation]

*The Venezuelan Minister for Foreign Affairs (Gil Borges) to the  
American Ambassador (Corrigan)*

CARACAS, July 25, 1940.

MR. AMBASSADOR: For the information of Your Excellency and Your Excellency's Government I have the honor to transmit herewith

<sup>1</sup> Estebán Gil Borges.

<sup>2</sup> Despatch No. 430, August 1, not printed.

a report<sup>3</sup> prepared by the Bureau of Foreign Trade of this Department on trade between the United States of Venezuela and the United States of America.

The analysis which is made in that report suggests the need for considering as soon as possible the measures which may contribute to increasing the exportation of articles of Venezuelan origin and precedence to the United States of America.

While European markets were open to our exports the situation described in the attached report presented no urgent characteristics. With those markets closed it is natural to think that the country which sells the most to ours has the greatest interest in conserving this market by increasing its purchases of our national products.

I avail myself [etc.]

E. GIL BORGES

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611.3131/668

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

No. 179

WASHINGTON, September 4, 1940.

SIR: Reference is made to your despatch no. 429 of August 1, 1940 enclosing a note and memorandum from the Minister of Foreign Affairs regarding the balance of trade between the United States and Venezuela.

There is enclosed the text of a note in reply which the Embassy may in its discretion hand to the Minister of Foreign Affairs.

With respect to the Embassy's request for information regarding the balance of payments between the United States and Venezuela, there is enclosed some information on this subject.<sup>3</sup> The sheets enclosed have been extracted from a preliminary copy of one of a series of comprehensive studies on Latin American trade and commercial policy recently prepared by the Tariff Commission. It is anticipated that the Embassy will in due course receive a complete set of these documents. In connection with the enclosed material, the qualifications appearing in the text as to the adequacy of the figures given in the table, should be noted.

Very truly yours,

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

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<sup>3</sup> Not printed.

[Enclosure]

*Draft of Note to the Venezuelan Minister for Foreign Affairs  
(Gil Borges)*<sup>4</sup>

EXCELLENCY: In reply to Your Excellency's note of July 25, 1940, with its enclosure, I have the honor to inform you that I have been requested by my Government to state that the careful consideration which it merits has been given to that communication. With respect thereto my Government wishes to offer the following comments.

My Government realizes that during the last three years the normal excess of merchandise imports into the United States from Venezuela over exports to Venezuela has shifted to an export balance. Under normal conditions of international trade, as the Government of Venezuela is aware, such a situation is not unusual and need cause no concern to the nation with the import balance provided there is freedom to dispose of the proceeds of exports to countries in the trade with which an export balance exists. It has been the objective of the commercial policy of my Government in recent years, through trade agreements such as that concluded between Venezuela and the United States,<sup>5</sup> and otherwise, to create and maintain such freedom of international commerce as will permit the liquidation of trade balances by triangular methods rather than attempting to achieve approximate balances between the exports and imports of individual nations. Developments arising out of the pursuit of policies of extreme nationalism and trade bilateralism by certain countries even before the outbreak of hostilities in Europe, in addition to the trade problems resulting from the war have, it is realized, made it increasingly difficult to conduct international commerce upon a normal or sound basis. My Government is fully cognizant of the difficulties faced by Venezuela and other American Republics similarly affected by this situation. In this connection the trade agreement between the United States and Venezuela has been and is helping in some measure to ameliorate the difficulties referred to by Your Excellency in that more favorable marketing opportunities in the United States have been afforded to petroleum and other Venezuelan products. The volume of direct and indirect imports of petroleum from Venezuela into the United States has shown considerable increase during the period of the agreement and such imports have, of course, been subject to only one-half the rate of import tax previously levied.

The program of economic measures suggested by my Government at the recent meeting in Habana of the Foreign Ministers of the

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<sup>4</sup> Delivered to the Venezuelan Government without textual alterations, September 16, 1940.

<sup>5</sup> Signed at Caracas, November 6, 1939; for text, see Department of State Executive Agreement Series No. 180, or 54 Stat. (pt. 2) 2375.

American Republics was specifically directed toward the solution of such problems as those referred to in Your Excellency's note. Every energy is being devoted, in the discussions now being held in Washington by the Inter-American Financial and Economic Advisory Committee, toward developing cooperative action to solve those problems and it is the earnest hope of my Government that remedial measures may be adopted in the near future. In this connection my Government will at all times welcome and give most sympathetic consideration to specific proposals which may be advanced by the Government of Venezuela.

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





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