plates the use, occupation and control by the United States of the Canal Zone for the purpose of the maintenance, operation, sanitation and protection of the Canal."

As may be seen, the paragraph transcribed expresses the understanding that the Canal having already been constructed, the provisions of the Canal treaty contemplate the use, occupation and control of the Zone "for the purpose of the maintenance, operation, sanitation and protection of the Canal". As the term "construction" has not been used either in this paragraph nor in the following one, my Government has deduced from this clear language that it was evident and agreed upon that the provisions of the 1903 treaty do not and cannot contemplate the construction of a canal which has already been constructed.

My Government believes, further, that the United States Government stated more than twelve years ago that the construction period of the Canal has already passed and that such period came to an end with the formal opening of the Canal.

Indeed, when the abrogation of the Taft Agreement was effected, that was the precise reason given to justify that step, namely, that the construction of the Canal had already come to an end.

In a cablegram which the Secretary of War, Mr. Taft, addressed to the Secretary of State, Mr. Hay, reporting the arrangements concluded at Panama, Mr. Taft said:

"The order (executive) is of course revokable at will and its operations can be suspended by Panama by refusal to continue compliance with any of its conditions, but I believe from conference that, adopted, it will continue satisfactory basis of relations between parties until opening of canal." (Cablegram of December 2, 1904).

In the official communique given to the press on the 7th day of September, 1922, the Department of State, with reference to the Taft Agreement, expressed itself, as follows:

"By this Agreement the United States waived temporarily, during the period of construction of the Canal, the exercise of certain rights granted under the Hay-Bunau-Varilla Treaty of 1903".

In a note addressed to the President of the United States on the first day of September, 1922, the Acting Secretary of State, Mr. Phillips, said, with reference to the Taft Agreement:

"After discussions with the officials of the Panaman Government a temporary agreement was formulated to serve as a modus operandi during the period of the construction of the Canal".

And he added further on:

"The Taft Agreement was intended as a temporary arrangement to cover the period of construction of the Canal. As such it has served its purpose, since the Canal has for some time been formally open to commerce."

Lastly, the Executive Order issued by President Coolidge on the 28th of May, 1924, in declaring the Taft Agreement abrogated, states the following in its third "whereas":

". . . the purpose of the agreement in question has passed with the formal opening of the canal, and the agreement no longer provides an adequate basis for the adjustment of questions arising out of the relations between the Canal Zone authorities and the Government of Panama, and should be replaced by a more permanent agreement."

The same Executive Order, in referring to the Taft Agreement in its second "whereas" calls it an "agreement reached between the Secretary of War and officials of the Panama Government to serve as a modus operandi during the construction of the canal."

The Department expresses the view that when it was said in the joint declaration that the Canal is already constructed the statement was made "in the obvious sense that the principal stage of construction has been completed and that the Canal is now open to use", but it is considered, nevertheless, that "in a project as vast as that of the Panama Canal, there will probably be required from time to time expansion of Canal facilities, including additional construction, in order to insure adequate water supply and adequate facilities for expected increase in traffic. Obviously, the exact extent of such future expansion cannot be foreseen at the present time."

The memorandum states, for these considerations, that the Government of the United States is unable to renounce any of the rights granted to it by Article II of the Treaty of 1903.

The Government of Panama deeply regrets that it cannot agree with this interpretation of Article II, just referred to, because of the foregoing considerations and the considerations set forth below which support its point of view on the matter.

When the Treaty of November 18, 1903, was concluded, the question had not yet been settled as to what type of maritime channel—a sea-level canal or a lock canal—the United States would construct and of course the possibility was foreseen that a lock canal might be constructed which would require the creation of artificial lakes, the area of which would necessarily have to extend beyond the strip ten miles wide, the use, occupation and control of which were granted for the canal proper. Therefore, Article II of the treaty provided in the second sentence of its first paragraph, as follows:

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"The Republic of Panama further grants to the United States in perpetuity the use, occupation and control of any other lands and waters outside of the zone above described which may be necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said Canal or of any auxiliary canals or other works necessary and convenient for the construction, maintenance, operation, sanitation and protection of the said enterprise."

By virtue of that provision the Government of the United States acquired, without any additional compensation for the Panamanian Government, during the construction period of the canal, the use, occupation and control of the following areas situated outside of the Canal Zone:

1. The lands necessary for the creation of the Gatún Lake up to the level of 87 feet above sea level;
2. The lands necessary for the elevation of the said lake to the level of 100 feet above sea level;
3. The lands adjacent to the former pueblo of Chagres and known by the name of Fuerte San Lorenzo;
4. The lands of Paitilla at the northern end of the Bay of Panama facing the capital of the Republic and adjacent to its perimeter with an area of fifty hectares;
5. The Island of Largo Remo in Bay Las Minas to an extent of 220 hectares;
6. An area of 14.95 hectares on the Island of Taboga;
7. The land necessary for the formation of Lake Alhajuela by means of the construction of the Madden Dam, in an area of 22 square miles and up to the contour line of 263 feet above sea level.

If a glance is cast on the map of the Canal Zone it will be easily seen that all the waters that flow toward the Canal have already been made use of and continue to be made use of for feeding the locks and that the lakes of Gatún and Miresfrees receive the waters from the various rivers, small rivers, arroyos and other streams forming the river systems of the Gatún, Siricito, Agua Suci, Siri Grande, Trinidad, Tripones, Caño Quebrado, Pescado, Paja, Bailamonos, Man- dinga, Cocoli, Cárdenas and Caimitillo Rivers; of the Chagres River, with its principal tributaries, the Chilibre, the Chilibrillo, the Indio, the Pequeño, the Gatuncoillo and in short all the other streams found on the various slopes that descend toward the Canal. The Chagres River not only feeds Gatún Lake but also the Lake of Alhajuela, formed by means of the Madden Dam, at a level higher than that of Gatún Lake. It seems evident, therefore, that there is no longer any system or utilisable stream of water for the Canal that has not already been utilized and which is not being utilized and neither is there any area of land that could be utilized for the formation of other artificial lakes, inasmuch as the three now in existence receive and store all the waters that flow over the slopes running toward the Canal basin.
It must be taken into account, furthermore, that the supply of water for the locks has as a basis today a level in Gatún Lake of eighty-seven feet above sea level and that the Republic of Panama has granted to the United States the use, occupation and control of the lands necessary for the elevation of the waters of the said Gatún Lake to the height of one hundred feet above sea level. This elevation, combined with the storage of water in the Lake of Alhajuela is sufficiently above the requirements of the Canal not merely with the two sets of locks now in existence but also with a third set of locks that may be constructed and put in use in the future for a traffic four or five times greater than that which at present exists.

When the possible enlargement of the facilities of the Canal has been spoken of the reference has always been specifically to the construction of additional locks, which signifies constructions that must be made within the Canal Zone and not outside of it. "As the Canal throughout its length of fifty miles,"—General Harry Burgess, Governor of the Canal, has said—"has a channel sufficiently wide for ships to be able to pass each other, no limitation whatever so far as concerns the channel of the Canal need be considered. The limiting factor lies in the locks." Accordingly, the only thing that can be needed outside the Canal Zone is the use and the supply of water which, as has been explained, has already been granted, accepted and utilized. By the land and water utilized for such object, the Canal traffic is rendered secure not only in its present capacity but in the capacity to which it may attain in all the period up to the year 2000.

This is shown by the extremely conservative technical calculations made by the eminent engineer General Harry Burgess, Governor of the Panama Canal until the middle of 1932. From a study published by him in the magazine The Military Engineer, of September–October, 1929, we take the following passages:

"The combined supply from the two lakes (Gatún and Alhajuela) would be, in a dry season like that of 1920, 49,000,000,000 cubic feet. For an impounding of water at the height of 240 feet, the combined supply would amount to 53,000,000,000 cubic feet" . . . "Supposing Lake Alhajuela to have an elevation of 230 feet, the supply of water would be sufficient for fifty-six daily transits through the locks and if the elevation of the dam were 240 feet, the supply of water would be sufficient for sixty daily transits. It is apparent, therefore, that when the Alhajuela project is finished, the provision of water for the Canal will be sufficient to operate the three sets of locks to the limit of their practical capacity." *

*The above is a faithful translation from the Spanish, but without benefit of comparison with the original English text, which is not available at this moment.—Tr[anslator] FGH [Footnote in the file translation.]
The value of these figures may be estimated when the two following facts are considered: (1) That the Alhajuela reservoir has been given an ordinary elevation of 240 feet above mean sea level and a maximum elevation of 263 feet above the same level; (Report of the Governor of the Canal for 1931, page 30) and (2) that the average number of transits through the Gatún locks during the year 1928 was 16.7 daily. The average for the fiscal year ending June 30, 1933, was 12.0 for the same locks and in the preceding fiscal years it was 17.23 in 1929, 16.81 for 1930, 15.26 in 1931 and 12.06 in 1932.

"During the last five fiscal years"—General Burgess continues to explain in his above cited study—"the average number of tons (Panama Canal measurement) per transit is 5,000 . . . Twenty-seven daily transits at the rate of 5,000 tons per transit give an annual traffic of 49,000,000 tons (Panama Canal measurement) and at 6,400 tons per transit, an annual traffic of 63,000,000 tons by the same measurement. It may be affirmed with assurance that the present capacity of the Canal is from 60 to 65 million tons [per year], as measured by the Panama Canal."

Attention is again called to the significance of these figures on the present capacity of the Canal, when it is taken into account that the highest annual traffic that the Canal has ever had since its opening was in the year 1929, when the number of tons transported reached the figure of 30,663,006. In the following years the annual traffic was 30,030,232 tons in 1930; 25,082,800 in 1931; 19,807,998 in 1932 and 18,177,728 in 1933.

At the end of General Burgess' work are found the following observations:

"A careful study made in 1927 by the then Governor of the Panama Canal (General Walker) of the statistics of Suez and Panama and the increase in world trade, led him to the conclusion that the probable increase in the traffic through the Panama Canal will be some 7,000,000 tons (tonnage measurement of the Panama Canal) per decade. It seems a well-founded prediction to estimate the increase in traffic at not more than 10,000,000 tons per decade and to affirm that the third set of locks will be needed within possibly thirty or thirty-five years" . . . "It is risky to use the predicted increase of 10,000,000 tons per year [decade?] for an indefinite time in the future but as the ultimate capacity of the Canal is [over] 112,000,000 tons per year, it appears entirely safe to say that the Canal can meet all the demands of commerce until the end of the present century."

The foregoing views, supported by the very high authority of their eminent author, permit the affirmation without fear of falling into error, that the construction of the Canal has already terminated, not only for the needs of the present moment but even for those that may
exist in as distant a future as it is given to the present generation to foresee. This authority beyond suspicion has shown that there does not exist in a reasonable and foreseeable future any possibility of extension of the Canal facilities involving a necessity for new land and water outside the Zone.

Panama considers, therefore, that there is no reason justifying the retention of an indeterminate, indefinite, unlimited and eternal clause, the retention of which affects its national prestige; which is a latent subject of alarm for all the citizens and inhabitants of the Republic who see following it the specter of sudden and unnecessary expropriations, and which therefore constitutes an obstacle to the free economic development of the country.

My Government cannot believe that the additional lands clause had the scope or purpose of creating a kind of international eminent domain of perpetual duration, but merely the purpose of granting in an indeterminate form a right, the extension of which could only be determined when the execution of the work which would permit us to know, as we now know, the factor unknown in 1903, of the lands and waters necessary for the construction and operation of a lock Canal. Interpreted in that manner, the clause would come to form a kind of capitis diminutio of the national sovereignty, which would not permit the Republic of Panama to esteem itself the real sovereign of its territory, the latter being subject to an unlimited and unrestricted encumbrance which would affect its whole area, from one border to the other.

What in 1903 was possible of explanation, in 1934 can have no justification. Panama’s sacrifices on behalf of the work on the Canal must have some limit. It could agree to the very burdensome and exceptional concessions which were imposed in 1903 by the force of insuperable circumstances. But Panama cannot agree to the perpetuation of a clause that inflicts upon it moral and material damage, without giving the United States any real equivalent benefit, because it retains the right to require that which there is no longer any need to require.

In view of the foregoing considerations, the Government of Panama hopes that the enlightened Government of the United States will see fit to reconsider what was stated in the memorandum of October 30, last, in the sense that there may be included in the new treaty that is contemplated, a clause containing in substance the declaration and agreement suggested in the draft article that the undersigned Minister had the honor to submit to the Department on September 22 last.

WASHINGTON, November 8, 1934.
The Panamanian Legation to the Department of State

[Translation]

MEMORANDUM

Under date of September 22 last, the Legation of Panama had the honor to propose to the Department of State that in the treaty which the governments of Panama and the United States intend to conclude for the purpose of regulating the relations created by the construction of the interoceanic canal, a clause be inserted which would stipulate in substance the following:

"The United States agrees that Panamanian citizens shall be eligible to positions on the Panama Canal or with the Panama Railway Company, both in the class of the so-called 'gold roll' and in those of the so-called 'silver roll' on a footing of equality with American citizens, in regard to pay, promotions, vacations, retirement, protection against accidents in line of duty, and other facilities and guarantees granted to employees in their capacity as such; that preference shall be given to Panamanian citizens over foreigners in positions of the said classes and in cases of reduction in personnel."

With regard to the eligibility of Panamanian citizens to "gold roll" positions and "silver roll" positions on the Panama Canal and with the Railroad Company and with respect to the present status of Panamanian citizens who now hold those positions, the situation is that specified by the following paragraphs:

1. **Eligibility of Panamanian Citizens to Positions on the Canal and the Railroad**

   There is at present no restriction on account of nationality in regard to eligibility to positions on the silver roll. Eligibility of Panamanians to positions on the gold roll is established by Executive Orders of December 23, 1908, February 2, 1914, February 20, 1920, and February [September] 14, 1927.\(^5\) (See also Paragraph 4, 1 Personnel Regulations. The Panama Canal).

2. **Pay**

   There are at present no differences with respect to pay by reason of nationality (*Ibid. 32.1 et seq.*).

3. **Promotions**

   United States citizens shall have preference as to promotions, over Panamanians and foreigners even though the latter have been longer in the service. (Personnel Regulations, Par. 10.1).

\(^5\) Executive Orders Relating to The Panama Canal (March 8, 1904, to December 31, 1921), Annotated 1921 (Mount Hope, Canal Zone, 1922), pp. 86, 158-161, 266; and Supplement No. 14, p. 410.
4. Vacations

All American employees shall be entitled to vacations, whatever their pay and class may be, Panamanian and foreign employees shall be entitled thereto when they draw wages or salaries of more than $80 a month ($960 a year) or of 40 cents (centavos) an hour. (Executive Order of February 20, 1920—Personnel Regulations, Par. 49 et seq.).

5. Retirement

Only employees of the Canal (not of the Railway) who are American citizens shall be entitled to retirement. (Federal Retirement Act of July 3, 1926.\textsuperscript{21} Personnel Regulations, Par. 61.1). The pension plan of the Railway Company, established on January 1, 1924, is also restricted to citizens of the United States holding permanent positions paying $600.00 per annum or more. The pension fund of the Railroad shall be established by withholding from employees 2 percent of their pay (Ibid. Par. 62.1, 62.3).

6. Protection Against Accidents in Line of Duty

There shall be no difference by reason of nationality in regard to protection against accidents in line of duty. All employees shall be protected by the provisions of the United States Employees' Compensation Act of September 7, 1916.\textsuperscript{22} (Personnel Regulations, Par. 56.1 et seq.)

7. General Conditions as to Employment

There shall be no difference between employees by reason of nationality with regard to general employment conditions not included in the paragraphs enumerated above, such as lodging, commissary privileges, medical and hospital treatment, passes, special rates, etc. An exception is made in the transportation to the United States, of American citizens who have completed three years' service, which shall be paid by the Canal up to the amount of $40.00 (Article 15, Executive Order of February 2, 1914).

8. Reduction of Personnel

The preference of Panamanians over foreigners in case of reduction of personnel is established by Executive Orders of 1908, 1914, 1920, and 1927, enumerated in Paragraph 1. The standards for releasing employees in case of reduction of personnel are as follows: nationality, efficiency, preference in favor of veterans and seniority. By reason of nationality, preference is given to American citizens over Panamanians, unless the latter are more efficient. (Personnel Regulations, Par. 16.1 a.) Preference between American citizens is determined by the veteran's status (Ibid. a) and it is determined by seniority, other conditions being equal (Ibid. d).

\textsuperscript{21} 44 Stat. 904.
\textsuperscript{22} 39 Stat. 742.
From the foregoing data it may be noted that at present there is no restriction on the ground of nationality with reference to eligibility, pay, protection against accidents in line of duty, and general working conditions.

There are differences as to promotions, vacations for the employees on the silver roll, retirement and reduction of personnel.

As to retirement, a situation exists concerning which the Governor of the Canal Zone says the following in his report for the year 1932, after stating the conditions under which the retirement of the American employees is effected:

"Foreign Employees:

"The Panama Canal is still without arrangements enabling it to give due assistance to its foreign employees who, by reason of advanced age or other physical incapacity, can no longer perform their duties properly and must be separated from the working personnel.

"To such employees of the Railway Company pensions varying from $7 to $30 a month are given, but there is no authority for doing the same for the employees of the Panama Canal. The only thing that can be done for them at present is to offer them quarters in the Corozal Hospital, where there are no accommodations for their families, or to keep them on the pay roll at reduced wages, at pay varying from $15 to $35 a month, in order that they may do such work as they can. It would be much better to pension them once for all and thus permit them to be separated from the active work of the Canal.

"In order to obtain some relief, the sum of $10,000 was included in the 1933 estimates, for the payment in cash of remunerations not exceeding $30 per month to incapacitated foreign employees, under the rules that the President may issue. This was rejected by the Bureau of the Budget, because it constituted new legislation. It is hoped that a separate bill on the matter will be introduced. The need for aid in this regard is urgent, not only as a question of humane treatment of the employees who have reached an advanced age, but also as a measure of efficiency in the work.

"The cost of assistance to these employees, on the basis of an average pension of $20 per month, has been estimated by the Bureau of Efficiency as $12,000 for the first year, with a gradual increase up to a maximum of $121,000 per annum for the twentieth year and each of the following years." (Annual Report of the Governor of the Panama Canal, 1933, p. 82).

With reference to this proposed legislation, the same Governor, in his report for the year ending June 30, 1933, expressed himself as follows:

"This cost is not high, considering the number of employees affected, and the assistance that is recommended is considered not only humane but as one more step in the direction of the efficient working of the Canal, through the elimination of those who are already incapacitated for service and because each of those who are on the active labor roll
may thus be obliged to perform in a normal way the daily work which he does.” (Annual Report of the Governor of the Panama Canal, 1933, p. 81).

In the same report for 1933, the Governor, referring again to the problem in question, says the following, under the heading “Foreign Employees of Advanced Age”:

“The foreign employees of the Panama Railway Company who are no longer capable of rendering efficient service in any post are removed from the pay roll and are given a lump sum, plus travel expenses to their homes, or a small annuity. Since June 1, 1928, lump sums of from $25 to $500 have been paid to 14 of those employees, and to 134 employees, pensions of from $7 to $25 a month were granted. Of the 134 employees pensioned, 17 had died by the end of the fiscal year of 1933 and one pension was cancelled, 116 thus remaining on the pension roll at the end of the year. The average of the payments made up to that time was $12.94 per month.

“The foregoing applies solely to the foreign employees of the Panama Railway [who are] 28 of advanced age. There is no provision for the payment of pensions to foreign employees of the Panama Canal [who are] 29 of advanced age. To aid a little in the settlement of that problem, arrangements have been made to give lodging to foreign employees of advanced age at the Corozal Insane Asylum, but few employees wish to stay there, and in any event the facilities available do not permit of lodging a considerable number of employees, some of whom have one or more persons dependent on them. Besides, the per capita costs of lodging granted in this way is higher than the sum that it would cost to grant a small pension and permit the employee to live his normal life among the people of his race.

“The remedy for this situation lies in Congress’ voting the necessary items.” (Ibid. page 78).

As can be seen from the preceding quotations, the Canal Administration itself agrees that, with respect to retirement pay, there should be a plan which provides it not only for the Panamanian citizens employed on the Canal, but also for all foreign employees. The Panamanian proposal therefore is based on justice, humanity and also the benefits to the work of the Canal.

With respect to the establishment of the same conditions for American and Panamanian citizens with respect to promotions and vacations, it may be observed that, aside from the fact that it appears indicated by the spirit of justice and the feeling of solidarity that inspired the Executive Order of December 23, 1908, and the subsequent orders, the establishment of such equality would not actually make any great difference, because of the very small number of Panamanian employees of the Canal.

In the book recently published by Professor Marshall E. Dimock, Special Commissioner of the Secretary of War in the Canal Zone,

28 Brackets appear in the file translation.
entitled *Government Operated Enterprises in the Panama Canal Zone*, the following is stated:

“In January, 1934, there were 11,526 employees on the Panama Canal and the Panama Railroad Company on the Isthmus, and of them 2,853 were American citizens, while 8,673 were foreigners. The foreign employees are, as has been said, in the majority, natives of the British Antilles, coming from Jamaica or Barbados. Comparatively few of the foreign employees are from Panama or other countries of Central and South America.”

The number of the Panamanian employees on the gold roll at present is, according to data submitted to the Government of the Republic, so low that it will not even amount to a hundred. There cannot, therefore, be any reason whatever for refusing to these employees, the majority of whom earn small salaries, the same rights and facilities as are granted to American citizens in the matters in which inequalities exist today.

With respect to employees on the silver roll and the laborers, the total number on June 21, 1933, was 9,575. The Legation does not have exact numerical data regarding the number of such employees who were Panamanian citizens, but according to data for the year 1932, the situation was as follows:

On the silver roll the total number of employees was . . 9,120
Of these only . . . . . . . . . . . . . . . . . . . . . . . . . 1,948

were Panamanians, that is, the proportion was hardly 20 percent, or, of every five employees or workers on the silver roll, who, as has been said, are almost all West Indians, only one is a Panamanian.

This want of proportion has, apparently, not undergone any noticeable change. The Panamanian Commission considers that the most elementary sense of justice requires that after the great sacrifices made by Panama for the work of the Canal, Panamanian citizens may be able to obtain a larger proportion of the benefits furnished by the opportunity to work on the Canal works; and it would therefore be very desirable that by establishing firmly and effectively the preference of Panamanian citizens over foreigners with respect to eligibility, promotion and reduction of force, the distressing situation which Panamanian artisans and day workers are now experiencing with respect to the work offered by the Canal and the Railway may be corrected.

A very clear idea of this situation is given by the following words of the Governor of the Canal Zone, in his report for the year 1932:

“The Canal Zone and the adjoining cities of Panamá and Colón, in Panama, face a condition of permanent unemployment. The construction of the Canal occasioned the coming of thousands of West Indians, as well as numerous Europeans and Orientals. Upon the completion of the construction work, the United States offered re-
patriation to all discharged employees, or former employees. Many did not accept repatriation and many who went home returned later to the Isthmus. For a time increased business in Panama absorbed many of them, but business has slumped sharply, throwing many out of work. Meanwhile the termination of the highways from the capital to the interior has resulted in a movement from the country to the city rather than from the city to the land. A further factor has been the natural growth of population in a prolific people, without control and without the losses from disease which occurred prior to the era of American sanitation. Similarly, but to a less extent numerically, the American population in the Canal Zone has increased, and many young men and women of the Canal families are approaching maturity without employment. The search for work is sharp and there is an increasing competition between Americans and aliens for work that may be performed almost equally well by either.

"This situation has become acute with the general slump in business, the falling off in Canal traffic and related activities and the diminished appropriations for new construction and replacements. It is not practicable to care for any number of these people by allowing them to settle on land in the Canal Zone. Many could not make a living for the moment, and the increases of malarial infection that have resulted in the Canal towns from the presence of these settlers have led us to the decision to license no more settlers. The most obvious form of relief is an increase in public works."

Although the situation is perhaps not as acute today as two years ago, it continues to be bad enough so that the Panamanian Commission, in view of the foregoing considerations, most strongly urges upon the American negotiators the favorable consideration of the clause of the new treaty through which they hope to improve the condition of the Panamanian citizens who work or are qualified to work for the Canal or for the Railways.

WASHINGTON, December 1, 1934.

711.1928/2974

The Chief of the Division of Latin American Affairs (Wilson) to the Assistant Secretary of State (Welles)

[WASHINGTON,] December 4, 1934.

Mr. Welles: Herewith the memorandum from Alfaro,54 to which he referred yesterday, concerning the draft article proposed by Panama regarding the employment of Panamanians by the Panama Canal and the Panama Railroad Company. The memorandum notes that at present there is no difference in treatment on the ground of nationality with reference to eligibility, pay, protection against accident in line of duty, and general working conditions. It points out, however,

54 Supra,
the difference in treatment on the ground of nationality with respect to promotions, vacations for the employees on the silver roll, retirement and reduction of personnel; on this latter point, however, it might be noted that existing executive orders provide for preference of Panamanians over foreigners in case of such reduction.

At such time in our discussions with the Panamanian Commissioners as you find it desirable to explain to them the reasons why we are unable to accept their draft article on this subject, I suggest that you might inform them of our interest in the question and willingness to take up with the War Department the Panamanian desiderata and to cooperate with a view to improving the conditions of employment of Panamanians in so far as this may appear feasible. Specifically, we could cooperate with the War Department in supporting legislation for the payment of old age pensions to foreign employees of the Panama Canal.

EDWIN C. WILSON

711.1928/312

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

No. 543

PANAMA, December 27, 1934.

[Received January 7, 1935.]

Sir: I have the honor to report that at an informal interview had today with the Secretary of Foreign Relations he voluntarily spoke regarding the progress of the treaty.

He stated that conversations were continuing on more or less minor matters in Washington, but that the objection made by the Panamanian Government as to the provisions of Article II of the Treaty of 1903 being inserted into the new treaty seemed to be meeting with obstacles. He said that Panama felt it had already complied with that provision of the treaty and that it was no longer necessary to incorporate it in any new treaty and that that was holding up further progress. That the same question had been raised by Mr. Louis Anderson, an international lawyer of Costa Rica, in connection with the boundary matter upon the ground that since the United States could take over any land which it might require in defense of the Canal, that under those conditions Costa Rica could not accept any land from the Republic of Panama in the settlement of its boundary dispute as it was not free to dispose of any land, which was at all times subject to be requisitioned by the United States Government. For this reason, the boundary conversations with Costa Rica had come to a sudden termination instead of, as expected, being adjusted and settled. Under the circumstances the Foreign Secretary stated that unless the United States was willing, particularly in time of peace, to
refrain from taking over any further land of the Republic of Panama that that in itself would prevent the negotiation of a new treaty.

Further, that as a condition for the construction of the trans-isthmian road, the United States had suggested that it be permitted to erect along said road any and all fortifications and gun emplacements which it deemed necessary and that, regardless of the fact that Panama was anxious to build this road, it could not be considered if it was to be a military area, particularly that portion of the road located within the territory of Panama. Furthermore, the Secretary stated, that the conditions as to construction of this road were so severe in character that it would necessitate a $3,000,000. investment on the part of Panama which it could not afford and, in conclusion, since the main benefit of this road would enure to the United States and not to the Panamanian people, that if such provisions were to be insisted upon, Panama would abandon the idea of constructing the trans-isthmian road.

He further stated in conclusion that if the United States insisted on its right to take over further property of Panama that he presumed that the ultimate conclusion would be to withdraw the commission and continue under the old treaty until such time as other arrangements might be made. He informed me further that regarding the Madden Dam road, that it has been tentatively agreed that the Republic of Panama would turn over to the United States the jurisdiction thereof in exchange for permission to build the trans-isthmian road but that the conditions above mentioned made that impossible.

He further stated that in connection with the matter of radio, that regardless of the fact of whether the United States made a radio agreement or not the Panamanian Government intended to proceed with radio broadcasting under its recent laws, and the Madrid Convention 25 which it had signed, as well as the United States.

It is quite apparent, insofar as the Panamanian Government is concerned, that they do not seem to be willing to grant any rights to the United States, whether they relate to the maintenance, operation and/or defense of the Canal or not, and that their sole theory is based upon the fact that it has already turned over to the United States all the land and waters which the United States required for the defense of the Canal.

I inquired from him as to what was the objection of Panama for the United States having whatever land was necessary for the proper defense of the Canal, and his reply was that without any limitation being made the people of Panama were of the opinion that under an unlimited provision as to further acquisition of land the United

States might be able some day to extend its jurisdiction even to the Costa Rican border.

This afternoon I interviewed the President for the purpose of inquiring from him whether or not in his opinion he believed that a treaty which might be agreed upon in Washington and presented to the National Assembly could be passed. He stated that in his selection of Dr. López and Dr. Garay he had two views in mind, one, to obtain a representative of the Chiarista Party by the appointment of Dr. López and, secondly, from the Panamanian Society of International Action in the person of Dr. Garay, and that if they agreed in Washington to terms for a new treaty that he was positive that the Assembly would ratify it. On the other hand, he stated that there had been some delay caused in the conversations in Washington, first, owing to the fact that Dr. Garay had been ill and then Mr. Edwin Wilson having become ill, as well as the Christmas holidays, all of which had slowed up conversations.

However, the question of incorporating in the new treaty the provisions contained in Article II of the Treaty of 1903 was objectionable, and that unless the Government of the United States would be willing to eliminate that provision, Panama would be unable to continue conversations as to any new treaty; that as yet his Government had not received definite advice on this question from the State Department. His commissioners in Washington had written for further instructions as to whether or not they should remain any longer in Washington, and he had advised them that they should remain until the end of January before returning.

This information seems to be in accord with what is heretofore reported as to the conversation with the Secretary of Foreign Relations.

The President then stated that in addition to the objection on the part of his Government, to the subject matter of Article II of the treaty of 1903, that Louis Anderson, international lawyer in Costa Rica, was making much to do over the question of whether or not Panama was able to cede any land to Costa Rica in the boundary dispute, because the United States, under Article II, would be able to follow the land and claim it, which the President stated was of course an exaggerated view but, however, had been made authentic enough in Costa Rica to bring about the secession [cessation?] of all further conversation regarding the determination of the boundary.

I inquired of the President as to his opinion concerning the pending banking bill. He stated that it was his understanding that when the original bill was presented to Mr. Mannel José Diez, of the Chase National Bank, that he made no objection to it, but that he, the President, understood that the amendments which had since been made by
the Assembly had changed the complexion of the bill; that the bill was coming up today for second debate in the National Assembly and for further amendments and that he as yet was not familiar with the context of the bill.

In speaking of the free port bill, the President stated that he intended to circularize the advantages of that bill among the exporters of the United States through the medium of his consuls, since he believed that sufficient advantages would be found for exporters under it and he wanted to have them fully advised through the medium of his consuls, who would be supplied with copies of the bill.

He also stated, in referring to the Blandin rubber contract, that he believed that contract would not only be beneficial to his people, since it would give rise to employment and to a product of exportation, but also to the Goodyear Tire and Rubber Company who, in time of war, would have a plantation accessible to the United States for its needs and that he was ready to re-execute the contract as amended just as soon as a representative of the Goodyear Tire and Rubber Company would come to Panama.

Respectfully submitted,

ANTONIO C. GONZALEZ

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OBJECTIONS BY PANAMA TO RECEIVING PAYMENT OF THE PANAMA CANAL ANNUITY IN DEVALUED DOLLARS

711.1928/217]

Memorandum by the Chief of the Division of Latin American Affairs (Wilson)

[WASHINGTON,] January 17, 1934.

Dr. Alfaro, Minister of Panama, came in. He said that he had instructions from President Arias to inquire regarding the payment of the Canal annuity "in gold coin of the United States," as provided in the 1903 Treaty. In this connection President Arias desired him to refer to the conversation which President Arias had with President Roosevelt on this subject. President Arias stated that the first night at the White House he had mentioned the matter and had asked that payment be made on a gold basis. At this point Dr. Alfaro read me a letter he had received from President Arias in which the latter stated that President Roosevelt had answered, in effect, that there would be no question of making the payment on a good [gold?] basis, because it was an obligation of an international character.

26 Signed at Washington, November 18, 1903, Foreign Relations, 1904, p. 543.
27 For correspondence concerning the visit of the President of Panama to the United States in October 1933, see ibid., 1933, vol. v, pp. 852 ff.
Dr. Alfaro then said that he recalled that President Arias had mentioned to him, the day following the afore-mentioned conversation, that President Roosevelt had added something to the effect that he wanted the benefit of the gold payment to accrue to Panama and not "to the bankers." Dr. Alfaro stated that under the terms of the trust agreement for the 1923 loan and subsequent instructions issued by the Government of Panama, the Canal annuity of $250,000 was paid over by the United States Government to Mr. William Nelson Cromwell as Fiscal Agent of the Republic of Panama, for application against the service of the loan. Dr. Alfaro said that it was his understanding that all of the $250,000 was not required for the service of the 1923 loan, since the revenue from the Constitutional Fund of six million dollars was also pledged to the service of this loan. The 1928 loan, now in partial default, had a second lien on the Canal annuity and the income from the Constitutional Fund, as well as having certain specific revenues pledged in its favor.

Dr. Alfaro said that it was the intention of the Republic of Panama to deposit with Mr. Cromwell, as heretofore, the $250,000 in legal tender money, in accordance with the Republic's obligations; however, Panama desired that the additional amount, representing the difference between the annuity in "legal tender" and on a gold basis should be made available directly to Panama.

I told Dr. Alfaro that I had not known before that this matter had been discussed between the two Presidents. I said that we would at once give consideration to it and would advise him later.

EDWIN C. WILSON

711.1928/2142

The Chief of the Division of Latin American Affairs (Wilson) to the Assistant Secretary of State (Welles)

[WASHINGTON,] January 25, 1934.

Dear Mr. Welles: I attach memorandum of my conversation with Dr. Alfaro, Minister of Panama, on January 17, 1934. In brief, Dr. Alfaro requested, under instructions from President Arias, that the Canal annuity of $250,000, due to be paid on February 26, 1934, should be paid on a gold basis. Dr. Alfaro read me a letter he had received from President Arias, in which the latter stated that he had discussed the matter with President Roosevelt when the two Presidents conferred in Washington in October, last, and that President Roosevelt had agreed that the payment should be made on a gold basis because it was an obligation of an international character. Dr. Alfaro then raised a second point, namely, that if payment is made on a gold basis,
only the sum of $250,000 legal tender money should be paid over by the United States Government to Mr. William Nelson Cromwell, as Fiscal Agent of the Republic of Panama, and the balance representing the difference between the annuity on a legal tender basis and on a gold basis should be paid direct to the Republic of Panama for its own uses.

I also attach a memorandum 29 regarding the situation of Panama's foreign debt, and the provisions of the pertinent loan contracts, et cetera.

Briefly, my views regarding the Panamanian request are as follows:

Article 14 of the 1903 Treaty provides that the annuity shall be paid in gold coin of the United States. It appears, from papers attached hereto, that on November 10, 1933, we wrote the Secretary of the Treasury 30 requesting that arrangements be made for payment at the Mint par rate of exchange of certain international obligations of the United States payable abroad in gold currency. The Treasury took the matter up with the President, who approved the request. The principle applicable to the Panamanian case, therefore, seems to have been settled.

The second point, however, raised by the Panamanian request, that the "velvet" represented by the amount in gold in excess of the legal tender value should accrue directly to Panama, cannot, I believe, be decided favorably. On June 8, 1923, the Panamanian Minister addressed a letter to the Secretary of State 31 advising of arrangements for the issuance of the 1923 bonds; stating that the Republic had irrevocably conferred exclusive authority upon William Nelson Cromwell, as Fiscal Agent of the Republic, to receive payment for a certain part of the $250,000 annually until the earlier satisfaction of the Trust Indenture of November 2, 1914, under which the Farmers' Loan and Trust Company was Trustee, for a Panamanian bond issue, "or in the event of the satisfaction of said Trust Indenture of November 2, 1914, prior to February 26, 1944, to receive and give acquittance for the entire amount falling due on each February 26th subsequent to the satisfaction of said Trust Indenture; and we hereby irrevocably authorize and request that Your Excellency's Government pay over said several sums to said William Nelson Cromwell, as Fiscal Agent, or his successors, during the periods and as above provided. You may accept as conclusive evidence of the satisfaction of said Trust Indenture of November 2, 1914, prior to February 26, 1944, a certificate executed by the Farmers' Loan and Trust Company of New York, as trustee, certifying to such satisfaction".

29 Not found in Department files.
30 Letter not printed.
31 Not printed.
On February 27, 1929, Sullivan and Cromwell forwarded to the Department \textsuperscript{22} a certificate executed by the Farmers' Loan and Trust Company of New York as Trustee, certifying to the satisfaction of the Trust Indenture of November 2, 1914. It would therefore seem clear that under the terms of the Panamanian Minister's letter of June 8, 1923, the State Department is "irrevocably" authorized and requested by the Panamanian Government to pay over "the entire amount" falling due on February 26. If we decide that the Canal annuity should be paid on a gold basis, then it would appear that the Department is obligated to pay over the entire amount of the annuity to Mr. Cromwell.

The 1928 loan is secured, in addition to certain pledged revenues, by a second charge, subject to the 1923 loan, on the income from the constitutional fund and the $250,000 annuity. Service in full is being paid on the 1923 loan. On the 1928 loan, however, sinking fund payments have not been met, and interest is being paid only to the extent that funds are available from the balance of the income from the constitutional fund and the annuity after prior satisfaction of the 1923 loan requirements. This means, in effect, that about 33\% of the interest requirements of the 1923 loan are being paid. If the additional amount represented by payment of the annuity on a gold basis is turned over by Mr. Cromwell to the Fiscal Agents for the 1928 loan, as appears to be required under the Fiscal Agency contract, then the interest payments on the 1928 bonds will be by that much increased. This would mean that the benefit derived from payment of the annuity on a gold basis would in fact inure to the Republic of Panama, since it would be applied to the payment of the Republic's outstanding obligations.

My recommendations in the matter are:

1) That we should request the Treasury to have the annuity paid on a gold basis. This point, I believe, should be referred first to Mr. Carr \textsuperscript{23} for his approval;

2) That upon an affirmative decision as to the foregoing, we should so advise Dr. Alfaro, but at the same time inform him that in view of the irrevocable instructions comprised in the Panamanian Legation's letter to the Department of June 8, 1923, we are obligated to pay over the entire amount to the Fiscal Agent of the Republic. This point, I suggest, should be referred to Le \textsuperscript{24} for an opinion.

\textsuperscript{22} Communication not printed.
\textsuperscript{23} Wilbur J. Carr, Assistant Secretary of State.
\textsuperscript{24} The Office of the Legal Adviser.
The Secretary of State to President Roosevelt

WASHINGTON, February 21, 1934.

Dear Mr. President: Referring further to demand of Panama Government for payment of the Canal annuity of $250,000 by the United States Government "in gold coin of the United States", the Panama Minister here presented this demand to Mr. Edwin Wilson, head of the Latin American division here in the Department.

It occurred to me that it would emphasize the matter much less to let Wilson rather casually send for the Minister and make reply to him, in substance as set out in the attached manuscript, by doing so orally and making no written record.

I wish you would read this over and offer any comment or suggestions, and return as soon as convenient.\(^{35}\)

Cordell Hull

[Enclosure]

I have given full consideration to the request of the Panama Government that the United States Government pay its Canal annuity of $250,000 "in gold coin of the United States". The suggestion that the United States Government as the result of an official conversation more than four months ago should make this February payment in gold, has received my careful consideration. It will be recalled that at the time of the official conversations referred to, a considerable list of complaints by the Government of Panama was receiving both sympathetic and favorable consideration and action. I think the full nature and extent of the complaints by Panama were understood by the United States Government, were reduced to a memorandum\(^{36}\) or other instrument of writing, and their solution in a way favorable to the desires of the Panama Government to the fullest extent deemed at all consistent by the United States has been and is being gradually brought about.

Evidently any oral references to future canal annuity payments in gold were not deemed of a sufficiently binding or contractual nature as to be reduced to writing. The conversation apparently went no further than the expression of a hope or a disposition which did not and could not foresee the completely revolutionary financial and monetary changes which soon took place.

The devaluation by the United States of the gold content of the dollar, for example, operates in a large sense to reduce by 40 per cent

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\(^{35}\) A photostatic copy of the original of this document bears the notation: "C. H. Yes, grand idea. FDR."

external debts due and payable in the United States. The gold standard in most parts of the world has broken down; currencies everywhere have been dislocated; currency devaluations have taken place in most important countries. Nations generally recognize now that the use of gold as a currency should be permanently abandoned and the gold standard, for the present at least, abandoned both for internal and external purposes, in most parts of the world.

Financial and monetary conditions, therefore, are entirely different today, compared with what they were some months ago. For example, when the British Government went off gold, great losses resulted abroad, such as the virtual wiping out of the capital of the Netherlands Bank and that of the Bank of France, to say nothing of losses to English creditors throughout the world. American creditors are experiencing similar effects.

There is still another phase which would seem to be conclusive against the suggestion of the Government of Panama, which is the terms of payment in the United States to the fiscal agent of Panama and by him in turn to the chief holders of the Panama bonds who reside in the United States. From the location and the expressed terms of the payment and disposition of the entire canal annuity of $250,000 under the most definite and irrevocable instructions of the Panama Government, it is difficult to conclude that the Panama Government would very seriously suggest that a gold bonus be handed over to it to be by that Government added to the 40 per cent reduction it has already potentially received on its indebtedness payable in this country by reason of the devaluation of the gold content of the dollar. If, in the light of the foregoing, you have any suggestions to make, I should be glad to meet with you at any time and talk them over.

Memorandum by the Chief of the Division of Latin American Affairs (Wilson)

[WASHINGTON,] February 26, 1934.

At my request, Dr. Alfaro came in this afternoon and I explained to him our way of looking at the question raised by Panama of the payment of the Canal annuity in gold, (as set out in the memorandum which the Secretary sent to President Roosevelt and which was approved by the latter).

Dr. Alfaro explained his views at some length. In brief, he disagreed on all points. As regards the conversation between the two Presidents, he stated that, according to what President Arias had informed him, the mention of the payment of the annuity in gold had come about as the result of a statement made in confidence by
President Roosevelt to President Arias regarding his currency program involving the ultimate devaluation of the dollar; when this was mentioned, President Arias (this is the version given me by Dr. Alfaro) said that there was this annuity to be paid a few months hence, and he hoped very much it would be paid in gold; President Roosevelt (according to Dr. Alfaro) said that of course the United States would pay in gold, but that he did not want "the bankers" to get the benefit of such payment, but wanted it to accrue to Panama alone.

Leaving aside the question of the conversation between the two Presidents, Dr. Alfaro said that Panama’s contention was, in brief, that Panama had granted certain valuable rights in the 1903 treaty to the United States in return for a definite consideration, namely, the annual payment of a certain value as set out in the then existing gold dollar of the United States, to be made in perpetuity. Panama maintained that whatever the United States might do by exercise of its sovereign will in currency matters as regards its own citizens, the United States could not by unilateral act set aside the rights under an international compact accruing to another sovereign country. Panama’s rights in this matter would be judged under international law and not under the domestic law of the United States.

Dr. Alfaro asked me if this was the "final word" by the United States. I said that I had explained our way of looking at it, after rather thorough discussion with people in different Government departments competent in such matters. I said that if Panama felt there were any phases of the matter which we had not taken into consideration, we should always be glad to consider them and to discuss them with him at any time.

Dr. Alfaro said that he would appreciate very much an opportunity to explain the Panamanian point of view to whatever officials of this Government "had a say" in determining our position in the matter. He said that he would like "a day in court" in order that the Panamanian viewpoint might be thoroughly discussed.

I said that I would be glad, indeed, to arrange such a conference.

I told Dr. Alfaro that as the annuity was due today, February 26, we had transmitted today to the Fiscal Agent of Panama in New York, as we were requested to do under the irrevocable instructions of the Panamanian Government, the Treasury warrant in the amount of $250,000, as we had done in previous years. Dr. Alfaro said that he would communicate at once with his Government, and expected instructions would be sent to the Fiscal Representative either to decline to receive payment of this amount in legal tender money, or else, in receiving it to enter reservation as to Panama’s rights to further payment.
Memorandum by the Chief of the Division of Latin American Affairs (Wilson)


In accordance with the request of Dr. Alfaro, the conference was held in my office today, attended by Dr. Alfaro, Mr. MacLean, Assistant Solicitor General, Mr. Laylin, of the Treasury Department (in place of Mr. Oppenheimer who was unable to attend), Mr. Hackworth, Mr. Merrell, and myself.

Dr. Alfaro set out with considerable force and at some length Panama's contentsions, as he had stated them to me on February 26.

The suggestion was made to him that Panama was in no sense suffering any prejudice, since the annuity payment had been assigned by Panama to the bondholders and that at least until the bonds had been retired, Panama would gain no benefit from the payment in gold, since this would automatically accrue to the bondholders. It was suggested that in view of this situation, Panama might desire to allow the situation to rest for the time being until such time as Panama might actually suffer some prejudice, when we could reexamine the matter.

Dr. Alfaro declined flatly to consider this suggestion. He felt, on the contrary, that Panama might well derive benefit from payment on the gold basis since Panama's obligations to the bondholders, such being payable in New York, were subject to the legislation of this country and hence, in his view, could be paid only on a legal tender basis, whereas Panama, being entitled to payment in gold from the United States Government, should profit by the additional amount involved in such form of payment. His contention was that the United States Government should make payment in gold or on a gold basis to the Fiscal Agent and that the question of what ultimately became of this payment should not be determined by the United States Government, but should be left for determination by the Fiscal Agent, the bondholders, and presumably the courts of this country.

Mr. MacLean expressed the opinion that the arrangements made by Panama, under which the treaty payment was assigned to its bondholders in this country, might well be a controlling factor in the situation, and said that he would like time to study the provisions of the loan contracts and other related documents. It was agreed that such study would be made.

At the close of the conference, Dr. Alfaro stated that the Fiscal Agent of Panama in New York had been instructed to decline to receive the payment made on February 26, and that we could expect to have

37 Green H. Hackworth, Legal Adviser of the Department of State.
38 George H. Merrell, Jr., of the Division of Latin American Affairs.
such payment returned to us. It was suggested to Dr. Alfaro that Panama might permit the Fiscal Agent to receive this payment, reserving her rights in the matter. Dr. Alfaro said, however, that this would merely result in having the matter drag along, and that Panama desired to bring the issue to a head at this time and to have it settled.

711.1928/2164

Memorandum by the Panamanian Minister (Alfaro), Handed to the Department of State, March 1, 1934

Conference Held at the State Department, February 28th, 1934

Propositions Maintained by the Minister of Panama in Connection With the Payment of the Canal Treaty Annuity due by the Government of the United States on February 26th, 1934.

1. The juridical relations of Panama with the United States arising out of the Canal treaty are governed by international law.

2. An obligation arising out of an international treaty cannot be changed, altered, diminished or impaired by the act of one of the parties to the treaty.

3. The United States cannot discharge its obligations towards the Republic of Panama by applying to the form of payment laws enacted by the United States whereby the treaty rights of Panama are diminished, impaired, prejudiced or in any manner affected.

4. A treaty or a contract is the expression of the will of the two parties. Therefore, the mind of the two parties necessarily must contemplate the things existing at the time of the contract. The mind of the parties cannot contemplate things not existing or the existence of which is not foreseen.

5. When the Canal treaty stipulated in 1904 that the United States would pay in perpetuity to the Republic of Panama an annuity of $250,000 in gold coin, in compensation for rights granted by Panama also in perpetuity, that “gold coin” necessarily meant the coin existing at the time the treaty was signed, not the coin which existed thirty or a hundred years before or the coin which might exist or be created thirty or a hundred years later.

6. The gold existing in 1904 had certain weight and fineness which determined its value and hence, the value of the compensation agreed upon and stipulated in perpetuity. That value may change for causes independent from the will of the parties, but it cannot be changed by the will of only one of the parties to the Canal treaty.

See supra.
7. The value stipulated as a perpetual compensation to be paid annually by the United States to the Republic of Panama was the value represented by the sum of 250,000 coins named dollars and having a gold contents of 25.8 grains, 900 thousandths fine.

8. The above stated value cannot be diminished to the prejudice of the Republic of Panama by reason of a law enacted by the Congress of the United States, whereby it is decreed that the coin named dollar shall henceforth have a gold contents of 15.3 grains of the same fineness.

9. The Congress of the United States might likewise and with indisputable right enact some other law by which the gold contents of the dollar be reduced to five grains or to one grain; and if dollars of such a weight could legitimately be used in discharge of the treaty annuity, the right of Panama to the compensation agreed upon in 1904 would be virtually wiped out. This possibility would be so palpably contrary to the most elementary principles of justice and right that to enunciate it is equivalent to a refutation of the proposition.

10. The right of Panama to receive in discharge of the Canal annuity the gold coin stipulated in the treaty or its equivalent is not dependent upon the use to which the money may be or must be destined or upon considerations that Panama will not be benefited by such payment in gold.

11. The existence of a right does not cease or vary by reason of the fact that the person vested with the right is or is not benefited by its exercise.

12. The obliger in a stipulation to give or pay something is not vested with the power of deciding whether the discharge of his obligation will benefit his creditor or not.

13. Whatever disposition may be given to the proceeds of the Canal annuity, the Republic of Panama will be benefited one way or other by the enhanced value of gold with respect to present American “lawful currency”. This is stated as a fact but it is maintained that this consideration has no bearing on the question of the treaty obligation of the United States with regard to the Republic of Panama.

14. Consideration of the question of benefit or no benefit would make compliance with the annuity clause of the Canal treaty contingent upon conditions of fact presumably determinable by the United States, viz; if Panama is benefited, the annuity will be paid in gold coin of 1904 or its equivalent; if she is not benefited, payment will be made in “lawful currency” of such value as may be determined by act of Congress.

15. The juridical relations of Panama with the bondholders of her foreign debt in the United States are governed by the laws of the United States.
16. The Republic of Panama has an indisputable right to discharge its obligations in the United States in accordance with the laws of the United States.

17. Payment in gold of 1904 cannot be objected to on the ground that Panama is discharging its debt obligations in the United States in "lawful currency". Panama does so and legitimately can do so because the United States in the exercise of its sovereignty has decided that it is for the good of the country to devalue the dollar, to abolish the gold coins, to abolish the gold clause in contracts and to make "lawful currency" legal tender in all sorts of obligations, and has so decreed by law.

18. The Republic of Panama has not been the only entity or person benefited by the reduction in the value—not the amount—of her debt, produced *ipso facto* by the devaluation of the dollar. Every debtor in the United States, whether a citizen of the United States or an alien, whether a natural or a juridical person, has been equally benefited.

19. The fact that this reduction in the actual value—not the amount—of its debt has taken place by the devaluation of the dollar, cannot be adduced as a reason for not making the payment of the Canal annuity as provided by the treaty. An international obligation cannot be affected by the effects of a given legislation in a Nation party to a treaty.

20. Panama owes in the United States a debt amounting to about $15,000,000.00. At the same time Panama has invested in mortgages in the city of New York since 1904 the so-called Constitutional Fund of $6,000,000.00. The abolition of the gold clause and the devaluation of the dollar work both ways with regard to Panama. In her favor, with regard to her outstanding loans. Against her, with regard to her investment.

21. Whether the debts of Panama in the United States are larger than her credits or vice versa and whether Panama had no debt at all or no credit at all in the United States, these facts are immaterial with regard to the international obligation of the United States towards Panama. Such obligation exists and is immutable. It cannot be affected or varied. Except by agreement of the two parties, it remains and will remain exactly the same whether Panama happens to have contracted loans in the United States or in case she had contracted the same loans in France and had now to buy francs at the rate of 6.56 for the service of the debt.

22. Panama has not "sold" or "assigned" in perpetuity to the bondholders of its debt the treaty payment. Panama has temporarily
"charged", "pledged", and "allocated", as security for the service of its debt, the said treaty payment to the extent that is necessary to cover the amortization and interest stipulated in the Loan Indentures of 1923 and 1928.

23. The loan pledge is temporary. The treaty payment is perpetual. The parties to the treaty, in accordance with international law, are eternal. Temporary agreements cannot disturb the essence of a perpetual right and the nature of its correlative obligation.

24. The Loan Indenture of 1928 provides:

"Sixth. The Republic covenants and agrees that: (1). It will not at any time, while any of the bonds issued hereunder are outstanding, enter into any agreement or understanding or do any act or thing whereby the obligation of the United States of America to make the Treaty Payments, shall or may be in any manner released, affected or impaired.

25. The Republic of Panama would allow the treaty payment obligation of the United States to be affected and impaired if she would agree or acquiesce in the proposition that payment may be made not in gold coin of 1904 but in any other "lawful currency" of a lesser value than that gold coin.

WASHINGTON, February 28, 1934.

711.1928/211

Memorandum by the Chief of the Division of Latin American Affairs
(Wilson)

[WASHINGTON,] March 2, 1934.

Dr. Alfaro telephoned me today that he had just received a cable from his Government that at the meeting of the Panamanian cabinet yesterday the question of the payment of the gold annuity was considered. The cabinet decided that the Fiscal Agent would be authorized "to turn over to the trustees of the loans the total of the proceeds of the gold payment in terms of lawful currency." In other words, Dr. Alfaro said, the Government of Panama now desires to devote to the service of its loans the additional payment which it expects to receive in legal tender representing payment of the annuity on a gold basis. Dr. Alfaro said that he was issuing a statement to the press in these terms but wished us to know of it first.

He added that he had heard from the Fiscal Agent that the latter was returning the Treasury check to the State Department today.

EDWIN C. WILSON
Sullivan & Cromwell to the Secretary of State

NEW YORK, March 2, 1934.

Dear Sir: We beg to acknowledge herewith your letter of February 24, 1934 ⁴⁰ (BA—711.1928) addressed to William Nelson Cromwell, as Fiscal Agent of the Republic of Panama, and enclosing a copy of the Comptroller General's settlement Certificate No. 0322603, dated February 24, 1934, check on the Treasurer of the United States, No. 27,530, dated February 24, 1934, to the order of William Nelson Cromwell, Fiscal Agent of the Republic of Panama, for $250,000 "in settlement of the annuity due the Republic of Panama on February 26, 1934, under Treaty of November 18, 1903", and a form of receipt therefor.

This form of receipt contains the statement that the aforementioned check is "in full payment of the annuity due the Republic of Panama February 26, 1934", etc.

In the absence from New York of Mr. Cromwell, but acting under his instructions, we beg to acknowledge your communication and to advise you that the Republic of Panama maintains the position that the payment of the Treaty Annuity, in accordance with the aforementioned Treaty, should be made in gold coin of the weight and fineness existing in 1904 or the equivalent in actual value thereof. Consequently, and in view of the aforementioned advice from the Government of Panama that it does not consider that the payment in question constitutes payment in full of the said Treaty Annuity, the Fiscal Agent considers that he cannot accept the check as tendered and the undersigned, on behalf of the Fiscal Agent, are returning the check herewith.

Respectfully yours,

SULLIVAN & CROMWELL

The Secretary of State to President Roosevelt

WASHINGTON, March 20, 1934.

My Dear Mr. President: With reference to my memorandum of February 21st, regarding the payment by this Government of the Panama Canal annuity of $250,000, and to the conversations I have had with you since, I have gone into the matter in the most thorough manner and have now reached the following conclusions:

1) That our legal obligation to pay the yearly amount due Panama in gold dollars as of the weight and fineness of 1904 is a very doubtful question;

⁴⁰ Not printed.
2) That if we persist in our present contention, the Government of Panama will, in all probability, insist upon arbitration of the question, which, for obvious reasons, is undesirable;

3) That it would be likewise unwise, because of its effect upon other obligations of the United States, either to admit Panama’s contention or to make any settlement which would appear to imply such admission.

Consequently, I suggest that as the most satisfactory and practical solution of the difficulty, the Government of Panama be advised that we will deal with this matter in the negotiations which we are shortly to undertake in accordance with your authorization for the new treaty between the two Governments and that, in the meantime, the payment of $250,000. will be made “on account”. In the new Convention, the annuities to be paid to Panama could be increased in such an amount as would take care of the present obligation and such additional concessions as we may be able to obtain with respect to other matters now under consideration. The new annuities should not be expressed in terms of gold, but should be expressed in dollars, with the understanding that if the dollar is devaluated below the present standard, the difference shall be made up to Panama, and if the dollar rises above the present standard, a smaller amount shall be paid to Panama.

Finally, in connection with any arrangement that is made, we would take into account the rights of the Trustee and of the holders of the bonds of the Republic of Panama and the existing agreement on the part of Panama to turn over these annuity payments to its Fiscal Agent in New York for the benefit of the bondholders.

Since the matter has now been pending for some time, and the Government of Panama is increasingly impatient, I shall appreciate your letting me know whether the procedure above indicated meets with your approval.  

Faithfully yours,

Cordell Hull.

711.1928/233: Telegram

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

Washington, March 31, 1934—3 p. m.

29. For your strictly confidential information. This morning we suggested orally to the Minister of Panama the advisability, in view of the number of controversial questions pending between our two Governments, of discussing the possibilities of negotiating a treaty as a modification of the 1903 treaty to cover a settlement of such questions.

44 See pp. 581 ff.

42 A photostatic copy of the original of this letter bears the notation: “C. H. OK FDR.” (711.1928/225)
We suggested that the Panamanian request for payment of the Canal annuity on the basis of the former gold value of the dollar might be dealt with in such discussions. The Minister is to consult his Government and advise us later of its views.

HULL

[The question of the payment of the Canal annuity came up again in 1935 and 1936. The matter was finally settled by article VII of the General Treaty of Friendship and Cooperation between the United States and Panama, signed March 2, 1936 (see Treaty Series No. 945, or 53 Stat. 1897).]

NEGOTIATIONS REGARDING PROPOSED TRANSFER OF TWO RADIO STATIONS BY THE UNITED STATES NAVY TO THE REPUBLIC OF PANAMA

819.74/259: Telegram

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

Panama, November 13, 1933—4 p. m.

[Received 8:15 p. m.]

160. Referring to radio control on Isthmus, Commandant Fifteenth Naval District informs me that Navy now prepared to turn over radio stations owned and operated by the United States at La Palma and Obaldia to Panaman Government. Commandant anxious to do this as soon as possible for reasons of economy. He is convinced that present equipment at the stations will not be appropriate for the use of Panama on account of the complicated character of apparatus and expense of operation.

Commandant suggests that this Legation propose to Panaman Government that present apparatus of these stations be dismantled and removed; that Navy would substitute, free of all charge to Panama, receiving and transmitting sets appropriate for the purposes of the stations; that present Diesel engines be dismantled as too large and costly of operation [and that?] they be replaced by small Delco or other generators to be purchased by Panama at a cost of about $500 each station. The Panaman operators who have been instructed by the Navy for the past 3 months now prepared, Commandant states, to take over these smaller installations.

It will be appreciated if the Department will inform me by Navy radio whether it has any objection to informal inquiries being made from Panaman Government provided such arrangement will be satisfactory.

Gonzalez

For other correspondence regarding radio control in Panama, see pp. 581 ff.
S19.74/261: Telegram

The Acting Secretary of State to the Minister in Panama (Gonzalez)

WASHINGTON, November 21, 1933—7 p. m.

105. Your telegram No. 160, November 13, 4 p. m. After consultation with Navy Department no objection perceived to your making informal inquiries.

PHILLIPS

S19.74/264: Telegram

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

PANAMA, January 29, 1934—4 p. m.
[Received 8:15 p. m.]

14. Reference Department’s 105, November 21, 7 p. m. At conference today with Minister for Foreign Affairs regarding transfer of radio stations La Palma and Obaldía he stated Navy conditions are not acceptable to Panama in that freedom of action of these stations would be limited. He will send Legation memorandum based on interview with Minister of Justice Jimenez of November 24 setting forth Panaman objections.

GONZALEZ

S19.74/265: Telegram

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

PANAMA, February 4, 1934—10 a. m.
[Received 3 p. m.]

19. Referring to my telegram No. 14, January 29, 4 p. m. The Panaman Government has, up to the present time, failed to communicate in writing its views on the radio question. I submitted on the 2d to the Secretary of State for Foreign Affairs an informal draft of joint agreement covering the transfer of radio stations at Obaldía and La Palma to the Panaman Government, and requesting examination by Panaman authorities. The draft was composed by the Legation in accordance with the Department’s telegraphic instruction of November 21, 7 p. m. It was in line with suggestion by the Navy here and endeavored to meet objections voiced by Panama in the various conversations held by Legation since November 24. Copy is being forwarded to the Department by air mail.

It provided that the transfer of the two stations would not obligate Panama to clear messages from them through naval radio at Balboa and I verbally expressed the willingness of the Navy to assist Panama in constructing additional stations of its own in Panama City or elsewhere.
Secretary Arosemena said that the agreement seemed reasonable as with its own radio stations Panama could initiate ship to shore service. I replied that the draft agreement was certainly limited to the transfer of two stations as a courtesy to Panama but in no wise affected the ship to shore question whose solution was a matter of separate negotiation in line with the conversations between the two Presidents 44 and will follow the establishment of the radio board. This board, President Arias now believes, is unacceptable to Panama in the form outlined in item 8 of the Washington agreement.45

I said there was no objection to Panama communication with other countries through the two stations or through such other stations as it might install as long as the defense and operation of the Canal is properly safeguarded, and that the Navy expresses a willingness to construct a central station at Panama City for the Government of Panama. The Secretary said that Tropical Radio would effect this service for Panama.

The Secretary promised to have the radio question considered at a special Cabinet meeting and to transmit the views of Panama to the Legation on February 8.

The Legation can see no reconciliation of the opposing views of the Navy and Panama regarding ship to shore service, and it is now clear that Panama, on establishing independent operation of Obaldía and La Palma as a precedent, would initiate ship to shore service through Tropical Radio and disregard what the Navy so strongly considers to be essential, viz., control through a board when the United States is adequately represented.

Gonzalez

819.74/268

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

No. 106

PANAMA, February 4, 1934.

[Received February 7.]

Sir: I have the honor to refer to my telegram No. 19 of February 4, 10 A. M. concerning the conversations with the Panamanian Foreign Office and with President Arias concerning the question of radio control in general and, specifically, the transfer to Panama of the United States Naval Radio Stations at Puerto Obaldía and La Palma.

There are enclosed herewith copies of a Memorandum to the Foreign Office of February 2, 1934 transmitting a draft of a joint agreement covering the above mentioned transfer, the agreement itself, and a copy

of a Third Person Note addressed to the Foreign Office on February 3, 1934.46

The Department is aware of the opposing points of view in relation to conceding an ample measure of independence to Panama in its radio facilities and it would appear that no advance has been made in bringing these opposing viewpoints together. President Arias feels that a Radio Board as suggested in the Washington conversations would meet great popular resentment in Panama but is apparently unwilling to act hastily in going ahead without American approval. The Navy here feels that Tropical Radio is likely to initiate ship to shore service under Panamanian license and that the statement of Secretary Arosemena to me on February 2nd openly discloses that intention.

The Department's instructions will be greatly appreciated. It would seem that a decision should be now reached as to how far we are prepared to go, whether we are prepared to recede from our former position and sacrifice what the Navy considers necessary for the Canal defense, or whether we are to insist on a measure of control which Panama will not willingly accept and which we, in all likelihood, cannot enforce in time of peace.

Respectfully yours,

ANTONIO C. GONZALEZ

S1974/269: Telegram

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

PANAMA, February 9, 1934—3 p.m.
[Received 8:35 p.m.]

23. Referring to my telegram No. 19, February 4, 10 a.m. and my despatch No. 106 of February 4th, Secretary for Foreign Affairs today handed me a memorandum giving Panaman Government's views regarding the agreement to cover transfer of radio stations at Puerto Obaldia and La Palma. The points upon which this memorandum differ substantially from the Legation's draft agreement of February 2nd are: (1) two frequencies are requested on 4,000 to 5,500 band and two on 6,675 to 7,000; (2) in case of war or threatened hostilities both stations shall be jointly managed and controlled by the two Governments; and (3) the agreement shall not limit the rights of Panama to erect, operate, and maintain radio telegraphic communication from point to point or shore to ship, nor shall it be considered as a limitation, definition, or restrictive condition on the rights of Panama to operate radio telegraphic stations.

Naval authorities here state that changes (1) and (2) are acceptable.

46 None printed.
The Legation replied to the Minister for Foreign Affairs reiterating that this present agreement cannot be construed as modifying any of the larger aspects of the as yet unsettled radio question nor affecting control of ship to shore service. It suggested that, instead of (3), the following be substituted “all provisions of the foregoing paragraphs relating to the operation of the radio stations at Puerto Obaldia and La Palma shall be effective until superseded by the general agreement concerning radio which is expected to be negotiated between the two Governments.”

Gonzalez

819.74/274

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

No. 142

Panama, March 3, 1934.

[Received March 12.]

Sir: I have the honor to refer to Despatch No. 113 of February 10, 1934, and to the Legation’s telegram No. 23 of February 9, 3 p. m., concerning the proposed agreement to cover the transfer to the Panamanian Government of the Navy Radio stations at Puerto Obaldia and La Palma.

After a number of conferences with the President and the Secretary for Foreign Affairs in which the Legation has endeavored to reconcile the conflicting views of the Navy and the Panamanian Government, I have arrived at the conclusion that I should not further approach the local Government in the matter until I am given further instructions by the Department. The ideas of the Navy have been conveyed to the Legation by Commander W. L. Ainsworth, District Communication Officer of the 15th Naval District. This officer has expressed the Navy viewpoint regarding each clause in the various proposed drafts of the agreement and has represented the Admiral Commandant of the 15th Naval District in almost daily consultation with the Legation.

It is felt that arrival at an early agreement through this Legation is rendered difficult by the insistence of the Navy on points which it regards as vital to Canal defense, and I accordingly informed Commander Ainsworth on March 1st that the Legation would decline further to press an agreement on the Foreign Office until instructions are received from the State Department as to which points may be conceded and which ones are to be regarded as essential and to be insisted upon. It is understood that Admiral Crosley at once communicated this information to the Navy Department.

It would seem that the points in disagreement can only be ironed out through conferences in Washington between officers of the two

44 Not printed.
45 Commandant of the 15th Naval District.
Departments. The Legation cannot otherwise be sure that upon reaching an understanding with Panama it will not be decided that we cannot concede what has been agreed upon, thereby forcing reconsideration of the entire agreement. This does not conduce to satisfactory negotiation or make a happy impression on the other parties to the negotiation.

The Navy, in its insistence on certain frequencies to be allotted to Panama for the use of these two stations, is endeavoring to avoid interference and general chaos in the radio situation on the Isthmus, and perhaps also to tie up Panama so fast that it will not be able to communicate from ships to shore nor in any other manner considered by the Navy as affecting the Canal defense.

Panama is endeavoring to insert in the agreement an admission by the United States that Panama should not be restricted in its radio control. It has definitely withdrawn from its position as expressed by President Arias in Washington where he agreed to consider the suggestion to create a Radio Control Board, similar to the Aviation Board.

Thus, this agreement to cover the transfer of two small and isolated radio stations out in the jungle, of no importance in themselves, takes on importance and results in long discussions, because the Navy and Panama both wish to establish precedents for future radio control in the wording of this agreement.

As a matter of fact, the Navy is, essentially, turning over little more than the houses where the radio stations have been installed. They could well withdraw and leave the houses to the jungle, and the general radio situation would be practically unchanged. The location where Panama most needs a radio station of its own is the penal station at Coiba Island. There is a very practical reason for a station there, but there is almost no reason for one at either Puerto Obaldía or La Palma other than the rather vague desire of Panama to form a nucleus of a radio system with these two stations.

The Legation ventured to express the hope that the conferences between representatives of the State and Navy Departments will result in a final decision on what measure of control is to be offered to Panama, and what kind of machinery will be erected to effect the liaison between the Radio authorities of the two countries on the Isthmus.

On February 16 the Naval authorities in Panama through Commander Ainsworth expressed to the Legation their objection to the frequencies allotted to Panama in Paragraph 3a of the Secretary for Foreign Affairs' draft agreement of February 9, and suggested other frequencies. They also stated that a clause should be added to paragraph 3b providing that Panama should give three months notice of

48 Not printed.
any contemplated changes in the power, location, or frequencies to be used by their stations. They also recommended that Paragraph 6 should read as follows:

The Government of Panama agrees that in case of war or threatened hostilities, or when in the opinion of the United States Government the safety or operation of the Panama Canal is involved, said stations shall be managed or controlled jointly by both Governments, with the object of assuring that their operation will not be prejudicial in any way to the safety or operation of the Panama Canal or its defenses, or the operation of the Fleet, or to the armed forces of the United States.

The Naval authorities here furthermore requested that Paragraph 7 be eliminated and the following paragraph as suggested by the Legation be substituted therefor:

All provisions of the foregoing paragraphs pertaining to the operation of the radio stations at Puerto Obaldía and La Palma shall be effective until superseded by the general agreement concerning radio which is expected to be negotiated between the two Governments.

After a conference with President Arias on February 17 in which he said that he had personally drafted Paragraph 6, it was agreed that the tentative agreement should be resubmitted to the council of ministers. The President said that regardless of the stipulation for joint control, in time of war or threatened hostilities the United States Navy would exercise full control; that a provision in the agreement giving the United States full control would be interpreted in Panama as a surrender of national rights to the United States, and as a total lack of confidence in the cooperation to be rendered by Panama in the defense of the Canal.

Following this conference, the Navy withdrew its objection to Paragraph 6 and expressed agreement with the wording as given in the Memorandum from the Panama Foreign Office of February 9. I consequently informed the Foreign Office on February 19 that I perceived no objection to the wording of paragraph 6.

On February 20 I saw Secretary Arosemena who said that he would advise the Legation of the desire of Panama to accept the offer made by the Navy to construct new apparatus for the stations at Puerto Obaldía and La Palma as well as equipment for stations to be installed at Coiba and San Blas.

On the same day Commander Ainsworth furnished the Legation with a draft embodying the Navy's viewpoint regarding the agreement. (Enclosure No. 1).50

The Legation was likewise furnished with a copy of a communication from the Chief of Naval Operations to the Admiral Commandant

50 Not printed.
of the 15th Naval District bearing date of February 20 which stated that it was desirable that if frequencies on the 2750–2850 band be allocated to these stations, it be with the understanding that they be for fixed service only.

The same letter stated that the wording of Paragraph 3b was satisfactory but with reference to Paragraph 3c, the provisions of points 6, 7 and 8 of the proposed agreement of February 2 should remain substantially as written. The Chief of Naval Operations felt that joint control might be unobjectionable at the present time but that changing international conditions might make it impracticable, and the United States should be the judge as to when such control should cease. He further believed that the United States should reserve the right to close, censor, or operate either station when it believed such action to be necessary for the safety or operation of the Canal.

On February 21 the Foreign Office sent the Legation a Memorandum stating that it accepted the offer of the United States to recondition the stations at Puerto Obaldía and La Palma and to install stations at Coiba and San Blas at a cost to Panama of $8380.

On February 21 the Secretary for Foreign Affairs sent a Memorandum to the Legation with a draft of the much discussed agreement, (Enclosure No. 2, and translation, Enclosure No. 3). The draft appeared to be acceptable but for the frequencies mentioned in Paragraph 2e and the inclusion of the unacceptable Paragraph 7.

I replied by a Note No. 102 on February 21, a copy of which is here with attached as enclosure No. 4.

This Note elicited a Note dated February 22 from the Foreign office, (Enclosure No. 5, and translation, Enclosure No. 6), which accepted the modifications suggested in my last mentioned Note. The way thus seemed clear to transmit the agreement to the Department for its consideration, but on February 23 the Navy requested a further change in Paragraph 6 in order that it might read as follows:

The Government of Panama agrees that in case of war or threatened hostilities, said stations shall be managed or controlled jointly by both Governments, with the object of assuring that their operation will not be prejudicial in any way to the safety or operation of the Panama Canal or its defenses, or to the operations of the Fleet or the Armed Forces of the United States.

In connection with the foregoing, it is further agreed that when, in the opinion of the United States, the safety or operation of the Canal is involved, the United States shall advise the Panamanian Government regarding the extent of censorship or control desired, or regarding the desirability of closing the stations, to the end that the Panamanian Government may effect such censorship, control, or closure as may be required by the circumstances.

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51 Not printed.
On February 26 Commander Ainsworth stated that the desires of
the Navy could best be met by adding to Paragraph 6 the following
sentence:

Should the circumstances in case of war or threatened hostilities so
demand, the Panama Government agrees to close either or both sta-
tions without delay.

On February 28 the Navy Department sent a telegram to the 15th
Naval District stating that the provisions of Paragraphs 6 to 8, inclu-
sive, of the agreement of February 2 must be incorporated, and taking
the stand that the provisions of Article 11 of the unratified Treaty of
1926,\(^{53}\) which gave the United States complete control of radio in
time of war, should be preserved.

On March 1 Commander Ainsworth submitted a memorandum to
the Legation which conveyed the Navy's views regarding changes in
Paragraph 6 of the proposed agreement. This is transmitted as En-
closure No. 7.\(^{54}\)

It clearly appears that we are faced with the alternatives of either
endeavoring to force Panama to continue to accept Navy control over
its radio activities, or else frankly to turn over control to Panama
while reserving the treaty rights to reassert control when necessary
for Canal defense. The Legation sees no hope of a permanently satisfac-
tory compromise between these two alternatives. Whether or not
the Puerto Obaldía and La Palma stations are transferred under
mutually satisfactory conditions, it is feared that the radio control
question will constantly recur with increasing acuteness and irritation
and it is, of course, quite possible that we would have already been
confronted with a *fait accompli* but for the friendly attitude of
President Arias.

Respectfully yours,

ANTONIO C. GONZALEZ


\(^{54}\)Not printed.
time, however, he was making inquiries from various Broadcasting Concerns in the States as to the minimum cost of installing, for the Panama Government's use, of a broadcasting system whereby he could speak to his people on government matters and keep them advised as to what their Government was doing; and that with this in view he had established in the meantime the practice of having press conferences but that even that seemed to be most unsatisfactory because the reporters would never set forth the substance of his remarks in his own words as he would like. He stated that he did not believe that the United States Government would have any objection to his Government having radio broadcasting facilities which would enable him to keep in touch with his people. He stated further, that he would be very glad to be able to have a broadcasting set placed in his office and deliver weekly addresses on matters of interest to his people in the outlying districts who are unable to keep in touch with the activities of the Government and its various Departments.

Respectfully yours,

ANTONIO C. GONZALEZ

819.74/275: Telegram

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

WASHINGTON, March 23, 1934—5 p. m.

25. Your despatch No. 142 of March 3, 1934. Your conclusion not to approach the Panamanian Government further in an endeavor to reach an agreement covering the transfer of the radio stations at Puerto Obaldía and La Palma until further instructions have been received from the Department is approved. Due to the complications you report such instructions will probably not be sent until after agreement on the general question of control of radio in Panama has been reached. Discussion of general control with the War and Navy Departments is being held in abeyance pending the receipt of President Arias' memorandum mentioned in your despatch No. 146 of March 10.

HULL

819.74/284

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

No. 213

PANAMA, May 2, 1934.

[Received May 14.]

Sir: I have the honor to refer to the Legation's telegram No. 80 of April 30, 11 a. m. concerning the transfer of the naval radio stations at Puerto Obaldía and La Palma to Panama.

*Not printed.
Admiral William H. Standley, Chief of the Bureau of Naval Operations, visited Panama in connection with the call of the United States Fleet and on April 29 a conference was held at the Legation to discuss radio control. Those present were Admiral Standley, Rear Admiral W. S. Crosley, Commandant of the 15th Naval District, Commander W. L. Ainsworth, Chief Communications Officer of the 15th Naval District, myself and Mr. Burdett. After an examination of the divergent points of view relating to the agreement to cover the transfer of the two radio stations, Admiral Standley said that the draft agreement which was transmitted to the Department as Enclosure No. 1 to Despatch No. 142 of March 3, 1934 would be acceptable to the Navy if a paragraph were included to cover thoroughly the matter of protection to the Canal in the event of a threatened war or other serious eventuality. He said that the wording of the agreement without such paragraph does not give the Navy sufficient grounds to take over control during the twilight period between peace and war; that during such period it would be highly necessary for the Navy to control all radio facilities in Panama and the State Department would probably not consent for the Navy to suddenly exercise such control on the grounds that this action would constitute a direct threat and might defeat the negotiations in progress. The Navy’s taking over radio control over all Panama stations might be construed as an overt act and we should cover such situation by a new paragraph in the agreement. The following paragraph was finally drafted and Admiral Standley said it would be immediately transmitted by radio to the Bureau of Naval Operations.

Admiral Standley requested the Legation to ask the State Department for instructions to present the amended agreement to the Panamanian Government. The added paragraph reads as follows:

“As a further consideration to the making of this agreement, the Panamanian Government hereby agrees that if at any time the operation of the foregoing stations by the Panamanian Government should endanger the safety or operation of the Panama Canal, the Panamanian Government will upon request of the United States Government, cooperate with it in so controlling or suspending the operation of said stations as to fully protect the interests of the United States.”

With regard to the general radio agreement between the two countries, Admiral Standley said that the Navy would never willingly surrender control over ship-to-shore or ground-to-plane messages. The agreement between the two Presidents at Washington in October, 1933 was discussed, particularly item 8 which said:

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57 William C. Burdett, First Secretary of Legation.
58 Not printed.
"The United States under such conditions, would agree that no special restrictions be placed on ship-to-shore service with the exception of that relative to transiting the Canal."

Admiral Standley said he did not understand how this crept into the agreement and he hoped that President Roosevelt did not really entertain this view. That naval control over all radio messages from ship-to-shore was most essential for the protection of the Canal. He said that he had told President Arias in October, 1933 that the naval radio experts had very emphatically made this recommendation to him and while he was not in a position to explain in a technical way how these ship-to-shore messages would endanger the Canal's safety, he intended to accept the recommendation of his experts, as that is what experts are for.

Admiral Standley read President Arias' memorandum on radio control, a copy of which the President sent the Legation on April 27, 1934, and which the Legation understands has already been submitted to the Department by Minister Alfaro. Admiral Standley thought that by no means should we recede from our position regarding radio control and remarked that the War Department agreed fully with the Navy Department's position concerning ship-to-shore messages. It should be said in this connection that Admiral Standley's statement is not exactly in accord with informal conversations held with certain Army officers on the Isthmus who believe that naval control over ship-to-shore service is not essential for the protection of the Panama Canal.

Admiral Crosley supported Admiral Standley in his views concerning the general radio control question. Both of these officers thought the new draft agreement regarding Puerto Obaldia and La Palma might facilitate the negotiation of the general radio control question.

There is attached hereto a copy of the amended draft agreement which the Navy now desires to be presented for the consideration of the Panamanian Government.

Respectfully yours,

ANTONIO C. GONZALEZ

819.74/290: Telegram

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

PANAMA, July 6, 1934—1 p.m.
[Received 8:14 p.m.]

124. Referring to my despatch No. 213 of May 2d, may I express the sincere hope that telegraphic instructions be given me immediately to propose to Panamanian Government the transfer of Puerto Obaldia and La Palma radio stations in accordance with draft agreement trans-
mitted with that despatch. I consider it highly appropriate to be able to announce an agreement on this matter before the arrival of President Roosevelt.

GONZALEZ

819.74/290 : Telegram

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

WASHINGTON, July 7, 1934—4 p. m.

74. Your telegram No. 124 of July 6, 1 p. m. Department sent you an air mail instruction on July 5 stating that as a practical matter it preferred to endeavor to reach an agreement on the general control of radio in Panama before making further efforts to arrange this transfer. It also pointed out that during the conversations being held with the Minister of Panama, the latter has not mentioned Panama's desire to have this transfer expedited.

HULL

DISAPPROVAL BY THE SECRETARY OF STATE OF PROTEST BY THE MINISTER IN PANAMA AGAINST SPEECH OF A MUNICIPAL OFFICIAL

711.1928/290

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

No. 476

PANAMA, November 3, 1934. [Received November 12.]

Sir: I have the honor to report and to enclose an article appearing in today's issue of the Panama American, which I have been unable to leave without notice, since the slurring remarks made against the United States by a public official of the City of Colón at a public gathering is more than should be expected.

Ever since the negotiations have been in the course of conversation between the Department and the Republic of Panama, various articles have appeared of a scurrilous nature, reflecting discredit upon the United States and the American people, but the source from which they came did not deserve any official notice. The article referred to, however, does refer to remarks made by a public official, and for that reason I have filed with the Secretary of Foreign Relations of the Republic of Panama a protest, copy of which is hereto attached.

Respectfully yours,

ANTONIO C. GONZALEZ

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* Not printed.
* Not reprinted.
* See pp. 581 ff.
The American Minister (Gonzalez) to the Panamanian Minister for Foreign Affairs (Arosemena)

No. 276  Panama, November 3, 1934.

Excellency: I have the honor to inform Your Excellency that I wish to enter a protest on behalf of my Government against the speech which was made by Mr. Luis Sayavedra, Municipal Auditor of the City of Colón, on the 2nd day of November, 1934, before a large audience, on the first day of Panama's program of celebrations of Panama's thirty-first independence anniversary, when he referred to the United States as a monster beside whom Sir Henry Morgan who sacked Old Panama was an angel. This speech appeared in the Panama American of Saturday, November 3, 1934. I think that such remarks, coming from an officer, are wholly uncalled for and inexcusable, and I demand on behalf of my Government an apology.

There have been many speeches recently made and published in the newspapers discrediting my Government, but I have not until the present paid much attention to it and indexed them as coming from those who knew no better than to make such statements, but when statements such as above mentioned emanate from a public official, I am duty bound to take notice of the same and to file a protest thereto. I regret that such incidents should happen, as they tend to disrupt, not only the Good Neighbor Policy maintained by my Government, but also the friendship which would exist between my people and those of Panama.

Accept [etc.]

Antonio C. Gonzalez

711.1938/290

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

No. 478  Panama, November 6, 1934.

[Received November 12.]

Sir: Referring to my despatch No. 476 of November 3, 1934, in which I made protest against certain remarks made by a municipal official at Colón, I have the honor to enclose herewith copy of the reply from the Foreign Office, the same being note D. D. No. 1865 of November 6, 1934, which, although it side-steps the issue and fails to take unto itself the responsibility for the actions of a municipal officer, nevertheless does disclaim liability or sanction on behalf of the Government for such statements.

Respectfully yours,

Antonio C. Gonzalez
[Enclosure—Translation]

The Panamanian Minister for Foreign Affairs (Arosemena) to the American Minister (Gonzalez)

D. D. No. 1865

PANAMA, November 6, 1934.

Mr. Minister: I have the honor to refer to Your Excellency’s kind communication of the 3rd of the present month, No. 276, and to inform you that the Panamanian Government does not share the ideas which Your Excellency states were expressed by Señor Luis Sayavedra, Municipal Auditor of Colón, in his speech in Colón on November 2nd, since, as Your Excellency knows, it has the very highest opinion of the Government of the United States of America so worthily represented here by Your Excellency.

Therefore, the Government of Panama does not or could not assume any responsibility on account of the expressions attributed to Mr. Sayavedra, and I beg Your Excellency to accept this sincere declaration as testimony of the high opinion which it has of Your Excellency’s Government, which has given so many proofs of inspiring your acts with the spirit of the highest understanding and of good neighborliness.

Please accept [etc.]

J. D. AROSEMENA

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T11.1928/289

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

WASHINGTON, November 20, 1934.

My Dear Mr. Minister: Your despatch No. 476 dated November 3, 1934, regarding the formal protest which you made to the Panamanian Government on account of the speech of Mr. Sayavedra, Municipal Auditor of Colón, has come to my attention. I feel that I must express to you my opinion that such action on your part was inadvisable in the circumstances. The Government of Panama of course is no more responsible for the sentiments expressed by a municipal employee of the City of Colón than is the Federal Government of the United States responsible for remarks made by a municipal employe in any town or city of this country.

The above view disposes of your demand for an apology which might, I feel, have given rise to an unpleasant incident, had the Panamanian Secretary for Foreign Affairs been so inclined; fortunately Dr. Arosemena was not so inclined.

Yours sincerely,

CORDELL HULL
URUGUAY
PRELIMINARY DISCUSSIONS RESPECTING A TRADE AGREEMENT BETWEEN THE UNITED STATES AND URUGUAY

611.3331/35

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

No. 574 Montevideo, January 16, 1934. [Received January 28.]

Sir: It will be recalled that in the course of the VII International Conference of American States, President Terra of Uruguay handed to me for transmission to you the Spanish text of a project for a commercial treaty between Uruguay and the United States—a translation of which I delivered to you and the general subject matter of which was discussed by you with Señor Marques Castro, Undersecretary of State for Foreign Affairs, in a conversation which he held at your office at the Parque Hotel. It will also be recalled that Uruguay's desires in this regard were advanced by the Uruguayan Delegation in the First Subcommittee of the Ninth Commission of the Conference.

In order that this matter may be made of record and laid before the Department in a manner which will permit of its consideration in connection with all phases of the question, I have the honor to transmit herewith:

1. The original Spanish text of the proposed Commercial Treaty, which was handed to me by President Terra and which was prepared in the Foreign Office by Señor Marques Castro (according to information subsequently received from the latter).
2. Translation thereof.
3. Copy of the proposal regarding quotas and import licenses presented by Señor Marques Castro at the First Subcommittee of the Ninth Commission of the Conference.
4. Translation thereof.

At the time when the President handed me this draft with the request that it be transmitted to you for your consideration, he informed me that he considered the results of the Ottawa Agreements very unfortunate for Uruguay, and that he believed that the American pack-

3 See Foreign Relations, 1933, vol. iv, pp. 1 ff.
4 Not printed.
5 Enclosures not printed.
6 The trade agreements concluded during the Imperial Economic Conference at Ottawa in 1932. See British and Foreign State Papers, vol. cxxxv, pp. 161 ff.
ing interests in Uruguay were already feeling the effects of this agreement and would soon feel them more severely. The President then observed "if this reaction upon the exports of our principal commodity continues, Uruguay will be ruined in five years".

He then emphasized the importance to Uruguay of revenue from this source—observing that while Argentina and Brazil, also exporters of cattle, had other products upon which they could rely, Uruguay was limited by conditions of topography and soil to principally pastoral pursuits. As a basis upon which to restore tariffs, or as a norm to which mutually advantageous comparisons might now be made, he referred to the tariff situation of 1928 which had been favorable to both nations, adding that the sale of American automobiles in Uruguay had at that time been satisfactory to us but that the automobile business at the present time was far from satisfactory—sales having been greatly reduced on account of lack of exchange and the Uruguayan demand far from satisfied for the same reason.

President Terra closed his remarks by expressing the hope that a solution might be proposed which would be practical and not theoretical.

As I reported to you at that time, I informed President Terra that although you were not in a position to discuss bilateral commercial treaties at this time, both the draft of the treaty and the President's observations would receive your attentive consideration—particularly in their relation to the economic principles that might emerge from the Conference, which had not at that time discussed the broader economic phases as set forth in your proposal. You will also recall that in your conversation with the Undersecretary of State for Foreign Affairs you informed him that the tentative provisions of the treaty, the problems advanced by the Uruguayan Delegation, and all other relevant matters, would be considered by our Government in due course.

Since the close of the Conference the matter has not again been broached to me, but it may be said that the matter of Uruguay's export of meat and meat products is as much to the fore as it ever was—especially in connection with the newspaper reports that cattle breeding interests in the United States have requested the Tariff Commission to raise the tariff on meat imports (as reported by telegraph in my telegrams Nos. 3 and 5 of January 5 and 13, respectively) American exporters, and Uruguayan importers of American goods, are faced in increasing degree by a continuing demand for certain American products which the producers are less and less inclined to furnish unless some solution be found by which the "frozen" peso accounts accumulated from previous sales may be released.

Respectfully yours,

J. BUTLER WRIGHT

*Neither printed.

The Chargé d'Affaires of Uruguay called to discuss the question of a reciprocity commercial treaty between our two countries. I stated to him that I had fully explained to his President Terra, to the head of the Uruguayan Foreign Office and their Delegation to the Montevideo Conference, just what the situation was, and I repeated it to him, which, in brief, was that in the first place I was as anxious as any person to negotiate reciprocity treaties which would develop mutually profitable trade to the fullest extent. I then called attention at length to the wild extremes to which all countries had drifted since the War in the direction of economic nationalism and isolation; that this policy of extremism had dried up world trade; that it would require some time to educate public sentiment back in the same direction; and that, therefore, each country must recognize the difficulties of the others and realize that a country like the United States could only get back to economic sanity by degrees, so far as liberal commercial policy to fully restore international trade was concerned—that as it returned to the more liberal plan of international economic cooperation, it could correspondingly enter upon reciprocity commercial treaties. I said I was opposed to embargoes or absolute prohibitions with respect to any and all commodities; and I earnestly hoped that at the earliest date the United States could enter into reciprocity treaties with countries like Uruguay which would embrace at least a few minor commodities at the beginning with the idea that by degrees in the future as public sentiment permitted the number could be increased. I said I felt that to the extent that any two countries could agree upon a mutually profitable exchange of commodities, it was a most important objective to have in mind.

I told the Chargé that of course the United States would not expect to sell any substantial quantities of meat or wheat to Uruguay or to the Argentine or any similar country that produced these for export, nor, on the other hand, should those two countries expect to sell any substantial amount to the United States which likewise produced them for export. I expressed the hope that after Congress acted on such application as might be made for power for the Executive to negotiate reciprocal commercial treaties based on mutual tariff concessions without the same having to be ratified by the Senate, we would be in a position to take up with all countries, as rapidly as possible, the negotiation of reciprocity treaties that would contemplate such commodities as might be deemed feasible in the light of public sentiment and which might be increased in number from year to year as sentiment
and general conditions permitted or made feasible. I made no definite commitments in any way except to outline and analyze the situation as above.

CORDELL] HULL]

Memorandum by the Secretary of State of a Conversation With the Uruguayan Minister (Richling)

[WASHINGTON,] July 18, 1934.

The Minister, during his call, inquired whether there were any new developments touching possibilities of a further trade agreement between Uruguay and the United States. I replied that we had individuals and groups carefully developing all the facts and making studies of trade possibilities with most of the Latin American countries, including Uruguay, and that during the coming months we hoped to be able to do what then might prove to be feasible in the way of further trade arrangements. I reminded him that we were obliged to move very slowly, having in mind opposition sentiment and other extreme difficulties to overcome, but that we were very anxious to work out any and all possible additional trade arrangements with his and certain other countries; that it would probably be after the November election; and that moreover at the beginning it might only be possible to work out agreements which related to but very few and possibly minor commodities; that however as sentiment improved it would be possible within six or twelve months following to develop a supplementary trade agreement, etc. The Minister replied that he fully understood the situation. He finally suggested that Uruguay produces a better cognac than France and that they could receive a substantial amount of cotton goods from us in exchange for cognac. I requested him to talk with Dr. Sayre 6 from time to time, as well as with myself, and stated that we would keep all phases of these suggestions specially in mind until the time an opportunity came to consider them more definitely and fully.

CORDELL] HULL]

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

No. 698

MONTEVIDEeO, August 9, 1934.
[Received August 20.]

Sir: I have the honor to refer to my despatch No. 687 of August 1, 1934, 7 which indicated that the question of exports of Uruguayan

6 Francis B. Sayre, Assistant Secretary of State.
7 Not printed.
meat would figure largely in any treaty negotiations carried on with Uruguay.

At various times in the course of the exchange discussions of the past fifteen days I had noted the recurrence of a statement made by Uruguayan officials to the effect that the importation into the United States of 30,000 tons of Uruguayan meat per year in addition to the amount already imported would solve present exchange difficulties. The Uruguayan officials appeared to think that sufficient dollar exchange would then be available in Uruguay to permit payment of obligations on the country's external debt bonds held under American ownership and provide for trade requirements in the amount necessitated for the transactions now taking place.

The relatively restricted quantity of additional meat which the official supervisors of the Uruguayan export trade would be pleased to place in the United States may seem to be worth considering in order that the position of advantage which American trade is gradually acquiring in Uruguay should not be hampered by any difficulties due to scarcity of dollar exchange.

The information available to the Legation seems to indicate that the average cost per ton of Uruguayan export meat is $110.00. Accordingly, an amount of approximately $3,300,000 in additional dollar exchange would enter Uruguay yearly in case exports to the United States would be increased by the 30,000 tons suggested in Montevideo.

According to the estimates of the Director of the Bank of the Republic, where foreign exchange operations are controlled, the present yearly requirement of dollar exchange amounts to over 12,300,000 pesos, distributed in the following manner on the basis of 1933 figures:

<table>
<thead>
<tr>
<th>Pesos Paid in 1933</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and amortization on five year gold bonds</td>
</tr>
<tr>
<td>Service on other bonds</td>
</tr>
<tr>
<td>Trade requirements</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

The value of United States imports from Uruguay for the year 1933, according to the official United States statistics compiled by the Department of Commerce, attained $3,772,861.00. This figure represents dollars which have not been adjusted for depreciation of the dollar from its former gold parity during 1933. In view of the existence of various rates of exchange, known as official, gray and free, it is impossible to convert with any accuracy into dollars the peso amount of the distribution table submitted in the previous paragraph. It would seem, however, that the 4,800,000 pesos estimated for trade requirements at the Bank of the Republic correspond to $3,772,861.

*See pp. 647 ff.*
The Department is aware through reports from the Legation and the Consulate General that whereas in 1933 exports from the United States to Uruguay conferred the fourth place to the United States in the list of exporting countries to Uruguay, the first six months of 1934 indicate that American exports now give the United States the third place on the same list.

According to Uruguayan statistics our exports to Uruguay during the first half of 1934 amounted to 4,663,901 pesos, while our imports for that period were valued at 4,071,663 pesos. In the first six months of 1933, the United States sold 2,532,622 pesos worth of goods to Uruguay and bought 1,909,123 pesos worth of Uruguayan goods. These figures indicate that while the volume of trade between United States and Uruguay is growing, Uruguay's unfavorable balance is declining. The figures for the first half of 1934 indicate that this unfavorable balance is now 6.8% in its relation to the total trade whereas in 1933 the percentage was 14%.

With the restrictions now being introduced by the Uruguayan Government, particularly with regard to the bill now before the Uruguayan Congress embodying the Government's decision to forbid the importation of products for which an import license had not previously been obtained, the prospect for a continued advance in the position which American trade is acquiring seems less favorable. The question, hence, arises as to whether the importation of 30,000 tons of meat yearly, as suggested in Uruguay, is of sufficient interest to the American export trade to Uruguay.

My personal impression is that the tonnage suggested in Uruguayan official circles is a maximum figure probably to be set forth eventually for negotiation purposes. For the sake of precision I may add here that the term official circles in this instance refers to the Commercial Section of the Ministry of Foreign Affairs and the office of the Director of the Bank of the Republic which supervises foreign exchange transactions.

In the conversations which I have had on recent occasions with Uruguayan officials, I have made it a point to lay stress on the present situation in the agricultural regions of the United States in order to impress them with the difficulties existing in the way of any increase in agricultural importations to the United States.

With regard to the scarcity of dollar exchange to which Uruguayan officials allude when talking about payment of interest and amortization services on bonds held under American ownership, I have always pointed out that maintenance of debt service payments was an obligation assumed by the borrowers and that commitments of this particular type should be met irrespective of the amount of exchange available from the particular country to which debt service payments
were to be made. I have expressed, as my personal opinion, that surpluses of foreign exchange from countries with which Uruguay had a favorable trade balance could be utilized for interest and amortization service on Uruguayan bonds held abroad to the greater advantage of Uruguayan credit.

Respectfully yours,

Leon Dominian

EFFORTS OF THE DEPARTMENT OF STATE TO SECURE EQUITABLE TREATMENT FOR AMERICAN INTERESTS WITH RESPECT TO URUGUAYAN EXCHANGE RESTRICTIONS*

S33.5151/143: Telegram

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

WASHINGTON, April 6, 1934—3 p. m.

22. The Department does not believe that there are grounds at this time for representations in the specific case of the American oil companies as reported in your despatch No. 596 of February 29, but desires you to cable your views as to the utility of making representations to the Uruguayan Government with reference to the general discrimination against American trade, which you report is being practised in the matter of the allotment of controlled foreign exchange.

Hull

S33.5151/155: Telegram

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

MONTevideo, April 11, 1934—8 p. m.

[Received 8:25 p. m.]

27. Your 22, April 6, 3 p. m. I consider that it would be unwise and inopportune to make representations regarding discrimination in allocation of exchange before elections to take place on April 19th., regarding which situation please also see my political reports. Commerce Committee of American association in meeting yesterday concurs in this opinion.

In despatch by air mail on 13th instant, I shall report concerning increase in our imports from Uruguay which (together with possibilities afforded by bilateral commercial treaty, if the bill to that end is passed by the Senate) will enable us to approach an Uruguayan

* See also section entitled “Special Mission of John H. Williams To Investigate Foreign Exchange Problems in Argentina, Brazil, Chile, and Uruguay,” vol. iv, pp. 380 ff.

** Not printed.
Government no longer trammeled by immediate political considerations upon a more clearly defined issue and with stronger arguments.

WRIGHT

333.5151/170

The Consul General at Montevideo (Reed) to the Secretary of State

No. 501 Montevideo, June 1, 1934.

[Received June 14.]

Sir: I have the honor to refer to my strictly confidential despatch No. 495 of May 16, 1934,11 entitled “Allotment of Exchange to American Interests”, and in continuation thereof to give the figures for the first four months of 1934, as well as the totals of the exports from Uruguay to the United States for the same period for comparison therewith.

In the despatch above referred to, it was stated that there was some doubt as to how the new basic figure for exchange allotments to the United States (which was apparently due as a result of increased Uruguayan exports to the United States) should be obtained. It has been learned from an official of the Exchange Control Commission that the formula used by the Commission is still the original one, according to which the exchange to be allotted to American interests should be 231% of the value of the Uruguayan exports to the United States during any given period. In other words, the allotting of exchange is to vary immediately with American purchases, and to be equalized as promptly as possible, instead of in a subsequent period. This policy has not been followed by the Control Commission, however, either for the year 1933 or for the first four months of 1934. It is believed that the Commission’s failure to do so is the reason for the non-publication of figures for 1933. The Commerce Committee of the American Association of Uruguay, acting on this assumption, has decided to request from the Control Commission a statement of the exchange allotted to American interests during the second half of 1933 and the basis thereof (a similar statement for the first six months of 1933 having been received). As mentioned in my previous despatch, the total amount of exchange allotted to American interests in 1933 was 10,441,019 pesos, while 231% of the value of Uruguayan exports to the United States in 1933 equals 12,820,500 pesos.

For the first four months of 1934, the total amount of exchange allotted to American interests was 2,618,804 pesos, which was converted to dollars 2,044,263. The inadequacy of this allotment is apparent when it is compared with the value of the exports to the United

11 Not printed.
States during the same period, which, according to Uruguayan official statistics were valued at 2,628,750 pesos, 231% of which would be 6,072,313 pesos, which is apparently the amount of exchange that should have been allotted.

The exchange allotted month by month, in pesos, the rate used, and the total in dollars, is given herewith:

[Here follows statistical table, not printed.]

On April 9, 1934, the Exchange Control Commission took over the distribution of the so-called “compensated exchange”, fixing its price at 40% above the cost to the Uruguayan buyer of official exchange. The figures obtained from the Control Commission now include the amount of “compensated” exchange allotted, in addition to that granted at the official rate. As this Consulate General has learned that the figures for the total exchange granted for American interests in the past also included “compensated” exchange, the totals for the months of January, February and March have been broken down into official and “compensated” exchange in order that they may be compared with the figures for April and with future totals. It is noted that a very important part, nearly half, of the exchange distributed to American interests for general imports (not including petroleum products) was in the form of compensated exchange, which explains the complaints of importers of American goods that they were individually receiving very little official exchange. From these figures, there was only exchange amounting to 501,250 pesos granted for American goods, (except petroleum products) during the first four months of 1934. The reason for the separate classification of petroleum products has been explained in previous despatches from the Legation and this Consulate General, and is due to the fact that the Control Commission charges such products, not to the quota of the country of origin, but according to the nationality of the handling company. Information obtained in the past by this Consulate General has indicated that much of these commodities imported into Uruguay by American-owned companies were not of American origin, and the Commerce Committee has not, as yet, accepted this procedure, tending to favor the practice of allotting exchange according to the country of origin of the merchandise. It has not formally protested to the Exchange Control Commission, however, deeming it desirable to await some statement of policy from the State Department which might serve as guidance. The detailed figures of exchange distributed to American interests during the first four months of 1934 were as follows:

[Here follows statistical table, not printed.]

Respectfully yours,

Leslie E. Reed
810.5515 Williams Mission/3 : Telegram

The Acting Secretary of State to the Chargé in Uruguay (Dominian)

WASHINGTON, July 3, 1934—7 p.m.

30. By arrangement with the Federal Reserve authorities, Mr. John H. Williams, economist of the Federal Reserve Bank of New York and an expert in international exchange, accompanied by Mr. Donald R. Heath of the Division of Latin American Affairs of this Department, sailed June 30 to visit Rio de Janeiro, Buenos Aires and Santiago to confer with the American missions and the governments in those countries regarding the exchange problem. They also are hopeful of visiting Montevideo with the same object and will do so if time permits. Their tentative plans call for their arrival at Rio de Janeiro on July 13 and at Buenos Aires on July 31. It is suggested you communicate with them regarding the possibility of their visiting Montevideo, and send them a report on the development of exchange control, including a careful analysis of the present exchange situation, and copies of current despatches.

Carr

833.51/591 : Telegram

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

WASHINGTON, July 10, 1934—6 p.m.

31. Recently published press reports from London state that American interests in Uruguay are being jeopardized by foreign exchange negotiations now being conducted between that country and Great Britain in which Great Britain is insisting, with threat of compulsory action, that Uruguay allocate the greater part of its sterling exchange in settlement exclusively of all British long term obligations, British-Uruguayan trade necessities, and payment of dividends due on British investments in Uruguay. The report adds that this would prevent or seriously prejudice payment of American and other foreign obligations of Uruguay.

Please discuss this question with the Foreign Minister expressing our confidence that the Uruguayan Government will strongly resist any effort in case any is being made, to have it discriminate against American interests. So far as service on Uruguayan external obligations is concerned, you may recall that the present service on Uruguayan dollar bonds is made on a flat 3½% basis irrespective of the fact that some of the issues carry 8%, others 6%, and others 5%. This existing arrangement is understood to be made on the basis of treating all Uruguayan external obligations alike, but it ignores the fact that

13 For the Department’s Instructions to Mr. Williams, see vol. iv, p. 300.
it gives the British full interest service (their bonds in great part
drawing only 3½% interest) and gives American holders the dispro-
portionate service indicated. Furthermore, it is worth recalling that
Argentina in the Roca Agreement with Great Britain, while appar-
etly accepting the principle that sterling exchange arising from the
sale of Argentine products to Britain should be available for meeting
applications for remittances from Argentina to Britain, nevertheless
insisted that there should first be deducted from such exchange sums
necessary to effect payment of service on Argentina’s public external
depts, national, provincial and municipal, payable in countries other
than Great Britain.

Cable report.

Hull

833.51/593: Telegram

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

MONTEVIDEO, July 12, 1934—6 p. m.
[Received 8:10 p. m.]

47. Department’s 31, July 10, 6 p. m. Following a conversation
this evening with Foreign Minister regarding press reports from Lon-
don referred to in above cited telegram the Minister confirmed British
insistence on the total allocation of sterling exchange as indicated in
Department’s July 10, 6 p. m., but added that Uruguayan Government
was insisting upon retaining sufficient exchange to apply Uruguayan
external debts to other than British creditors. Great Britain, he con-
tinued, still refused to agree to this Uruguayan suggestion of exchange
distribution on the plea that British exchange should not be diverted
to non-British uses. Nevertheless, the Minister stated that Uruguayan
viewpoint of retaining sufficient exchange for other than British
indebtedness would be maintained. He furthermore claimed familiar-
ity with recent agreement between Argentina and Great Britain which
he considered as fair. I shall see the Minister tomorrow and may
report again.

Dominian

833.51/595: Telegram

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

MONTEVIDEO, July 13, 1934—2 p. m.
[Received July 13—2 p. m.]

48. Referring to Department’s telegram No. 31, and Legation’s 47,
July 12, 6 p. m., Minister of Foreign Affairs informed me this morning

*See Foreign Relations, 1933, vol. iv, pp. 722 ff.*
that Uruguay was suggesting giving Great Britain 90 percent of 
stereo exchange and retaining the balance of 10 percent for use in 
allocation of exchange to countries other than Great Britain. Dis-
cussions at present were based, he said, on the amount of these respec-
tive percentages and while British had been unyielding at first, he 
thought he detected signs of possible willingness on their part to 
accept 90 percent sterling exchange. He expressed hope that an 
arrangement on the above mentioned division of percentages would 
be made finally with Great Britain but cautiously added that Uruguay 
could not prevail against Great Britain's economic strength.

DOMINIAN

833.51/599

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

No. 670  MONTEVIDEO, July 13, 1934.  [Received July 23.]

Sir: Confirming my telegrams No. 47 and 48 of July 12, 6 pm. and 
July 13, 2 pm., respectively, in which, complying with the Depart-
ment's telegraphic instructions contained in its telegram No. 31, of 
July 10, 6 pm., I reported the result of my discussions with the 
Foreign Minister about recent press items published in London to 
the effect that American interests in Uruguay were being jeopardized 
by the foreign exchange negotiations now being conducted between 
Great Britain and Uruguay, as a result of British insistence, with 
threat of compulsory action, that Uruguay allocate the greater part 
of its sterling exchange in settlement exclusively of all British exchange 
requirements thus seriously prejudicing payment of American and 
other foreign obligations of Uruguay, I have the honor to report, in 
amplification of both of my above quoted telegrams, that I had the 
opportunity of talking to the Minister of Foreign Affairs yesterday 
evening and this morning. In both interviews his conversation in-
dicated considerable anxiety as to Uruguayan ability to resist British 
pressure now being exerted to compel allocation to Great Britain of all 
sterling exchange.

The attitude of the Foreign Minister reflects general sentiment in 
this country and is based primarily, as far as I am able to ascertain, 
on the exceedingly precarious economic condition in which Uruguay 
would be placed at once in case of the slightest cessation of its meat 
exports to Great Britain. It is evident that the fear of a possible 
curtailment in these meat exports to Great Britain dominates the mind 
of the Foreign Minister to an extent which he appears unable to hide.

Complying with the Department's telegraphic instructions, I re-
called in the course of my discussion with him that the existing
URUGUAY

arrangement regarding interest service of a flat 3 1/2% basis on Uruguayan dollar bonds undoubtedly favored British holders as the British share of these bonds was originally issued at 3 1/2% interest whereas American holders had to suffer cuts in interest yield which in some instances amounted to 50%. I also referred to the Roca Agreement 15a between Argentina and Great Britain in which Argentina had made reservations for exchange funds necessary to effect payment of service on Argentina’s public external debts in countries other than Great Britain.

Minister Arteaga was familiar with the Roca Agreement and stated that he considered it as fair. Moreover he thought that Uruguay was acting along similar lines. In my interview this morning, as reported in telegram No. 48 of the above two telegrams, he stated that he hoped that it would be possible to retain 10% of sterling exchange for the exchange requirements of other countries than Great Britain. This, he stated, in addition to the exchange acquired through sale of Uruguayan exports to countries other than Great Britain would suffice for distribution of exchange to American and other interests in a manner which would not be discriminatory against them as compared to the amounts paid to Great Britain.

I spoke to him then on my reliance on his own sense of fairness and expressed our confidence that the Uruguayan Government would strongly resist any effort which might be made to have it discriminate against American interests. To this he replied that his Government’s endeavor to retain a 10% balance of sterling exchange was evidence of Uruguayan desire to avoid discrimination and said that he would try to maintain insistence on the retention of the 10% balance as long as it could be done without prejudice to Uruguayan interests.

Respectfully yours,

LEON DOMINIAN

810.5151 Williams Mission/32

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

No. 673

MONTEVEDIO, July 16, 1934.

[Received July 30.]

Sir: I have the honor to acknowledge the receipt of the Department’s instruction No. 258 of July 5,14 in which referring to the Department’s telegram No. 30 of July 3, relative to arrangements made with the Federal Reserve authorities for the visit of Mr. John H. Williams, economist of the Federal Reserve Bank of New York, the Legation is informed that Mr. Williams, accompanied by Mr. Donald R. Heath of the Division of Latin American Affairs of the Depart-

14 Not printed.
ment, will arrive in Rio de Janeiro on July 13 and will thence proceed to Buenos Aires prior to returning to the United States by way of the West Coast.

It is gratifying to find that the Department considers it desirable that Mr. Williams should visit Montevideo and be of assistance in the problems arising in Uruguay as a result of exchange control in the country. It is noted also that Mr. Williams himself is anxious to include Montevideo in his itinerary, subject to the limitations in time of leave granted him by the Federal Reserve authorities.

A review of the exchange situation at the present moment leads me to conclude that Mr. Williams' presence at Montevideo, for part of a day, at least, while on his way to Buenos Aires would be of positive importance. I am enclosing herewith copies of a telegram and a letter addressed to him which are self-explanatory regarding the value of not omitting Montevideo from his itinerary. His visit, should he decide to make it, will be all the more useful in view of the conversations on problems of exchange which have taken place between Minister Wright and the Ministry of Foreign Affairs, and which I am carrying on since Mr. Wright's departure. As steamers proceeding to Buenos Aires by way of Montevideo usually stop over during a great part of the day in this city, it is believed that the enforced stay in the capital will provide Mr. Williams with sufficient time to meet the leading officials and business men here who are dealing with the exchange problems of Uruguay. Care will be taken to provide him with the necessary contacts within the duration of his stay, and the Department will be kept informed of developments as they arise.

Respectfully yours,

LEON DOMINIAN

810.5151 Williams Mission/24: Telegram

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

WASHINGTON, July 17, 1934—7 p.m.

83. For Doctor Williams. Recent developments in the exchange situation in Uruguay prejudicial to American interests make it seem highly important that you visit Montevideo and study the problem there. I very much hope that you will find it possible to do so, even though this may mean extending your trip 10 days or 2 weeks longer.

Hull

18 Neither printed.
URUGUAY

833.51/595 : Telegram

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

WASHINGTON, July 19, 1934—1 p. m.

32. Your 47 and 48, July 12, 6 p. m., and July 13, 2 p. m. From preliminary consideration of the matter it seems clear that retention of 10 per cent of sterling exchange for use in allocation of exchange to countries other than Great Britain will not allow Uruguay to give anywhere near as favorable treatment to American exporters and investors in allocating exchange as she apparently proposes to give British exporters and investors. Please discuss this with the Foreign Minister and report his views. Discrimination in Uruguay against American interests obviously must cause unfavorable reaction in this country.

HULL

833.51/597 : Telegram

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

MONTEVIDE0, July 20, 1934—5 p. m.
[Received July 20—4:28 p. m.]

49. Department's telegram No. 32, July 19, 1 p. m. In view of absence from capital of Minister for Foreign Affairs, I discussed today with Undersecretary of Foreign Affairs the matter of prevention of discrimination against American interests in allocation of exchange. Undersecretary informed me that no decision had been reached as a result of exchange conversations with Great Britain and expressed assurance that Minister for Foreign Affairs would keep me informed of the progress of exchange discussions between Uruguay and Great Britain. I hope to report further after return of Minister for Foreign Affairs who is expected tomorrow.

DOMINIAN

833.51/598 : Telegram

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

MONTEVIDE0, July 23, 1934—5 p. m.
[Received 7:06 p. m.]

50. Referring to Department's telegram No. 32, July 19, 1 p. m. and my telegram No. 49, July 20, 5 p. m.

I have discussed again with the Minister for Foreign Affairs on Saturday and today the question of prevention of possible discrimination against American interests in allocation of foreign exchange. He believes no discrimination will exist as long as the same percentage,
based on the value of country's imports of Uruguayan products, is provided respectively to each importing country and suggests that increase in American purchases of Uruguayan products, principally meat, will provide increasing amounts of dollar exchange. He also emphasized the difficult economic position in which Uruguay is now placed as a result of scarcity of foreign exchange due to the insufficient quantity of its exports. I have called his attention to the inevitable conclusion which will be reached in the United States that discrimination against American interests exists if sufficient dollar exchange to meet American requirements of trade and of investment services is not provided while British investors and exporters continue securing all sterling exchange they need. He informed me the British have complained of discrimination against them because the percentage allotted to American interests has been higher in the past than that given to British. However, Minister stated definitely today that equal treatment would be extended and that he would be able to make more definite statements when British negotiations had progressed further. A paraphrase of this telegram is being provided to the Minister for Foreign Affairs to avoid possibility of misunderstanding.

DominiAN

810.5151 Williams Mission/45

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

No. 685

MONTEVIDEO, July 31, 1934.

[Received August 13.]

Sir: Referring to my despatch No. 673, of July 16, 1934, and No. 677, of July 20, 1934, relative to the call in Montevideo of Messrs. John H. Williams and Donald R. Heath, I have the honor to report that both of these gentlemen, accompanied by Dr. Eric Lamb of the Federal Reserve Bank, reached Montevideo on July 27th and left for Buenos Aires on the evening of the 28th.

I am enclosing herewith a copy of the schedule of their activities during their stay in this capital. The series of their conferences was initiated by a luncheon with the American Association of Uruguay, an association which acts as an American chamber of commerce in this city. The luncheon was attended by the members of the executive and commercial committees of the above-named association, and provided an opportunity for Dr. Williams to become acquainted with the viewpoints of the representatives of American interests operating in Uruguay. Throughout the luncheon Dr. Williams made a point of asking questions of the members present to familiarize himself with their views and desires.

16 Latter not printed.
17 Not printed.
The luncheon was followed by the presentation of the visitors to the Minister for Foreign Affairs at 2:30 p.m. I had arranged for this meeting to enable these gentlemen to pay their respects to the Minister, and also with the idea of providing for an exchange of views on the Uruguayan exchange situation between Dr. Williams and the Minister for Foreign Affairs, who is intimately acquainted with exchange developments in Uruguay and who has taken the lead, personally, in the exchange negotiations carried on between his country and several of the countries which provide the Uruguayan market with foreign exchange.

This call was followed immediately by a round table conference at the Ministry of Foreign Affairs. The Minister attended the conference in person together with the chief of the Commercial Section of the Ministry of Foreign Affairs, the Director of the Bank of Uruguay and representatives of American and Uruguayan interests. Consul General Leslie E. Reed, whom I had asked to accompany me to this meeting, was also present. The Uruguayan viewpoint on the exchange situation was submitted to Dr. Williams by the Minister for Foreign Affairs, supported by the representatives of Uruguayan interests who were in attendance, while the American views were presented by the manager of the local branch of the National City Bank, Mr. H. H. Whitman, who is also President of the American Association of Uruguay. Technical discussions and details of this conference will be incorporated in Dr. Williams' analysis of the observations made on his trip.

The argument developed by the Minister for Foreign Affairs consisted in the statement that foreign exchange was becoming increasingly scarce in Uruguay as Uruguayan exports tended to decline, and that this scarcity of exchange was now accompanied by pressure on the part of European countries having favorable commercial balances in their trade with Uruguay for recovery of their respective exchange through Uruguayan purchases of their products. The Uruguayan Government was thus being forced into canalization of its foreign trade on a basis of purchasing from the countries which purchased from Uruguay. The Minister expressed himself as being opposed to this method of international trade but spoke of it as a case of force majeure at the present time, in order to prevent cessation of meat exports from Uruguay. He then gave voice to opinions which I have previously reported to the Department, namely, that foreign exchange would be provided mainly, under the Uruguayan exchange control system, to importers of the nationalities which purchased from Uruguay and that where exchange would be allotted to any one country in amounts representing percentages of the value of that country's purchases of Uruguayan products, the same percentage would be attributed to other countries in order to prevent discrimination.
Throughout the conference it was apparent that the Uruguayan position was controlled almost exclusively by the fear of a possible cessation, or a curtailment, of its meat exports to the main purchasing countries. The Minister for Foreign Affairs stated several times that Uruguay was forced to adopt the exchange restrictions now being put into effect because of the insistence which countries like Great Britain, France, Germany and Italy were maintaining for the return of all exchange emanating from each one of them respectively.

In the course of this conference, Dr. Williams drew on his broad experience to summarize the Uruguayan situation and was able to convince the Minister for Foreign Affairs that a policy of restricting imports, although perfectly sound, might defeat its purpose if applied unwisely or in a manner which would prevent the pooling by Uruguay of foreign exchange flowing into the country so as to make use of the foreign currencies in the payment of its external obligations as well as in the best interests of the Uruguayan consumer. Dr. Williams spoke with authority, based on intimate knowledge of exchange conditions in various important countries of the world. I noticed that the Uruguayan gentlemen present at the round table conference, and in particular the Minister for Foreign Affairs, were greatly impressed by his statements.

Later in the evening, Dr. Williams had an opportunity of discussing further the Uruguayan exchange problem with the Minister for Foreign Affairs, as both met at the Legation as my guests for dinner.

On the 28th, Dr. Williams and his party met the Director of the Banco de la República Oriental del Uruguay, at the Bank's offices, to discuss particular aspects of the country's exchange problem and in order to obtain data regarding the present exchange situation. This meeting lasted an hour, and enabled Dr. Williams to obtain an insight into the practical working of the Uruguayan exchange control, which is exercised through the agency of the Banco de la República Oriental del Uruguay. The bank is also the Uruguayan correspondent of the Federal Reserve Bank.

The meeting at the Bank was followed by a courtesy call on the Minister of Finance. The Minister for Foreign Affairs kindly undertook to present the three visitors to his colleague and I accompanied them to the Ministry of Finance. There the Finance Minister, Señor Manuel Ríos, indicated that while Uruguayan finances were in favorable condition and the country enjoyed a balanced budget, it was nevertheless necessary to prevent a flow of foreign currency out of the country in excess of the amount brought in.

In the afternoon, the Minister for Foreign Affairs received Messrs. Williams, Heath and Lamb at his home, the opportunity being thus offered for further discussion of various aspects of the Uruguayan
exchange situation. Dr. Williams' report will contain the technical considerations which are, perforce, omitted from this despatch.

It is gratifying to find that I am able to report that the visit of Dr. Williams to Montevideo at this time may be considered as particularly fortunate. His profound knowledge of economics and his familiarity with foreign exchange problems created a favorable atmosphere around him whenever he found himself among Uruguayan officials and disposed them to listen attentively to his remarks. I was struck with the excellent impression he had created when we went to the Ministry of Finance, and I am in a position to substantiate this observation in the following manner. While our call at the Ministry of Finance was in progress I noted that an undertone conversation took place between the Minister for Foreign Affairs and the Minister of Finance, on ways and methods of enforcing exchange control in the course of which the Minister of Finance said to his colleague that they would be fortunate if they could find an advisor as competent as Dr. Williams, or—pointing to Messrs. Heath and Lamb—a young man of the caliber of these two men, in order to place him in charge of the exchange control system. These remarks, although not particularly intended for my ears gave me an opportunity later in the day to intimate discreetly to the Minister for Foreign Affairs that I would be happy to ascertain whether the services of a technical official of the Federal Reserve Bank would be available for a short period if he thought that the employment of such an experienced expert would be of advantage to the Banco de la República del Uruguay. His reply was that he personally favored the temporary employment, as advisor, of one of our trained banking officials, but he thought that the present political situation in the country would not permit employment of foreigners.

There is no doubt, however, that Dr. Williams' statements on the exchange situation made a profound impression on the Minister for Foreign Affairs, as well as on the Director of the Bank of the Republic. In that respect his visit to Montevideo was an unqualified success.

Respectfully yours,

Leon Dominian

833.5151/194: Telegram

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

Montevideo, August 8, 1934—3 p. m.

[Received 3:10 p. m.]

54. Control of free exchange mentioned in my telegram 53, August 2, 4 p. m., will become effective on August 15th according to a decree dated August 4.

Dominian

38 Not printed.

789736—52—46
No. 287

WASHINGTON, October 5, 1934.

Sir: There is transmitted herewith a copy of the section relating to Uruguay of the report of Dr. John H. Williams, of the Federal Reserve Bank of New York, of his mission of investigation of American foreign exchange problems in certain South American countries. Copies of the full report 19 are being sent you under separate cover. These copies should be kept in the confidential files of the Legation and the Consulate General, and precaution should be taken to prevent any material in the report from reaching unauthorized persons.

You are requested, in accordance with the suggestion made on page 34 of the report, 20 to investigate the complaint that the amount of exchange allocated by the Uruguayan Exchange Control for imports from the United States is less than it should be because exchange necessary for payment of petroleum products imported by American companies from South American producing areas is charged to the limited quota of exchange set aside by the control for imports of American origin. Should your investigation show this complaint to be founded, your report should be accompanied by an expression of your views as to the advisability of making representations.

You are also directed, in accordance with the suggestion contained on pages 35 and 36 of the report 21 to inquire orally of the appropriate authorities of the Uruguayan Government as to the maturity of the new issue of amortizable obligations which it is understood will be offered to foreign holders of blocked credits in Uruguay and to point out informally, as being in Uruguay's own interest, that their term should be as limited as possible. The Department realizes that it may be thought necessary to the Uruguayan program of orderly operation and eventual liberation of exchange control to remove the pressure on the exchanges of the present accumulation of frozen credits by spreading their transfer over a certain period of time, but any attempt to fund them into long term obligations would tend, it is believed, to defeat this object. It would, besides, inflict unjustified further hardships and losses on American holders of frozen credits in addition to those already suffered as a result of Uruguayan control of exchange, whereas, no restriction has been placed by this Government on remittances to Uruguay. American subscribers to the amortizable obligations previously issued by the Uruguayan Exchange Control have had no regular market or facilities for discounting them.

19 Vol. IV, p. 393.
20 Ibid., p. 420, first paragraph.
21 Ibid., p. 421, fourth paragraph.
and if the proposed new issue should be of long term obligations, it would be difficult, if not impossible, to create a satisfactory market for their sale or discount under present conditions. It is anticipated that, rather than accept possibly unmarketable long term obligations, many holders of blocked balances would be forced to take the losses which would be incurred by transferring their credits through the free market.

The Department would appreciate receiving by air mail any comments or expression of views which you may care to make on the matters treated in the report. It would be helpful to the Department in its consideration of the exchange problem if the Legation, in connection with the Consul General in Montevideo, were to prepare a study of the balance of payments between Uruguay and the United States in 1933 and an advance estimate of the balance for 1934.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

833.5151/236

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

No. 794

MONTEVIDEO, October 17, 1934.

[Received October 29.]

Sir: The importance of the removal of exchange restrictions in Uruguay as an aid to the country's international trade led me to inquire of the Director of the Bank of the Republic, in the course of a conversation which I had with him on October 15, as to whether there existed any likelihood of a total return to free exchange transactions in Uruguay. I have the honor to report that the Director stated that every effort was now being exerted by the appropriate agencies in Uruguay to reestablish the system of free exchange trade at the earliest possible moment. According to him, each step taken in the exchange control system adopted during the last two years constituted a stage in approaching the goal of the total removal of exchange restrictions. He stated that he now hoped that exchange control would be totally removed in Uruguay in the course of the first six months of 1935, unless some unforeseen event should force its continuation.

In making this statement, however, the Director of the Bank stated that control over importations would not be lifted as he, along with the Government officials entrusted with the supervision of the import and export trade were of the opinion that the control over imports recently inaugurated would have to be maintained until complete economic recovery of Uruguay had taken place and until they thought it necessary to prevent the importation of articles which were deemed unnecessary, although not classed as luxuries.
the official rate is not known in view of the intention of the Government to restrict the granting of official exchange to Government purchases only. It is understood that the oil companies would be satisfied if they could continue obtaining exchange at the so-called compensated rate of exchange which is an intermediary rate between the official and the free rate and is worth slightly more than the latter. However, there is nothing to warrant belief in the continuation of the awarding of exchange at rates other than the free rate, as the present tendency of the Uruguayan exchange control office is to direct exchange transactions into the free market. If, eventually, the oil companies obtain exchange at the free rate only, the cost of oil products will increase in Uruguay.

The determination of the amount of that portion of exchange, in the quota allotted to American interests, which represents payment for oil derived from non-American territory, is stated to be complicated. It appears that the origin of the oil supplied to Uruguay by American companies varies from month to month according to the dictates of the commercial and economic convenience of the companies interested. The preliminary figures of exchange allotment by countries for the month of September, 1934, indicate that out of a total of $171,708.64 allotted to American exporters there was included about $94,000 for petroleum products. The quantity of petroleum emanating from fields in the United States included in that total is known only to the petroleum companies which do not give out their statistics or information as the particular phase of the exchange problem, considered in this despatch, is one in which they are not interested. It is not unlikely, however, that the Uruguayan customs statistics may contain data on the quantity of oil of non-American provenience imported by American companies.

The Texas Oil Company claims to be the only American oil company whose exports to Uruguay are of American origin. The other American oil companies appear satisfied with receiving dollar exchange for the total amount of their imports into Uruguay. Their business may be seriously jeopardized if they are unable to continue receiving dollar exchange for all the products they sell in Uruguay. The complaint that dollar exchange provided for oil products of non-American provenience is part of the quota assigned to the United States emanates from American exporters who do not deal in oil products. Their viewpoint differs from that of the oil companies, thus giving rise to two distinct, and possibly opposing, currents of ideas on the subject.

The difficulties inherent to the determination of the value of oil of strictly American origin may have been taken into account by the Commerce Committee of the American Association of Uruguay after
its discussions last spring with the Bank of the Republic as the subject appears to have been dropped until the arrival of Dr. Williams in Montevideo last July. Neither does it appear to have been considered subsequently in the form of a formal complaint.

In view of the existence of apparently divergent viewpoints in the two groups of American exporters consisting respectively of exporters of oil and its products and of exporters of commodities other than petroleum products, and, moreover, in view of the possibility of the removal of exchange control indicated in my despatch No. 794 of October 17, 1934, it is submitted respectfully that representations be made only after formal complaint has been received at the Department or the Legation from legitimate importing interests, if conditions existing at the time of the receipt of such complaints warrant the representations being made without general prejudice to American interests.

Respectfully yours,  

Leon Dominian

810.5151 Williams Mission/68

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

No. 871  
Montevideo, December 11, 1934.  
[Received December 26.]

Sir: In its instruction No. 287 of October 5 the Department indicated that it would find it helpful if a study of the balance of payments between the United States and Uruguay could be prepared, and on page 3 of the Legation’s despatch No. 805 of October 23, 1934,22 I informed the Department that the Department’s suggestion would be complied with. I have the honor, in pursuance of the above, to enclose herewith a preliminary report 22 prepared by Vice Consul Lippincott, who has been detailed to the Legation pending the arrival of Mr. Paul J. Gray, recently assigned as Third Secretary.

It may be noted from the report that the adverse balance of payments which characterizes Uruguay in its economic relations with the United States is gradually being reduced, as it has decreased from over $4,000,000 U. S. currency in 1933 to an estimated amount of a little over $1,000,000 U. S. currency for the year just about to end. Lack of precise information regarding the items which enter into the determination of the balance of payments prevents these figures from representing more than an approximation. As such, however, it is believed that they indicate, with fair accuracy, the present situation.

Respectfully yours,  

Leon Dominian

22 Not printed.
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