EL SALVADOR

NEGOTIATIONS RESPECTING A RECIPROCAL TRADE AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR[1]

611.1631/138a

The Secretary of State to the Minister in El Salvador (Corrigan)

No. 201 WASHINGTON, February 27, 1936.

SIR: The Department is giving consideration to the possibility of making a matter of record in some way, in connection with the proposed trade agreement with El Salvador, the concessions which the latter will enjoy by virtue of generalization of concessions made by the United States in other trade agreements but which cannot for reasons of policy be included in Schedule II[2] of the agreement. For your information, a product cannot ordinarily be considered for inclusion in Schedule II unless the country concerned is the chief or an important supplier of the product to the United States. In cases where a commitment on an article has already been made by this Government in another agreement, such commitment cannot ordinarily be written into a second agreement unless there is adequate trade justification.

The Department has been aware of the difficulty in the pending trade agreement negotiations with the Latin American Republics of finding products which can be, consistent with the policy outlined above, included in Schedule II. The fact that such products are limited in number (with most of them on the free list) may affect the negotiations unfavorably or perhaps later militate against Congressional ratification.

The suggestion has been made, therefore, that in connection with the pending negotiations with the Latin American Republics notes be prepared by this Government which will list those concessions of interest to each of the other Governments selected from other trade agreements but which cannot be written into Schedule II of the agreements because of failure to meet the requirements referred to above. The purpose of such notes would be to further the success of the negotiations and after their conclusion, to aid in obtaining Congressional ratification. It would be primarily an accommodation to the various Governments with which we are negotiating.

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[1] Continued from *Foreign Relations*, 1935, vol. IV, pp. 539–568.

[2] Tariff rates conceded by the United States on Salvadoran products imported into the United States.

On the basis of its studies so far, the Department is not entirely convinced of the necessity of sending such a note. Before deciding the matter definitely, however, it wishes to learn the opinion of the various missions concerned. You are therefore requested to report fully on this subject, emphasizing whether or not you believe that the negotiations which you are now conducting with the Salvadoran Government would be materially influenced by the plan under consideration.

Very truly yours, For the Secretary of State:
FRANCIS B. SAYRE

611.1631/139

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 615 SAN SALVADOR, March 4, 1936.
[Received March 11.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 201, of February 27, 1936, requesting an expression of opinion as to the advisability of pointing out to the Salvadoran Government, by note, in connection with the trade agreement negotiations, the advantage which would accrue to it from the generalization of the concessions granted in trade agreements already signed.

As the Department is aware, the first study of the suggested Schedule I,[3] made by Doctor Alfonso Rochac, pointed out that coffee was El Salvador's principal export; that it entered the United States free of duty; that under the Trade Agreements Act,[4] the President had no authority to change any commodity from the free to the dutiable list; that even if coffee were subjected to import duties, by Congressional action, continued free entry had been granted other countries (Brazil) in trade agreements already signed; and that similar treatment was insured to El Salvador through the most-favored-nation clause of the Treaty of Friendship, Commerce and Consular Rights, signed in San Salvador on February 22, 1926[5] (Treaty Series No. 827.).

While the Salvadoran Government has indicated its willingness to sign a trade agreement, its attitude has been that such action would be a gesture of good will, rather than in order to insure positive commercial advantages to El Salvador. In the conversations now being conducted with the Undersecretary of Finance, Doctor Max. P. Brannon, relative to Schedule I, there has been a tendency to grant unimportant concessions grudgingly; and to withhold concessions on nearly all the important items, for example, wheat, flour, lard, cotton piece

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[3] Tariff rates conceded by El Salvador on American products imported into Nicaragua.
[4] Approved June 12, 1934; 48 Stat. 943.
[5] *Foreign Relations*, 1926, vol. II, pp. 940, 943.

goods, et cetera. While the conversations are still continuing, Doctor Brannon's attitude is one of giving ear, but not serious consideration, to the other factors to be considered; the atmosphere being that he is not willing to be convinced, nor seriously to consider the possibility that reduced duties will result in increased imports to such an extent as to offset the possible loss of revenue. His position is also that of refusing any concession when the question of protection of any Salvadoran industry is concerned; no matter how unimportant or uneconomic the industry, or the amount of protection (sometimes excessive) now granted.

It is consequently considered that the submission of a note, pointing out the advantages which will accrue to El Salvador through generalization of the concessions already granted in trade agreements signed up to this time, would be of material assistance in obtaining further and important concessions, not only in discussion of the matter with Doctor Brannon, but also in conversations with the President.

Respectfully yours, FRANK P. CORRIGAN

611.1631/142

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 637 SAN SALVADOR, March 26, 1936.
[Received April 2.]

SIR: I have the honor to refer to the Legation's despatch No. 618 of March 5, 1936,[7] on this same subject, and particularly to the last paragraph thereof, reporting that President Martínez had promised to arrange an interview with the Minister, and to concede sufficient time for a thorough discussion of the various items covered by the tentative Schedule I (forwarded with the despatch under reference), before the Government should make a final decision relative to the concessions to be granted.

The conversations with the Ministry of Finance have reached the point where very little in the way of further concessions is to expected; and according to the Report of the Ministry read to the Legislative Assembly on March 19, 1936, (covered by despatch No. 633 of March 25 [*23*], 1936 from this Legation[7]), Minister Samayoa is opposed to the principle of most-favored-nation treaties. In the circumstances, it appeared desirable to discuss the present status of the negotiations with the President.

Minister Corrigan, accompanied by Secretary Cochran,[8] went by appointment to the Casa Presidencial on the morning of March 24th, and in a lengthy interview with President Martínez, reviewed Sched-

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[7] Not printed.
[8] William P. Cochran, Jr., Third Secretary of Legation.

ule I item by item. Certain further concessions were accepted by the President, with the proviso that they be referred back to the Ministry of Finance for approval.

As the Department is aware, every problem in El Salvador is considered by the Government primarily from a political angle; and the President was quite frank in explaining that his inability to grant certain concessions, which appear desirable on purely economic grounds, was due to political considerations. For example, the concession requested on dried milk is of relative unimportance to the economy of the country. The President pointed out, however, that the economic condition of the dairy farmers is bad, and that they would oppose and resent any reduction of the duty on dried milk, however small its actual importance. Another complicating factor, to the President, is the evil of smuggling from the neighboring countries of Guatemala, Honduras and Nicaragua, if Salvadoran tariff rates are too high in relation to the duties applied by those countries. He expressed a desire to study the duties applied, in those countries, to the items included in Schedule I, before making a final decision as to the concessions which El Salvador may grant. Steps have been taken to obtain this information from our Missions in those countries, and a table will be prepared for the President's consideration.

A pleasant feature of the interview was the friendly spirit and obvious desire to cooperate which the President manifested during the conversation. His actual concessions were made with extreme caution, and he was obviously actuated by a fear that the possible loss of revenue might upset the present economic balance of the country's and the Government's finances.

Negotiations with regard to Schedule I are now apparently drawing to a close, although study of the tariff rates of the contiguous countries will be a necessary preliminary to completion thereof. The time required to obtain this information will bring us to Holy Week when, as the Department is aware, all government offices are closed, and nothing can be accomplished.

Two details arose on which the Department's advice is requested. While the President considered it impracticable to grant a reduction on dried milk, he was favorably inclined towards a reduction affecting only dried and powdered milk which has been modified or treated especially for baby food. It is desired to draft an item covering such products as dried milk irradiated by the Steinbock process of the University of Michigan, "S. M. A.", lactic milk, et cetera.

The President also offered to consider a concession on phonograph records other than current "jazz". It is thought that an item reducing or abolishing duties on classical records, or those by deceased composers or musicians, would meet with his approval. It would be

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appreciated if the Department would suggest possible wordings for these items, for submission to the Salvadoran Government.

In the meantime, the question of Schedule II having been broached by Doctor Max P. Brannon, the Undersecretary of Finance, he was furnished with an informal memorandum based on the Department's instruction No. 91 of March 27, 1935.[9] It was pointed out that the United States offered concessions covering over 99% of its importations from El Salvador; and he was assured that any additional requests made by the Government of El Salvador will be given careful and sympathetic consideration by the Department. In this connection, it is believed that the Government of El Salvador is considering asking, not a special increase in its sugar quota as previously reported; but a special preferential tariff-rate concession on sugar. Should it do so, its request will be forwarded to the Department, although it would appear to involve a concession to a country which at present supplies the United States with no sugar; and one which would have to be generalized to all other sugar producing nations.

The assurances requested, in connection with Schedule I, by the Government of the United States, have been discussed most informally with Doctor Brannon, who indicated that the desired guarantees relative to the charges for the analysis and registration of patent medicines had been referred to the Commission of Chemistry and Pharmacy for study. It is thought that there will be opposition from this agency.

Doctor Brannon was also asked if he had considered the general provisions suggested by the Department. He replied that he had read them, but had not studied them, and that from his cursory examination, it was impossible for him to make any statement concerning them. It is apparent, however, that no insuperable difficulties presented themselves to him on first reading.

In the meantime, the tentative Schedule I, forwarded to the Department with the despatch first referred to, has been referred to the *Comisión Financiera*, for study. This means that the whole trade agreements program will have to be explained once more to three new individuals. The Legation has, with Doctor Brannon's knowledge, offered its services in this connection; but the Commission has not as yet expressed its readiness to avail itself of this offer.

The Legation is not entirely satisfied with the results obtained but it is felt that a definite step has been made towards removing the barriers to our trade with El Salvador, and that the Government now has a broader viewpoint, and one more in sympathy with the foreign trade policy of the United States, than it had at the beginning of the conversations. At times, the outlook has been discouraging, and it seemed that no further concessions could be obtained, but slow and

[9] *Foreign Relations*, 1935, vol. IV, p. 539.

patient negotiations appear to have met with a certain amount of success.

The Legation will continue to press for early consideration of the remaining factors.

Respectfully yours, FRANK P. CORRIGAN

611.1631/143

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 654 SAN SALVADOR, April 20, 1936.
[Received April 27.]

SIR: I have the honor to inform the Department that I today sought and obtained an interview with President Martínez, for the purpose of enlisting his aid in concluding the conversations and negotiations relative to the proposed trade agreement.

During my last discussion of this matter with the President (see this Legation's despatch No. 637 of March 26, 1936), he requested a comparative study of the tariffs applied by the neighboring countries to the articles on which El Salvador is to grant concessions. This table, which was prepared with the assistance of the Legations in Guatemala, Honduras and Nicaragua, was presented to the President at the beginning of the interview. He studied the memorandum carefully, and it was pointed out to him that in no case was El Salvador lowest in its rate of duty, even after granting the concessions so far approved.

The President was told that the tentative list of concessions, and the suggested general provisions, had been in the hands of the *Comisión Financiera* for some three weeks, and the hope was expressed that he would help to bring its studies to a conclusion in the near future, in order that final action might be taken, inasmuch as the Government had now practically determined its position with regard to Schedule I. The President agreed with this latter statement, and promised to lend his support to speedy termination of the negotiations.

Other subjects, which were discussed with the President at the same interview, will be reported in separate despatches.

Respectfully yours, FRANK P. CORRIGAN

611.1631/142

The Secretary of State to the Minister in El Salvador (Corrigan)

No. 217 WASHINGTON, May 1, 1936.

SIR: The receipt is acknowledged of your despatches Nos. 618 and 637 of March 5, 1936, and March 26, 1936, respectively.[10]

[10] Despatch No. 618, March 5, not printed.

The Department has given preliminary examination to the table enclosed in despatch No. 618 listing progress made to date on Schedule I. The showing made is considered very creditable and I wish to commend you and Secretary Cochran for the thorough way in which you have conducted the negotiations thus far.

The Interdepartmental Committee which examined the table referred to above was of the opinion that you should not yet abandon your efforts to obtain some duty reduction on lard, flour and lumber in view of the importance of these products in our export trade in general. The Committee was influenced in making this recommendation by the very high duty rates now affecting lard and flour and by the fact that El Salvador does not appear to be in any sense self-sufficient so far as these two staples are concerned. The Department is well aware of the opposition to be expected in further discussion of concessions on these products but wishes you to exhaust every effort to obtain some adjustment of these rates.

With regard to the detailed remarks concerning nomenclature in despatch No. 618, I believe that it will be more satisfactory if final revision be postponed until agreement on Schedule I is definite enough to permit a tentative schedule to be drawn up. Only a few suggestions concerning the nomenclature will, therefore, be made at this time. One concerns the desirability of eliminating the word "pure" in describing a possible concession on hog lard. The Department is informed that use of this word might possibly lead to difficulties of interpretation. The proposed translation of corn starch is believed to be somewhat inadequate and the Legation may find it desirable to add the word "maicena" after "Almidón de maiz". An alternative would be to insert the words "edible or inedible".

Accurate information is not available covering Salvadoran imports of sanitary ware of the type described in the concession proposed by El Salvador. You are, therefore, requested to ascertain the position of the United States in this trade and to forward the respective import statistics to the Department.

Referring to the questions raised on pages 3 and 4 of your despatch No. 637, I am enclosing copies of memoranda [11] on milk products and phonograph records which are believed to be self-explanatory.

In an effort to expedite the negotiations, it is suggested that you again urge the Salvadoran Government to submit a draft Schedule II as well as any suggestions which it may have on the general provisions in order that these matters may be studied by the Department.

Very truly yours, For the Secretary of State:
FRANCIS B. SAYRE

[11] Not attached to file copy.

611.1631/152 : Telegram

The Minister in El Salvador (Corrigan) to the Secretary of State

SAN SALVADOR, September 30, 1936—noon.
[Received 4:06 p. m.]

45. The Salvadoran Government today through the Foreign Office presented its answer and acceptance with modifications of the trade agreement proposed by the United States. The answer submits two lists of concessions: No. 1, containing 16 classifications on which the concessions requested by the United States are granted in full, No. 2, a larger list containing 23 classifications on which the concessions asked for by the United States are granted in part, the average concession being 77 per cent. Bound list to be fully conceded in either case.

The most important concessions in both lists are: (1) cotton grey goods and prints, (2) lumber, (3) tires, (4) paints.

Translation of the note and lists will go forward by the next air mail.[12]

CORRIGAN

611.1631/153 : Telegram

The Acting Secretary of State to the Chargé in El Salvador (Fisher)

WASHINGTON, November 7, 1936—1 p. m.

29. Referring to Legation's despatch No. 804, October 1.[13] Trade Agreement Committee finished deliberations on El Salvador accepting Table A assuming List 4 of bindings is included. Schedule 2 as approved is as follows:

Peru Balsams	5% ad valorem
Prepared guavas	17½% ad valorem
Mango and guava pastes and pulps	28% ad valorem
Coffee	Free
Unprocessed tortoise shell	Free
Deerskins	Free
Reptile skins	Free
Cacao beans	Free
Honey	2 cents per pound.

Department regrets that it will be impossible to bind henequen on free list for El Salvador due to its unimportance as a supplier of this market. I believe it would be highly desirable to complete and sign the agreement before the Buenos Aires conference[14] ends. You may

[12] Forwarded with despatch No. 804, October 1, 1936; not printed.
[13] Not printed.
[14] The Inter-American Conference for the Maintenance of Peace, Buenos Aires, December 1–23, 1936; see pp. 3 ff.

point out desirable publicity for Salvador. Have Cochran sound out Rochac on probability of Hacienda's cooperation in completing agreement while conference is in session.

Amplifying instruction with statistical material will follow by airmail.

MOORE

611.1631/157

The Chargé in El Salvador (Fisher) to the Secretary of State

No. 855 SAN SALVADOR, November 12, 1936.
[Received November 17.]

SIR: I have the honor to refer to the Department's telegram No. 29 of November 7, 1 p. m., relative to the trade agreement negotiations.

In accordance with the instructions contained in the last portion thereof, Mr. Cochran had an informal conversation with Dr. Alfonso Rochac, Head of the Office of Customs Income. Dr. Rochac approved the idea of terminating and signing the treaty during the Buenos Aires Conference, thought that it was a good opportunity for El Salvador to show her friendly feeling for the United States, and said that he believed that the Ministry of Finance would be entirely disposed to give the matter immediate consideration, as soon as it should have received the Department's reply to its proposals (to arrive shortly by air mail). Dr. Rochac stated that the Ministry of Finance considered the trade agreement as a settled matter; and added that, were he called in for consultation, he would lend his efforts to securing early and favorable action. He suggested, however, that the most pressing item was the matter of the phraseology of the general provisions.

Immediately upon the receipt of the Department's telegram, Mr. Cochran went to see Dr. Arturo Ramón Avila, the Undersecretary of Foreign Affairs, to whom the general provisions have been referred for study. Dr. Avila said that his report thereon was almost ready, awaiting only his final revision, and the approval of the Minister for Foreign Affairs. He stated that the changes to be suggested were all minor, and in general were to bring the terms of the treaty into conformity with the revised Schedules I and II. He thought that the note on this subject would be delivered to the Legation within a week.

Dr. Avila was of the opinion that the tables, as approved by the Department, would be referred again to the Ministry of Finance, and that the matter would now be handled by Dr. Rodrigo Samayoa, the Minister, (in the absence of Dr. Brannon), and suggested that Mr. Cochran call on him as soon as the actual proposals had been received. Dr. Avila added that the Ministry for Foreign Affairs was

entirely inclined to bring the negotiations to a prompt conclusion, in order to be able to announce the signing of the treaty during the Buenos Aires Conference.

The Department will of course be kept fully advised of developments.

Respectfully yours, DORSEY GASSAWAY FISHER

611.1631/153

The Acting Secretary of State to the Chargé in El Salvador (Fisher)

No. 258 WASHINGTON, November 16, 1936.

SIR: In amplification of the Department's telegram No. 29 of November 7, 1936, (1 p. m.), outlining the reply of this Government to the proposals presented by the Salvadoran Government looking toward the conclusion of a trade agreement, you are now advised as follows:

The Department regrets that it will not be possible to bind henequen on the free list for El Salvador as originally planned. This is due to the fact that Mexico is overwhelmingly the chief supplier of henequen to this market. El Salvador shipped only 20 tons to the United States during the three years from 1933 to 1935, inclusive. It had earlier been considered possible to extend to El Salvador the binding on the basis of the commitment to Haiti on sisal, but the difference between the two products appears sufficient to warrant distinguishing between them and reserving each for the principal supplier. It is trusted that the Salvadoran Government will understand the circumstances affecting this withdrawal.

Your attention is called to that part of the Department's instruction No. 91 of March 27, 1935, stating that it will be possible to offer to El Salvador assurance that sugar imported into the United States from El Salvador on which a drawback of duty is allowed will not be charged against El Salvador's sugar quota so long as the quota provisions of the Act of May 9, 1934,[15] are operative. In the event that this matter has not already been taken up with the Salvadoran Government, it is suggested that you do so without further delay in connection with the other concessions which this Government is prepared to make.

On the basis of information now at hand, the Department does not see how any further concessions can be granted El Salvador. There is enclosed a report [16] prepared in the Tariff Commission giving United States import statistics and certain other information on the products

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[15] Jones-Costigan Act, 48 Stat. 670.

[16] Not attached to file copy.

listed by El Salvador as those on which she was desirous of obtaining concessions. This should be helpful in explaining why no further concessions seem possible.

I am also enclosing a copy of recommendations approved on April 1, 1935,[17] with respect to the Salvadoran consular invoice fee, which you are requested to take up with the Salvadoran Government in connection with the general provisions, unless you perceive objection to doing so. It is hoped that you will shortly be able to report definitely as to the status of the general provisions. The Department will supply definitive texts of the entire agreement in English, with suggested Spanish translation, to be used in preparing the engrossed copies of the agreement as soon as it is possible to do so.

In conclusion, I wish to express the hope that it may be possible for you to reach an agreement with the Salvadoran Government promptly enough on all of the remaining pending questions to permit signature of the agreement within the very near future. I believe, as stated in the Department's telegram referred to above, that it would be particularly appropriate if signature could take place while the Peace Conference in Buenos Aires is in session and I should appreciate the cooperation of the Salvadoran Government to this end.

Very truly yours, For the Acting Secretary of State:
FRANCIS B. SAYRE

611.1631/162

The Chargé in El Salvador (Fisher) to the Secretary of State

No. 882 SAN SALVADOR, December 10, 1936.
[Received December 14.]

SIR: I have the honor to refer to this Legation's despatch No. 877 of December 4, 1936,[18] and to previous correspondence on the subject of the trade agreement negotiations.

There has been received from the Ministry of Foreign Relations this morning a note No. 1896 dated today relative to the general provisions and the other items still pending. A copy is enclosed.[18]

El Salvador accepts Schedule II as approved by the Department and forwarded with its instruction No. 258 of November 16, 1936.

El Salvador approves the general provisions in the form attached in Spanish, which is the same as the informal text forwarded with the Legation's despatch No. 877 of December 4, 1936, except in the following instances:

1. Article XII is redrafted, but the essential meaning is unchanged. The reasons for this are pointed out in the memorandum relative to the general provisions prepared by Dr. Rochac, one copy of which is

[17] Not attached to file copy.
[18] Not printed.

attached.[19] The phraseology suggested by the Department appeared, from his reading and interpretation, to conflict with the Law of Contraband. The article has been reworded to cover only errors of documentation; since good faith is always claimed when the charge of intent to defraud the customs is made. Dr. Rochac stated further that the question of good faith was beyond the power of the customs authorities to determine; that in past practice, the courts had waived penalties when it was satisfactorily proven; and that the present law, which he considered inequitable, was to be revised in the fairly near future in a manner which would, in effect, satisfy the Department's desires on this point.

2. There is included as an additional article the assurance offered by the Department, that Salvadoran sugar imported into the United States, and on which a drawback of duty is later granted, will not be included in the Salvadoran sugar quota.

El Salvador is indisposed to grant any reduction of the consular invoice charge of 6%, for reasons of revenue; and is disinclined to provide for its collection in El Salvador. The reasons for this attitude were explained in the Legation's despatch No. 877 of December 4, 1936.

El Salvador also objects to the reference to coconut oil in Article IV, since no similar exemption has appeared in the Central American trade agreements already signed.

Comments on this point will be found in Dr. Rochac's memorandum.

The Foreign Office has failed to supply officially a copy of the draft of the general provisions mentioned in Dr. Rochac's memorandum, although the Undersecretary of Foreign Relations states that this study refers to the clauses as already forwarded to the Department informally. A formal copy of the general provisions, with note, will be sent to the Department by the next air mail.

No attempt has been made to translate the note or memorandum, as the time involved would delay their transmission for two days.

Respectfully yours, DORSEY GASSAWAY FISHER

611.1631/162

The Acting Secretary of State to the Chargé in El Salvador (Fisher)

No. 266 WASHINGTON, December 17, 1936.

SIR: As stated in the Department's telegram No. 33 of December 15, 1936, 7 p. m.,[19] I am transmitting herewith copies of a tentatively final draft,[20] in English and Spanish, of the trade agreement with El Salvador.

[19] Not printed.
[20] Not attached to file copy.

1. You will notice that in the attached Spanish text of the general provisions the alternate is observed; in other words, this is the Spanish text and not the Spanish translation of the English text in which, of course, no transposition of the countries' names should be made. If the agreement is engrossed and signed in San Salvador, you are requested to make certain that there is no deviation in this respect from the enclosed English and Spanish texts.

2. I am enclosing a memorandum [21] listing the most important changes which have been made in the Spanish text submitted under cover of the Legation's despatch No. 877 of December 4, 1936.[21a] On the basis of this memorandum and the observations made in the Department's telegram No. 33, it is trusted that you may be able to work out an agreement with the Salvadoran Government on the various pending differences.

3. Tomato paste has been deleted from items Ex214–1–04–001 and Ex214–1–10–001. As soon as you report what El Salvador is prepared to do regarding tomato juice, the description of this item can be completed.

4. The note concerning pharmaceutical products, included by El Salvador as paragraph No. 3 of Article VII, has been, as you will observe, deleted from that article. The Department prefers to have this appear at the end of Schedule I. In this connection, however, the language suggested by El Salvador is not considered acceptable by this Government, since it specifies certification requirements which cannot be satisfactorily complied with in all localities of this country. It is therefore requested that El Salvador insert following the phrase, "expedido por," the following: "una Cámara de Comercio u otra semejante o por." It is hoped that El Salvador can see its way clear to agreeing to this insertion. You are also requested to ascertain what is meant by the phrase, "debidamente autenticado." The Department is not clear as to just what requirements this phrase might entail.

5. You are requested to consider the attached texts as master texts, on the understanding that any further changes which must be made will be made therein.

Very truly yours, For the Acting Secretary of State:
FRANCIS B. SAYRE

611.1631/165 : Telegram

The Chargé in El Salvador (Fisher) to the Secretary of State

SAN SALVADOR, December 28, 1936—5 p. m.
[Received 10 p. m.]

60. With reference to the Department's instruction 266, December 17th, Dr. Avila Sub-Secretary of Foreign Affairs informed the Le-

[21] Not attached to file copy.
[21a] Not printed.

gation verbally today that while the formal note will not be ready for 2 days Salvador accepts the new general provisions enclosed with the instruction referred to, including the most-favored-nation clause, with the following changes in the Spanish text:

(*a*) Article I Salvador suggests deletion of the word "impuestos" from line 9 not line 8 holding that its repetition is confusing and omission would give clearer Spanish.

(*b*) Article II last paragraph, lines 7 and 8, Salvador wishes to delete the words "un 'drawback' de derechos (de aduana)" and substitute in line 8 after the words "este permitido" the following "una devolucion o descuento (drawback) de derechos de aduana".

(*c*) Article VI second paragraph, section (*a*) Salvador suggests that the figures 1 to 4 should be followed by small o's to indicate 1st, 2d, et cetera in order to avoid confusion.

(*d*) Article XIII, paragraph 1, lines 7 and 8, the Ministry of Finance still desires that the last phrase read "provided that good faith be proven", claiming the whole legal structure of the present law of contraband is based on this presumption of guilt. It rejects our use of "or when good faith can be proved" but is willing to compromise by simply deleting the last phrase "o cuando pueda establecerse la buena fe".

Salvador accepts the revised text of schedule I and the inclusion of tomato juice under section 214–1–04–001 of the tariff.

Salvador also accepts the Department's suggested changes in the wording of the pharmaceutical assurance and its inclusion as a note to schedule I. The phrase "debidamente autenticado" means authenticated by the appropriate Salvadoran Consul.

Salvador approves the omission of Panama from the penultimate paragraph of article XIV. Salvador agrees to the release of the text and analysis at the time of signature. The note will be forwarded by open air mail as soon as received.

FISHER

611.1631/166 : Telegram

The Chargé in El Salvador (Fisher) to the Secretary of State

SAN SALVADOR, December 30, 1936—noon.
[Received 2:32 p. m.]

61. With reference to my telegram 60, December 28, 5 p. m., the Salvadoran Foreign Office delivered to the Legation this morning its note accepting the draft of the trade agreement enclosed with the Department's instruction No. 266, December 17, with certain changes in the Spanish text. A copy and translation of the note are being sent by open airmail today.

The changes requested by Salvador are as given in the Legation's telegram 60 except as follows:

[Here follow certain changes in Spanish text.]

The only question still pending is whether Salvador is disposed to grant any of the other pharmaceutical assurances originally requested, on which a reply is expected within one or two days.

FISHER

[For text of reciprocal trade agreement between the United States and El Salvador, signed February 19, 1937, see Department of State, Executive Agreement Series No. 101, or 50 Stat. 1564.]

INFORMAL ASSISTANCE BY THE DEPARTMENT OF STATE TO REPRESENTATIVES OF THE HOLDERS OF THE SALVADORAN BONDS UNDER THE LOAN CONTRACT OF JUNE 24, 1922[22]

816.51C39/432 : Telegram

The Secretary of State to the Minister in El Salvador (Corrigan)

WASHINGTON, January 10, 1936—7 p. m.

1. Your 61, December 31, 3 p. m.[23] Mr. Fred Lavis of the Bondholders Protective Committee called at the Department yesterday to say that at the last moment the Salvadoran Government had stated that its agreement for settlement of the regular issues of the external debt was dependent upon the cancellation of the "C" scrip.

Mr. Lavis was informed that the negotiation of a settlement regarding the scrip, just as a negotiation regarding the regular funded debt issues, was a matter between the Government and the holders thereof or their representatives. You may, however, inform the Salvadoran authorities that this Government has learned with pleasure of the substantial progress that has been made for the settlement relating to the external funded debt, and that it hopes that an agreement satisfactory to both participants to the negotiations may be arrived at.

HULL

816.51C39/434

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 555 SAN SALVADOR, January 16, 1936.
[Received January 22.]

SIR: I have the honor to refer to the Department's telegram no. 1, of January 10, 7 p. m., and to report that, in accordance with the instructions contained therein, there has been informally indicated to the Salvadoran Government the pleasure of the United States Government at the substantial progress which has been made towards a

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[22] Continued from *Foreign Relations*, 1935, vol. IV, pp. 568–584.
[23] Not printed.

settlement relative to the external debt; and the hope expressed that the negotiations might lead to a successful conclusion.

For the Department's information, there is provided a short review of the present stage of the negotiations. This information was supplied informally and confidentially by Mr. Douglas Bradford, Secretary and representative of the Bondholders' Committee, and the views presented are, in general, his opinions.

The face value of the bonds outstanding at the present time, of all series, is approximately $16,900,000. According to the terms of the original contract, annual payments for interest and amortization amount to $1,750,000. Mr. Bradford and the Ministry of Finance are in substantial agreement, on the following basis: Payment of interest at the flat rate of 4% on the total amount of bonds outstanding (or $680,000) plus 1% amortization ($169,000) or a total of $849,000 per year. This is to be an unvarying annual payment, so that, as the bonds are retired, the amount no longer required for interest on them will be devoted to making the sinking fund cumulative. The agreement is to have effect as of July 1, 1935, with payment of the coupon due on that date.

It will be seen that this is a substantial recession on the part of the Salvadoran Government from its demand, last May, of interest rates of 3%, 2% and 2% on the three series of bonds. (Actually, the 4% interest referred to above will be divided so as to pay 5½%, 4% and 3½% on the "A", "B" and "C" bonds.) In consideration of this concession, the Government is insisting on the cancellation of the scrip issued in payment of interest on the "C" bonds. It is understood that the British Bondholders Committee has indicated its willingness to accept this arrangement; but the American Committee feels unable to do so, as it does not hold nor represent the scrip, and as much of it has been sold in the open market, by the bondholders, and is widely held.

The amount of scrip now outstanding is about $1,080,000. It is now quoted in New York at about 24%. Mr. Bradford has suggested to the Government that it might agree to pay half the annual amount specified in the original contract, or $875,000, using the difference ($26,000) between that sum and the amount already agreed on, for retirement of the scrip, presumably in the open market at reduced quotations. While expressing its appreciation of the fairness of this offer, the Government has indicated its inability to accept such a settlement. Last May, it took the loan negotiations into the newspapers and continually emphasized its stand for interest rates of 3%, 2% and 2%. In order to obtain popular acquiescence in the flat 4% rate as now agreed upon, it requires some important *quid pro quo*, in order to explain and justify its action to the public. The issue, therefore, is a political one, from the Government's point of view.

The American Bondholders Committee has still not indicated its willingness to recommend the cancellation of the scrip to the bondholders, and a settlement apparently hangs on this one point alone, for the Government is understood to have receded from its insistence on re-writing the contract in Spanish and the deletion of the "safety" clauses. To call the Government's demand "repudiation" of the scrip is to use a perhaps unnecessarily ugly word. El Salvador regards such cancellation as part of the negotiated settlement, and as an essential *quid pro quo*, required by local politics.

Mr. Bradford has prepared an extremely interesting graph, of total receipts from import revenues in El Salvador, and world prices for Santos No. 4 coffee. The two lines are exactly parallel; and he rather inclines to the opinion that present low coffee prices, coupled with the highly unfavorable coffee outlook, according to its world statistical position, and the probable impossibility of obtaining better terms, should induce the American Bondholders Committee to recommend to the bondholders the cancellation of the scrip (perhaps with some arrangement to purchase scrip sold by bondholders), pointing out that if negotiations are again unsuccessful, it is highly probable that there will be no further efforts to reach a settlement during the remainder of the administration of President Martínez, or longer. Any agreement reached five or ten years from now, he believes, would hardly include payment of interest for the intervening period; so that the choice to be presented to the bondholders is that of sacrificing the old scrip in consideration of resumption of payment of interest and amortization as of last July; or of receiving nothing for the next five or perhaps ten years.

Respectfully yours, FRANK P. CORRIGAN

816.51C39/437

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 579 SAN SALVADOR, February 8, 1936.
[Received February 12.]

SIR: I have the honor to refer to my telegram of February 5, 3 p. m.,[24] reporting that the Cabinet had approved the bases for an agreement amending the Loan Contract of 1922.[25] As reported, the Cabinet decision was taken at a special meeting, and provided for complete condonation of the outstanding scrip. After the meeting, the Minister and Subsecretary of Finance had a private conference with the President; it is understood that he continued the discussion

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[24] Not printed.

[25] El Salvador, *Loan Contract Between the Republic of El Salvador and Minor C. Keith, June 24, 1922* (n. p., n. d.).

of the question of the scrip with them, authorizing them to settle it as may seem most expedient.

Mr. Bradford, Secretary of the Bondholders' Protective Committee, suggested to Doctor Max P. Brannon, Subsecretary of Finance, that they go to New York together, possibly leaving here February 15th, where Mr. Bradford could introduce him to the Committee, to the officials of the Stock Exchange, the Securities and Exchange Commission, the Foreign Bondholders' Protective Council, et cetera. Doctor Brannon could also discuss the details with the Committee's legal counsel, and with such counsel as he may select, Judge Frank Feuille, attorney for the Standard Oil Company of California, having been prominently mentioned in this connection.

The Committee has informed the Salvadoran Government that it will give favorable consideration to the Government's request for cancellation of the scrip, but that it considers that the agreement would have a much better chance of approval by a majority of the bondholders if some provision were made for retiring it, the present suggestion being that the annual payment, for principal and interest, as agreed upon, be unchanged, and that some $60,000 per annum of the sum provided for amortization be devoted to retiring the scrip at 20% or 25% of its face value (that is, more or less at its present market value). Mr. Bradford feels that if Doctor Brannon goes to New York, he will gain a better understanding of the problems facing the Committee, and perhaps be willing to approve the retirement of the scrip rather than its cancellation.

If Doctor Brannon should go to New York, it is probable that his stay there will not be less than two months; and that the trade agreement negotiations which have been conducted with him will be interrupted for that period. There have been no conversations on this subject during the last three weeks, due to his being occupied with the loan negotiations and the annual report of the Ministry of Finance.

Respectfully yours, FRANK P. CORRIGAN

816.51C39/440

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 590 SAN SALVADOR, February 15, 1936.
[Received February 26.]

SIR: I have the honor to refer to the Legation's despatch No. 579 of February 8, 1936, informing the Department that the Salvadoran Government had approved the bases for a new agreement revising the External Loan Contract of 1922, and to enclose a copy of a form

of agreement [26] which was handed to me on February 13, 1936, by Mr. Douglas Bradford, Secretary of the Bondholders' Protective Committee and their representative in recent negotiations with the Government of El Salvador. Mr. Bradford believes that the final agreement will in all probability be substantially as given in this draft.

The new rates of interest that would be established under this agreement would be as predicted in recent despatches on the subject: 5½% on the "A" bonds, 4% on the "B" bonds, and 3½% on the "C" issue. The total annual payment for interest, amortization, and the partial redemption of the outstanding scrip, would be $849,063.35. The plan which the draft provides for the retirement of the scrip on the "C" bonds (numbered paragraph 9–*b*) is that mentioned in the despatch referred to above as favored by Mr. Bradford: the setting aside of a Scrip Fund to total $270,308.50 out of the annual payments, for the purchase of outstanding scrip during the next five years at the lowest possible price at which it can be obtained, not to exceed 25% of its face value (that is, approximately its present market value). The question of the scrip on the "B" bonds (the British series) is covered separately in paragraph 11 of the draft agreement. Payments on the loan will be resumed as of July 1, 1935, and the new agreement would be considered as bearing the date June 30, 1935.

In view of the Department's previous instructions to the Legation, it is believed that the Department will be particularly interested in the draft agreement's provisions regarding bonds not deposited with the Committee, and in the continuance of the so-called "security" provisions of the original 1922 Loan Contract.

Reference is made in the first connection to the Department's instruction No. 97 of April 5, 1935, and to its enclosure, a letter of the same date addressed by the Department to Mr. F. J. Lisman, Chairman of the Committee.[27]

The question of the scope of the draft agreement and of deposited and non-deposited bonds is covered in numbered paragraphs 12, 13, and 16, which, for convenience, are quoted below:

"12. Any holders of Bonds of Series "A", "B" and "C", whom the Committee or the Council represents and is or shall be acting for, who desire to avail themselves of the benefits of this Agreement and assent hereto may do so by presenting their Bonds, with coupons maturing July 1, 1935, and subsequently attached, to the Paying Agent, or to such agent as it may designate, for stamping, and only such Bonds and coupons as are stamped with legends substantially as hereinafter set forth shall be entitled to the benefits of this Agreement."

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[26] Not printed.
[27] Neither printed.

(Here follows the form of Legend.)

"13. Nothing herein contained shall be deemed to give to any holders of Bonds not deposited with the Committee or the Council any right to deposit the same with the Committee or the Council except upon such terms as may hereafter be agreed upon by the Committee, the Council and the Republic; nor shall the Committee or the Council be deemed to have any right to represent, or to have represented, any holders of Bonds not now or subsequently deposited with the Committee or the Council."

"16. The Republic agrees that it will not make any agreement with any other Bondholders of the Bonds of Series "A", "B" or "C", on more favorable terms than this Agreement. Nothing contained in this agreement shall affect the rights and remedies of Bondholders who do not assent to the provisions hereof."

As regards the "security" provisions of the 1922 Loan Contract, reference is made to the Department's instruction No. 80 of February 25, 1935,[28] and to the Legation's despatch No. 210 of April 12, 1935.[29] The Department's instruction referred to the possible omission from a revised agreement of any reference involving the Government of the United States or any of its officials. The Legation's despatch forwarded to the Department, among other documents, a copy and translation of an undated Memorial prepared by the Salvadoran Ministry of Finance and sent to Mr. Fred Lavis, then representing the Committee in San Salvador, on April 2, 1935, in which it was definitely stated that any new agreement must provide for the payment of the expenses of the local Fiscal Office by the bondholders, and also a copy of a letter from the Minister of Finance to Mr. Lavis dated April 8, 1935, in which he referred to the opposition of Salvadoran public opinion to the clauses of the Contract providing for arbitration by the Chief Justice of the Supreme Court in cases of dispute, and held that under the Salvadoran Civil Code these clauses were illegal and void. Led by interviews given out by the Minister of Finance, the local press at that time instituted a violent campaign against the "security" clauses of the Contract, and it seemed for a time that the Government was resolved to make the revision of these clauses a *sine qua non* of any new agreement. The press campaign, however, died out during the summer, and has shown no signs of revival since that time, and as far as the Legation knows the Government has not brought them up in recent conversations with Mr. Bradford.

The new draft Agreement specifically calls for the Government's payment of the expenses of the Paying Agent and its representatives in El Salvador; paragraph 15 reads as follows:

"15. The Republic agrees to pay all the expenses of the Paying Agent, and its representatives in El Salvador, in accordance with the

[28] *Foreign Relations*, 1935, vol. IV, p. 569.
[29] Not printed.

provisions of the Loan Contract of 1922 regarding the Fiscal Agent and its representatives, which provisions are made expressly applicable thereto, and in addition to pay fees of the Paying Agent in connection with the purchases of Scrip Certificates hereunder at the rate fixed in the Loan Contract for retirement of Bonds, plus all reasonable expenses of the Paying Agent incurred in connection therewith."

Paragraph 17 would definitely make all unmodified provisions of the 1922 Contract an integral part of the new Agreement, and moreover provides that, "In the event of default by the Republic in the performance of any of the provisions herein contained this Agreement shall no longer be of any force or effect, and the rights and remedies of the Bondholders shall be those set forth in the said Loan Contract, with the same force and effect as if this Agreement had never been entered into or assented to by any Bondholders."

Mr. Bradford is confident at present that the new Agreement, substantially worded like the enclosed draft, will be signed without the question of the "security" clauses coming up again. Apparently the reference to the United States Government and its officials mentioned in the Department's instruction No. 80 of February 25, 1935, will remain a part of the Loan unless action is taken to effect their elimination.

Respectfully yours, FRANK P. CORRIGAN

816.51C39/444

Memorandum of Conversation, by the Chief of the Division of Latin American Affairs (Duggan)

[WASHINGTON,] March 26, 1936.

Mr. Fred Lavis of the Protective Committee for holders of bonds of the Republic of Salvador called to say that negotiations with the Salvadoran Government regarding the external debt situation have been satisfactorily completed. The Salvadoran Congress has approved the central features of the new proposal and the Minister of Finance is coming to New York, arriving April 7, to sign the agreement. Mr. Lavis said the agreement would probably have to be ratified by the Salvadoran Congress.

Mr. Lavis said that at the last moment there were difficulties revolving around redemption of the scrip and certain expenses of the Committee. The Salvadoran Government had agreed to redeem the scrip at 20 percent of its par value. In the final stages of the negotiations it brought up the question of whether the $68,000.00 to $75,000.00 retained by the Committee did not in fact belong to the Government. A compromise was arrived at to the effect that the Government would drop any claim against the Committee for the $68,000.00 to $75,000.00,

but would only redeem the scrip at 15 percent of its par value. I asked Mr. Lavis what the status of non-assenting bond holders would be. Mr. Lavis stated that the agreement merely provided that non-assenting bond holders were not to receive treatment any more favorable than assenting bond holders. He said that the Committee represented 95 percent of the bonds and that of the remaining 5 percent at least 2 percent would never be heard from owing to loss of bonds, etc.

L[AURENCE] D[UGGAN]

816.51C39/448

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 640 SAN SALVADOR, April 3, 1936.
[Received April 8.]

SIR: I have the honor to refer to the Legation's telegram No. 15 of March 24, 5 p. m., [30] and to previous correspondence relative to the negotiations for a resumption of payments on the foreign debt. Mr. Douglas Bradford, Secretary of the Bondholders Protective Committee, informed the Legation that the Minister of Hacienda had written him a formal letter, confirming the Government's acceptance of the bases agreed upon. These remain substantially as enumerated in the Legation's despatch No. 590 of February 15, 1936. Certain legal details are to be finally settled in New York. Doctor Rodrigo Samayoa, Minister of Finance, went to New York sailing Saturday March 28 on the *Santa Elena* as official representative of the Salvadoran Government with authority to sign a new agreement with the Bondholders' Protective Committee bringing to a close a long series of negotiations which has been a subject of many despatches during the last two years.

It seems timely to report to the Department the co-operation given by the Legation in facilitating the negotiations. Officially, no action has been taken. The authorization of the Department to use our good offices to facilitate the negotiations (Instruction No. 150 of August 20, 1935 [30]) has been faithfully complied with, and the Legation has scrupulously avoided the appearance of taking any part in the negotiations or of making any endeavor to determine their direction.

The Legation's position since the making of this loan, and during subsequent negotiations, was reviewed in Legation's despatch No. 366 of August 9, 1935.[30]

The Legation's position today is very different from that taken at the time of the granting of the Loan in 1922. At that time, the

[30] Not printed.

Legation's despatches contained such phrases as "It saved much time and trouble if I prepared the proposed notes to me from the Government", or "The proof reading and correction of the English text of the loan contract has been done by the staff of this Legation to insure accuracy when published in the *Diario Oficial*, which will be done today." Also, assurances were given to the Government of El Salvador by note expressing the gratification of the Government of the United States over the completion of the Loan and the willingness of the Secretary of State on his part to carry out the stipulations in the contract with reference to him. The present under-Secretary of State of El Salvador is the same man who received these assurances, and the Bondholders Committee is made up of men who conducted the original loan negotiations. At the time the Loan was made they obtained very complete official co-operation and encouragement, whereas now they seem to find the Department disposed to keep entirely free of the matter. The Legation has tried to reflect as accurately as possible the present policy of non-intervention, being guided by Department's instructions in this respect. The various representatives of the Bondholders Committee, on the other hand, have consistently endeavored to associate the Legation with the negotiations. This has been done in various ways: Each of the representatives has promptly reported to the Legation upon arrival in the country, frequent calls have been made upon the Minister, the Legation has been kept informed of even minor steps in procedure, copies of all correspondence between the Government and the Committee or its representative have been brought to the Legation personally by the representative of the Bondholders Protective Committee.

In a small place like San Salvador such tactics unfailingly serve to connect the Legation with the proceedings, in the minds of the Government, the press and the public. The moral influence of the Legation was an unavoidable factor, which could be positive or negative either for or against a settlement. This inevitable moral influence, which seems to predicate an inescapable responsibility was definitely thrown on the side of a settlement satisfactory to both sides. It could just as easily have been used to delay or frustrate. This inescapable responsibility extends also to other spheres.

It was deemed wise early in the present negotiations to express unofficially the views of the Minister with regard to the general subject of protection of American investors in foreign securities. Therefore, a letter was addressed to the Representative of the Fiscal Agent which, in an informal and friendly way, represented this viewpoint. This letter stated, "The matter of the treatment of American bondholders is of very general interest in the United States because these bonds are held in small amounts by thrifty individuals in many parts of

the country. In many cases the possession of three or four government bonds such as the Salvadoran issues constitute the entire savings or capital of worthy people like teachers, physicians, clergymen, widows, et cetera. These bonds were purchased with full confidence in the responsibility and honor of the government involved.

"The making of representations for the protection of American bondholders is not desirable until ordinary business negotiations and arrangements are nullified and made ineffectual by evident bad faith or obvious intent to disregard contractual obligations. Unfortunately at the present time such contractual relations have been widely disregarded or too easily subordinated to considerations of brief expedience to a degree which threatens one of the most important bases of human relations.

"It was never more important that debtor governments should now make every reasonable effort to meet their financial obligations and in doing so preserve their credit for the future and help to preserve the structure of international credit."

The attitude thus expressed has been consistently demonstrated at opportune times by informal conversations with the President, the Minister of Foreign Affairs, Minister of Hacienda and other Government officials interested in the Loan negotiations.

Friendly interest in a successful outcome, and the beneficial effect upon Salvadoran credit of an equitable arrangement with the bondholders has been the general trend of such informal conversations. In this way, the moral influence of the Legation has been steadily exerted in favor of a settlement and as such has been a factor in finally reaching a conclusion which seems to be satisfactory to both the contracting parties. Franker and closer co-operation with the committee, the advisability of which was suggested in Legation's despatch No. 366 of August 9, 1935, might possibly have brought about an earlier settlement and slightly better terms for the Bondholders.

The Bondholders representative, Mr. Douglas Bradford, has conducted his negotiations tactfully and well. He has expressed satisfaction with the Legation's attitude and given his opinion that the present policy of the Department, friendly counsel and moral influence rather than official action as formerly, was in this particular case wise and prudent in the final analysis. The Government of El Salvador, through Minister Samayoa, has also expressed satisfaction with the results achieved.

Absence of this moral influence of the Legation would in my opinion have made the arrival at a settlement a matter of the very indefinite future. The contract being one in which the Department had an actual responsibility the Legation feels that a clear exposition of its position in this matter may serve to clarify and to some degree furnish background for orientation in like situations in the future. It is cer-

tainly true that a completely negative attitude on the part of the Legation would have been construed here as a positive disavowal and disapproval of the Bondholders representative and his attempts to reach a settlement.

Respectfully yours, FRANK P. CORRIGAN

816.51C39/454

Memorandum of Conversation, by the Chief of the Division of Latin American Affairs (Duggan)

[WASHINGTON,] April 30, 1936.

Mr. Lavis called on Dr. Feis [32] and me to leave with us the attached copy of the agreement signed between the Committee and the Republic of El Salvador on April 27, 1936.[33] The agreement provides that it shall be submitted to the National Assembly, which Mr. Lavis said would be done immediately. Quick action by the Assembly is expected.

Mr. Lavis said he wanted to call attention to the following:

1. That as a result of the agreement, $850,000 plus $467,000 would be paid on July 1 next, representing payment on the last two coupons in default and deposits on account of amortization. Mr. Lavis stated that so far as he knew this was the first agreement negotiated that provided for the payment of back interest and amortization.

2. That the agreement provides in Section 9 (*b*) and (*c*) for an arrangement which will give the Salvadoran Government four months' leeway past the due date in transferring colones deposited with the Central Reserve Bank to the paying agent. The agreement provides for a Commission of Review, composed of the President of the Central Reserve Bank and a person to be named by the Committee, whom Mr. Lavis said would be Renwick, which would investigate to determine whether or not it was impossible to transfer remittances to the paying agent. Mr. Lavis said that this provision had been inserted at the last moment as the Salvadoran Government threatened not to sign unless something along this line were agreed upon. In Mr. Lavis' opinion, the provision is not a bad one. If the Republic is determined to default, it will default regardless of the terms of the agreement. On the other hand, if it actually desires to comply but can not secure the necessary foreign exchange, this arrangement will provide a period of grace.

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[32] Herbert Feis, Economic Adviser of the Department of State.

[33] For text, see El Salvador, *Readjustment Agreement between the Republic of El Salvador and Bondholders' Protective Committee for the Bonds of the Republic of El Salvador and Council of Foreign Bondholders of London, Regarding the Loan Contract of 1922 as amended by Agreements dated January 5 and September 28, 1923, April 27, 1936*, (n. p., n. d.); or Foreign Bondholders Protective Council Inc., *Annual Report*, 1936 (New York, 1937), p 373.

3. That the new agreement provides in Section 9 for an annual payment of $850,000, certain fixed amounts to be paid monthly throughout the year. Fifty-five percent is paid during the first six months; forty-five percent during the last six months.

4. That the Committee is to remain in existence in a skeleton form. The present bonds on deposit are to be retained and new certificates of deposit issued.

Upon inquiry, Mr. Lavis stated emphatically that the rights of non-assenting bondholders under the 1922 contract were not affected by the new agreement.

I asked Mr. Lavis if he would be kind enough to send the Department additional texts of the agreement as signed, which he said he would do.

L[AURENCE] D[UGGAN]