NEGOTIATIONS REGARDING THE REESTABLISHMENT OF TRADE BETWEEN FRENCH NORTH AFRICA AND THE IBERIAN PENINSULA

811.20 Defense (M) Spain/412a : Telegram

The Secretary of State to the Ambassador in Spain (Hayes)

WASHINGTON, December 24, 1942—9 p. m.

1482. Your 1964 of December 4.[1]

1. The Department approves in principle the continuation of economic exchanges between French North Africa and the Peninsula and agrees that such exchanges should be related to our supply-purchase programs with the Peninsula.

2. The principal objectives to be sought from such exchanges are:

(*a*) The removal from the Peninsula for consumption in North Africa of materials which might go to the enemy.

(*b*) The removal from the Peninsula to French North Africa for transshipment to the US or UK of materials purchased by the US or UK or for their account and which cannot otherwise be lifted.

(*c*) To cause goods manufactured in the Peninsula to be shipped to North Africa in an effort to relieve as much as possible demands on shipping from United Nations sources.

(*d*) To employ our control over French North African produce to the best advantage in bargaining with Spain and Portugal in connection with the supply-purchase programs.

3. Although definite plans for accomplishing the above objectives have not been developed here as yet, it would seem definitely desirable that no separate negotiations be carried on either by Spain or Portugal with French authorities. Any such negotiations should preferably be with the US and UK representatives, following the pattern of the supply-purchase negotiations. Please telegraph your views on this point but do not discuss the matter with the Spanish or Portuguese authorities.

4. With respect to materials to go to the Peninsula, we are presently considering possibility of the US and UK undertaking to purchase entire exportable surplus of French North African produce. In such event, resales could be made to Spain and Portugal of such quantities of materials as the Combined Boards would allocate to

[1] Not printed.

them, subject of course to clearance with BEW [2] and MEW [3] on Economic Warfare grounds. If it is decided not to undertake the purchase of the exportable surpluses, it might possibly be arranged for either US or UK representatives to act as purchasing agents for the Spaniards and Portuguese. Please telegraph your views on this point, but do not discuss with the Spanish or Portuguese authorities.

5. In any event, the amounts of materials to go to the Peninsula would be subject to approval by the interested agencies here. So that the matter may be considered more fully, please telegraph us the following information:

(*a*) What commodities the Spaniards have been obtaining from North Africa and in what quantities.
(*b*) What commodities they wish to obtain in increased volume, and amounts.
(*c*) What commodities and amounts Spain can supply to North Africa.

You will doubtless need to consult Spanish authorities to obtain certain of this information. Please do so, but do not make any commitments.

6. Reply to your queries on such items as rock phosphates, cereals and other products will be postponed until we receive a reply to this telegram. Please discuss this telegram with your British colleagues so that in your reply you can express your joint views and recommendations.

7. Please repeat this telegram and your 1964 to Lisbon, requesting Legation to take corresponding action and telegraph its views. Please also repeat to Murphy [4] asking that he telegraph his comments.

Repeated to London from here.

HULL

811.20 Defense (M) Spain/408: Telegram

The Ambassador in Spain (Hayes) to the Secretary of State

MADRID, January 2, 1943—8 p. m.
[Received January 3—4: 08 p. m.]

14. Your 1482, December 24, 9 p. m. I consider our purposes can best be served by having Spaniards negotiate with French North African representation in Madrid and the promise of North African goods is the only bait sufficiently attractive to induce Spain to rec-

[2] Board of Economic Warfare.
[3] British Ministry of Economic Warfare.
[4] Robert D. Murphy, Chief Civil Affairs Officer at Algiers; United States Political Adviser on staff of Supreme Allied Commander, Mediterranean Theater; Personal Representative of President Roosevelt in North Africa.

ognize French representation here. Eventually French representatives could take over French refugee problem using funds derived from such commercial transactions. They could also assist the Giraud[5] Government in other ways and would be a valuable channel to us for military information from France. In the absence of at least informal recognition French now here working for us may become subject to persecution. Spaniards may insist on subterfuge that French representatives are acting for the Sherifian Government.[6]

2. The French should be supported in their efforts to acquire materials from Spain for the needs of North Africa; this might be extended into a triangular arrangement by which some of our own Lease Lend civilian supplies can come from Spain.

3. By proper control we could attain the desired objectives for our own purchase supply program. British would continue to exercise navicert control but we believe acquisition of entire exportable surplus of French North African commodities would increase our control and provide reason for British and ourselves to participate in French-Spanish negotiations. Such quantities of French material as we may wish to allocate to Spain in return for Spanish merchandise should be earmarked.

4. Unlikely Spaniards would agree to our acting as purchasing agents for them; they have in mind using private Spanish sources to conduct negotiations with Rabat thus side-stepping the question of recognition. This should be resisted by the French with our support.

5. The British Embassy agrees in principle to above with reservation that French negotiations [*negotiators?*] should be acceptable to us. We disagree with this reservation as we believe French should be free to select their own negotiators so long as we have veto power.

6. The Rabat commercial agreements services recently authorized Pettit, former Commercial Counselor, (see my 2132, December 26, 2 p. m.[7]) provisionally to open discussions with Spaniards to supply the quantities of materials set forth in the above mentioned desiderata. Apparently Algiers concurred. The British do not favor Pettit but we consider him satisfactory.

7. If you concur that French representation desirable I suggest Murphy be requested to inform Algiers Government that we must participate in discussions here and that their program should be integrated with ours.

From preliminary material available to us we understand that under the 1941 agreement the Spaniards obtained from North Africa 1,200 tons wheat of 6,000 promised; 2,100 tons barley of 5,000 prom-

[5] Henri Giraud, High Commissioner of French North Africa.
[6] Government of the Sultan of Morocco.
[7] Not printed.

ised; 250 tons antimony; 500,000 tons phosphates of 520,000 promised in that and supplementary agreement; manganese none; small quantities of beans; sorghum; millet and fodder; cattle and approximately 3,000,000 francs sundries. Spain supplied a small tonnage of potash; 4,500 tons of pyrites; 525 tons chemicals including turpentine and rosin; 21 tons batteries; 30,000,000 francs wool textiles; 27,300,000 francs rayon textiles; 3,600 tons salt, small quantities of matches; beer bottles; sandals and 1,700,000 francs sundries. In a new agreement under consideration when invasion occurred Spain desired 200,000 tons of phosphates (in addition to 200,000 advanced under supplementary agreement); 400 tons antimony; 2,000 tons broad beans; 5,000 tons of chick peas; 2,000 tons linseed; 2,000 tons canary seed; 12,000 boxes eggs; 4,000 tons of smoked and salted fish; 3,000 tons clay; 10,000 tons alfalfa and, (to be applied against textile exports): 250 tons of cotton; 1,000 tons of wool; 500 tons of wool waste. Spain also desires as much barley as can be supplied.

HAYES

653.8131/7 : Telegram

The Minister in Portugal (Fish) to the Secretary of State

LISBON, January 11, 1943—3 p. m.
[Received January 12—2 : 28 a. m.]

51. Department's 1482, December 24. Legation has given careful study to the question raised in this telegram and wishes to make the following observations:

(1) Since Portuguese trade with Algerian ports has recently been of slight importance compared to Portuguese trade with ports in Morocco and since Portuguese-Moroccan trade is already covered by a barter agreement still nominally valid which could conceivably provide a basis for resumption of exchanges we suggest for purposes of simplicity and clarity that direct peninsular trade with Algeria be considered only in connection with Spain and that our problem here be restricted to trade in and out of Moroccan ports. Following points are drafted on the assumption that this principle will be accepted.

(2) It would probably be possible without much difficulty or formality to reactivate and implement the original Moroccan-Portuguese agreement of August 23, 1941 (see Legation's despatch no. 156, August 29, 1941, and no. 569, August 22, 1942 [8]) as a legal framework for the resumption of commercial exchanges. Noguès in his capacity as Commissioner Resident General of the Republic of France in Morocco has already directed to the Portuguese Consul

[8] Neither printed.

at Rabat a written communication dated December 16 inquiring whether the Portuguese Government would be prepared to resume trade under the existing agreement and to permit the use in this connection of the funds now on deposit in the Bank of Portugal to the credit of the State Bank of Morocco (text submitted with despatch no. 9552 [*1202*], December 23, from Tangier [9] which has presumably not yet reached Department). I have not heard that the Portuguese have replied to this inquiry and do not intend to discuss the matter with them unless so instructed. I believe, however, that they might be more inclined to assent to the proposal of the Residency General (assuming that they have not already done so) if this Legation and the British Embassy here were able to assure the Portuguese Government that such resumption of trade within the framework of the existing agreement met with our wishes and would receive our practical support and that we stood prepared to extend our good offices in behalf of the Sultan in further discussions of all details pertaining to this matter. The Portuguese, as the Department is aware, are much in need of Moroccan phosphates and would have every reason to accept such a solution.

(3) Doubtless as a result of this need for phosphates Castro Caldas [10] has already suggested informally that we might purchase some Moroccan phosphates and send a ship to bring them to Portugal for resale here which he intimated [apparent omission] for free escudos. Castro Caldas stated at that time that the Portuguese Government might be willing to conclude a new agreement to cover this phosphate trade if we considered this necessary.

(4) The British seem inclined to feel that since the Portuguese are apparently agreed to a reopening of the trade on an informal basis there would be little merit in attempting to implement the old agreement at this time. They point out that implementation of the old agreement is complicated by the fact that the funds on deposit in Portugal as referred to by Noguès include funds arising from the operation of certain French tankers which had nothing to do with North Africa and that the Bank of France may lay claim to these funds (believed to be some 5 or 6 million francs out of a rough total of 17,500,000 francs) as not arising from Moroccan trade. It is not [*sic*] possible, however, that the views of the British here on this question are somewhat colored by apprehension about the political situation in North Africa and by unwillingness to do anything which might involve the direct cooperation of the French authorities there.

(5) We feel that while it would be advisable as a starter to under-

[9] Not printed.

[10] Vice president of the Portuguese Technical Corporative Council for Commerce and Industry.

take a few provisional shipments probably pit props against phosphates through the USCC [11] and the UKCC [12] it would also do no harm to pursue the reactivation of the old singles as outlined above. This might make it possible in the first place for us to use for purchases in Portugal at least some 10 million escudos if not all of the sum deposited here to the account of the State Bank of Morocco. Secondly, by virtue of the fact that proceeds arising here from trade agreement are deposited to the Moroccan accounts it would avoid the creation of the impression in Lisbon that we were ourselves profiting commercially from the exploitation of French Morocco. Thirdly, if at some future date we should wish to turn these matters over to the representatives of a new French Government it would be much easier if the Portuguese-Moroccan agreement were regarded as in effect. Fourthly, the Portuguese-Moroccan agreement committed both parties to "examine with sympathy" requests for alterations or increases in the categories and amounts of goods to be exchanged and there is no apparent reason why we could not develop trade within the framework of the agreement in such a way as to serve the objectives outlined in paragraph no. 2 of the Department's telegram under reference.

We feel therefore that it might be advisable if (*a*) the USCC were to be authorized to join with the UKCC as a provisional measure in undertaking a few shipments of Portuguese products to Morocco in return for phosphates and if (*b*) the Department were to explore the possibility of having this mission and the British Embassy in Lisbon instructed to encourage the [apparent omission] Noguès approach as suggested above and to proceed to work out an extension of the trade on the basis of the old agreement.

Regardless of the bases on which this trade is resumed the following are the products which we think might be moved from Portugal to North Africa with a view to serving the objectives listed in the Department's telegram.

(*a*) Cotton textiles to the value of 80,000,000 escudos (the existing agreement calls for only 30,000,000; the increase would be subject to the availability of raw cotton supplies).

(*b*) Colonial products including coffee, cocoa, tea and haricot beans to a total value of 25,000,000 escudos.

(*c*) Sisal binder twine to the amount of 1500 tons provided that sisal would be made available by us from Portuguese colonial sources.

(*d*) Cement to the value of 7,000,000 escudos.

(*e*) Most important of all the 400 odd tons of tin metal which we shall be obliged to deliver to the Metals Commission under recently government control and which are above [*over?*] and above the export allocation under the supply purchase program.

[11] United States Commercial Company.
[12] United Kingdom Commercial Corporation.

(*f*) Any other products which we are now buying preclusively and which might be of military use or vital to the other objectives listed in the Department's telegram.

With respect to (*a*), (*b*), (*c*) and (*d*) above. The Portuguese authorities have given the British to understand that these amounts would probably be available for export to Morocco if the exchanges were to be renewed.

As far as shipments from Morocco are concerned in addition to the phosphates which could apparently be absorbed in Portugal to the amount of 138,000 tons per annum the following schedule of annual amounts might be suggested:

(*a*) Broad beans (5,000 tons) as provided under the Supply Purchase Agreement valued at 5,000,000 escudos;
(*b*) gypsum, valued at 500,000 escudos;
(*c*) tanning bark 2,500 valued at 1,000,000 escudos;
(*d*) grease wool 1,500 tons (to substitute the quantity which under the Supply Purchase Agreement was to be obtained from South Africa) valued at 22,000,000 escudos;
(*e*) 10,000 tons of oats, 20,000 tons of wheat and various other cereals with a combined value of 30,000,000 escudos which we understand might be available for this purpose.

(7) [*sic*] Before this Legation and the British Embassy could undertake any conversations directed to the resumption of trade on any large scale either under the existing agreement or independently of it we would need precise and authoritative information regarding the exact possibility of deliveries of products from Morocco and of absorption in Morocco of Portuguese commodities. We should in other words be in a position to speak for all parties in Morocco including private French commercial interests as well as our own military authorities whose cooperation would be necessary to effect the commercial transfers and movement of goods in question. In order that this might be achieved we feel that there ought first to be direct consultation between on the one hand British and American officials familiar with our supply purchase arrangements and preemptive program on the Peninsula and on the other similar officials in North Africa qualified to speak authoritatively with respect to Moroccan foreign trade possibilities.

(8) The British have called attention to the possibility of using our present control over Moroccan phosphates to impress the Portuguese with the seriousness of our views in the coming wolfram conversations. If discussions looking to the reopening of Moroccan trade were to be held simultaneously with the new wolfram negotiations we believe that this might be accomplished.

Repeated to London and Algiers telegraphically and Tangier and Madrid by mail.

FISH

651R.5331/b : Telegram

The Secretary of State to the Minister in Portugal (Fish)

WASHINGTON, February 1, 1943—10 p. m.

163. Department and interested agencies have studied with interest the observations contained in Lisbon's 51 of January 11 and Madrid's no. 14 of January 2 concerning trade with French North Africa. On the basis of these observations, the Department is telegraphing its views concerning trade between the Peninsula and French North Africa to Algiers, asking for comments.[13] The Department's telegram as well as Algiers' comments will be sent to Lisbon and to Madrid direct from Algiers.

The Department and interested agencies here feel that, in the final analysis, this trade must be controlled through Algiers and consequently it is important that any procedure to be adopted should first be approved there. However, in its telegram to Algiers, the Department has stressed the fact that in any negotiations for trade between the Peninsula and French North Africa, it must be borne in mind that the US and British Governments have in effect assured Spain and Portugal that the occupation of French North Africa will not interfere with ordinary commercial agreements as regards goods for their own internal use.

It is hoped that Algiers' comments on this matter will be forthcoming promptly and that it will be possible to undertake the formal negotiations concerning the trade within the near future.

Further instructions will be sent shortly.

Please repeat to Madrid as Department's no. 212, 9 p. m.

HULL

651R.5331/a : Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, February 5, 1943—2 p. m.

205. For Murphy. The following are the views of the Department and other interested agencies concerning trade between the Peninsula and French North Africa. Preliminary views on this matter were discussed in Department's no. 1482 of December 24 to Madrid, repeated by Madrid to Lisbon and Algiers. Views set forth below take into consideration Madrid's no. 14 of January 2, 8 p. m., and Lisbon's no. 51 of January 11, 3 p. m. Department has also noted certain telegraphic exchanges between Madrid and Algiers relative to Malaise[14] and Pettit.

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[13] See telegram No. 205, *infra*.

[14] Colonel Malaise, General Giraud's representative in Spain.

1. In view of limited facilities available at French North African ports for civilian trade and of necessity of coordinating all French North African trade through one center, final decisions as to the volume and character of trade with the Peninsula should be made in Algiers. It is therefore suggested that final negotiations be conducted in Algiers on a tripartite basis between NAEB,[15] the Spaniards and the French. Similar negotiations could be carried on in Algiers with the Portuguese.

2. To lighten as much as possible this additional burden to be cast on Algiers, preliminary discussions should be held in Madrid and Lisbon. In Madrid these discussions should be between representatives of the US and British Embassies, the Spanish Government and French authorities approved by the French High Commission in Algiers. If the French High Commission has approved representatives in Lisbon, similar procedure could be followed there. Otherwise, preliminary discussions in Lisbon should be between Anglo-American representatives and the Portuguese Government.

3. Instructions will be sent promptly to the Anglo-American representatives in Madrid and Lisbon (and repeated to Algiers) as to the character and volume of possible trade objectives to be sought. These will be based on studies being made here with representatives of the British Embassy and will take into consideration our supply-purchase agreements with Spain and Portugal as well as the most recent advices as to trade under existing agreements between Spain and Portugal and French North Africa.

4. One of the governing factors to be borne in mind in the course of the various negotiations is the fact that the US and British Governments have in effect assured Spain and Portugal that the occupation of French North Africa will not interfere with ordinary commercial agreements in products for their own consumption. In view of these assurances, it would appear that (*a*) it is desirable to discuss further trade as much as possible within the framework or along the lines of the existing agreements; (*b*) our control over French North African products cannot be employed for the time being to the full in bargaining with Spain and Portugal, as existing limitations on port facilities will make it impossible for Spain and Portugal to obtain the full amount of phosphates and other products provided for under existing agreements.

5. The suggestion in Department's 1482 of December 24 that US and UK might purchase exportable surpluses of North African produce does not appear practical. However, interested agencies here are agreed that for reasons of military necessity absolute control of disposition of North African produce must remain in Anglo-Ameri-

[15] North African Economic Board.

can hands. Consequently, it is suggested that one of the following alternatives be adopted:

(*a*) Have all purchases of French North African products as well as all imports into North Africa of materials purchased in the Peninsula made by such persons or agencies as from time to time may be designated by the NAEB, and under the supervision of the NAEB. This alternative differs from that set forth in (*d*) below in that this one is based on the theory that the NAEB would give its approval in advance of each specific transaction or group of transactions. Under alternative (*d*) there would be no attempt to designate in advance purchasers or importers.

(*b*) Have all commerce between the Peninsula and French North Africa handled by USCC and UKCC. This would require building up of large staffs by those organizations and would take considerable time. Moreover, it might lead to friction with the Spanish and Portuguese Governments if all their transactions must be handled through US or British commercial companies.

(*c*) Have only purchases in French North Africa for export to the Peninsula handled as suggested in (*a*) or (*b*), leaving exports from the Peninsula to French North Africa to be carried on as provided in (*d*) below.

(*d*) Allow private commercial interests to conduct the entire trade both from and to French North Africa, but maintain very close supervision through navicerts and export license system. Although this course would be much the simpler, it is the least desirable, because it would permit Spanish and Portuguese interests to enter the French North African markets freely and possibly disrupt those markets, and also weaken control over distribution of supplies in North Africa.

In the event either the Spaniards or Portuguese should object to dealing through USCC or UKCC, it could be pointed out that there is today no private commercial trading between French North Africa and the US or the UK, and that for military reasons, it is necessary that the trade be centered in Anglo-American Governmental agencies.

6. Whatever system is agreed upon for implementing the agreed trade exchanges, it will still be necessary to maintain some procedure to limit trade to agreed commodities and amounts. The following is suggested:

(*a*) All shipments from the Peninsula to French North Africa continue to be subject to navicert;

(*b*) Shipments from French North Africa to the Peninsula be controlled by some form of export licensing system and port control;

(*c*) Before issuance in any case, all applications for navicerts or licenses be passed upon and recommended or rejected by NAEB;

(*d*) To secure consignee, consignor and blockade control generally, all navicerts and export licenses be referred for quota control to Blockade Control, London.

In view of the acknowledged US interest in North Africa, all matters of policy incident to trade between North Africa and the Penin-

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sula, including types of necessary controls to be set up in practice, must be cleared through Washington. Once the controls are set up, it is felt that the routine administration should be through the Blockade Control in London, as above suggested.

7. Please telegraph your full comments on foregoing and then repeat this telegram and your comments to Madrid and Lisbon.

Repeated to London from here.

HULL

651R.5331/1 : Telegram

The Consul General at Algiers (Wiley) to the Secretary of State

ALGIERS, February 24, 1943—5 p. m.
[Received February 26—2 : 38 a. m.]

274. From Murphy. Department's 205, February 6 [*5*], 2 p. m. We have learned from the Economic Secretariat that the French are going forward with Portuguese and Spanish negotiations on the basis of the accords in force prior to November 8.[16] The situation is not, however, too clear because of the uncertainty in the minds of the Spanish and the Portuguese with regard to Axis reaction to negotiations with this area. Apparently, according to the French, they prefer to let the matter ride for the moment and to have the Portuguese go forward. Once an agreement is reached with the Portuguese the Spanish would then be in a position to explain to the Axis that the maintenance of peninsular economy made it necessary for Spain to conclude an agreement. There is likewise the question of whether they will negotiate with the Sherifian Government or with the High Command.

Presumably on the surface the arrangements would be concluded as with the Protectorate authorities. Bataille, of the Foreign Trade secretariat, however, takes the position that that is a detail of no importance so long as an agreement can be reached and trade reestablished and maintains that the negotiations will in fact be controlled by the High Command. Bataille proposes to proceed to Lisbon about the first of March in order to get the negotiations under way. He will have with him an expert representing the Protectorate and one representing Algeria. From Lisbon they will proceed to Madrid and later to London.

Pettit's position in Madrid is of course established and the French feel that the present Chargé in Lisbon can be relied on. Bataille, however, seems to appreciate that any negotiations will necessarily be closely coordinated with our Missions in Lisbon and Madrid.

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[16] Allied Forces invaded North Africa on November 8, 1942.

He met Ackerman [17] when the latter was here last month. We will have from Bataille before he leaves texts of the proposed agreements and a list of the commodities involved along with tentative amounts.

Number 1. I agree that it would be necessary for us to coordinate and determine, always in consultation with the military, the volume and character of any trade which may be established. Port facilities, et cetera, can take care of this trade provided it is properly coordinated as to time and character with other shipping and port problems. Final negotiations should be concluded here in Algiers on a tripartite basis provided of course that the Spanish and Portuguese send qualified persons here for such purpose.

Number 2. We shall of course wish to be kept currently informed as negotiation[s] proceed in Lisbon and Madrid.

Pettit is of course the proper French representative in Madrid and the present Chargé at Lisbon seems to have the confidence of the High Command.

Number 4. The French are proceeding on a basis of negotiating within the framework of the agreements in force prior to November 8.

Number 5. The French authorities propose to maintain entire control over the trade between North Africa and the Peninsula. There will, according to Bataille, be no private imports or exports. The High Command will deal with the private North African traders. In view of this fact it is our feeling that it would be preferable to let the French carry on this trade in their own way, always subject, of course, to close supervision or control by our Mission in Lisbon and Madrid and by NAEB here. We believe this is possible without interference with such programs of purchase and supply as we and the British may develop. In this way it would not be necessary to inject the UKCC and the USCC into the picture and unless there are particular reasons for bringing these organizations in it seems better to keep all these matters purely within the NAEB organizations. I am sure that if all trade were to be carried on through the UKCC the French would object most strenuously. If we can permit the French a fair degree of independence within certain limitations and proper navicert control, it would be better all around.

6. All of the points made in this paragraph strike us as logical and therefore we have no additional comment.

Repeated to Lisbon and Madrid. [Murphy.]

WILEY

[17] Ralph H. Ackerman, Commercial Attaché in Spain.

811.20 Defense (M) Spain/412a Suppl.: Telegram

The Acting Secretary of State to the Consul General at Algiers (Wiley) [18]

WASHINGTON, March 6, 1943—10 a. m.

402. Department's 205 of February 5 to Algiers, repeated to Madrid and Lisbon, and Department's no. 1482, December 24 to Madrid, repeated by Madrid to Algiers and Lisbon.

1. There are being sent you by airmail courier comprehensive instructions embodying over-all trade program between French North Africa and the Iberian Peninsula which has been formulated by the Department and Board of Economic Warfare after consultation with British Embassy here. Although it is clear that certain of the North African goods listed in the over-all program may interest Spain and Portugal, phosphates are the key to the situation. This comprehensive program is being submitted to you with the view of utilizing phosphates to the utmost effect in accomplishing the long-range and complete objectives set forth in the airmail instruction which is being sent you. It is realized, however, that lengthy negotiations are likely to be necessary for the acceptance of the long-range program. In order, therefore, that the resumption of trade may be expedited pending the conclusion of such negotiations, we suggest to you within the framework of the larger program the following proposals on which immediate action should be taken.

2. An offer to the Spaniards and Portuguese, it is thought, of the minimum amounts of phosphates which the program sets forth, that is from 200,000 and 100,000 tons respectively per annum, starting in April on a monthly basis of 17,000 and 8,500 tons respectively, will furnish both countries an incentive to conclude the over-all program. It is suggested, on our part, that a start be made with the commodities contained in the following short list, a miscellaneous category being added within which the USCC and UKCC in Madrid and Lisbon could place on an *ad hoc* basis other desired orders. Effective assurances that North African products thus secured would not be reexported would of course be obtained from Spain and Portugal. In substance we suggest that the initial agreements looking to immediate trade resumption be limited to an exchange of phosphates and miscellaneous items on a monthly basis against the following:

Spain

850 tons	Cotton textiles
850 "	Potash
850 "	Pyrites
	Miscellaneous, e. g., matches, bottles, lead manufactures, etc.

[18] Repeated to Lisbon (No. 352), Madrid (No. 510), and London (No. 1421).

Portugal

100 tons	Cotton textiles
600 "	Timber
350 "	Cement
	Miscellaneous, e. g., colonial products such as coffee and cocoa, glass, shoes, etc.

If the demand for a special compensating import quota should be waived by the Spanish, woolen goods could be added to the list for Spain, but otherwise not.

It is also our desire and intention to draw into the trade between the Peninsula and North Africa, to the greatest extent possible, goods which may now be finding their way to Axis destinations, such as woolen piece goods.

3. We anticipate that there would be an accumulation of balances of escudos and pesetas on the part of French North Africa as a result of the resumption of trade between that area and the Peninsula on the basis of the program herein suggested. We naturally desire to make sure that such net balances should come into the possession of the British and ourselves to be used to further our preemptive and supply programs both in Portugal and Spain. We therefore recommend that the UKCC and the USCC on joint account should conduct the trade interchanges between Spain and Portugal and French North Africa. The two commercial companies would thus act as procurement agencies in both French North Africa and on the Peninsula. Goods purchased on the Peninsula would be consigned to NAEB, Lend-Lease, or if NAEB should so desire, to the commercial companies themselves. We further recommend that the trade itself between French North Africa and the Peninsula should be expressed in the respective local currency involved, i.e. imports would be quoted in the currency of the importing country.

4. The commercial companies would make purchases of phosphates and other North African products either directly against sterling and dollars in equal proportion or they would do so in French francs which the French North African fiscal authorities might release in return for dollars and sterling in equal proportions.

5. We recognize that an attempt may be made by the French to secure for their phosphates and other products higher prices than it has hitherto been the custom of the Spanish and Portuguese to pay. Both the Spanish and Portuguese must therefore be clearly advised that we shall indulge in no price raising on our part and that such products will be quoted to them at cost to us.

6. The foregoing short term program (and the over-all program which you should receive shortly by airmail) is presented to you for your urgent consideration. Please advise us of your reaction as soon as possible after consultation with your British colleagues.

7. Since the drafting of the foregoing paragraphs, Algiers telegram No. 274 of February 24, repeated to you, has been received. This telegram is now being carefully studied and appropriate instructions will be sent you at the earliest possible moment in the light of its content.

Repeated to Lisbon, Madrid and London.

WELLES

811.20 Defense (M) Spain/412a : Telegram

The Acting Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, March 6, 1943—11 a. m.

403. For Murphy. Your 274, February 24 and 308, March 1.[19] Department is strongly of the opinion that Bataille should be requested to delay his departure until we have had an opportunity to consider the lists contained in your 308 and you have had an opportunity to consider the lists and proposals set forth in the Department's 402, March 6. For Bataille to commence negotiations before there is a common US-Anglo-French understanding on objectives and procedures might well be injurious both to the economic warfare operations which we have been conducting over a long period in the Iberian peninsula and to the program of economic assistance to North Africa which we are endeavoring to carry out. You are requested to urge upon Bataille the great importance to the joint war effort of the French coordinating their commercial operations in neutral countries with the analagous operations being conducted by the US and UK.

With reference to your 274 we do not feel that arrangements for joint negotiations in Algiers, Madrid and Lisbon and for supervision of the trade by NAEB are clearly enough stated. Please discuss these aspects more fully with the French. On the other hand, while the USCC and UKCC are from our point of view the most satisfactory means of handling the trade, we would not wish to insist, if the French object to such an arrangement, that the trade between the peninsula and North Africa be channeled exclusively through these corporations. The essential point is that the proposed commercial exchanges be coordinated at all times with the activities of the NAEB and the US and British missions in Madrid and Lisbon and that, like the US and British operations in these areas, they be considered as combined Allied operations rather than as those of a single Ally acting independently.

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[19] Latter not printed.

A further message will be sent as soon as study of your 308 has been completed.

WELLES

651R.5331/3 : Telegram

The Ambassador in Spain (Hayes) to the Secretary of State

MADRID, March 7, 1943—10 p. m.
[Received March 8—10 : 39 a. m.]

542. Department's 205 to Algiers and Algiers' 274.

1. British Embassy has received from London lengthy instruction concerning French North African trade. We do not know its full content. Spaniards informed us British asked whether they would be agreeable to handling French North African trade through United Kingdom Commercial Corporation to which they answered affirmatively. We believe Spaniards' favorable reaction determined by fact that it would remove the need for dealing through French North African representatives thus permitting them to acquiesce to Vichy's expressed wishes. British did not inform us previously their intention to discuss this with Spaniards although they had mentioned that exchange of products between Spain and North Africa would be determined in London and not through NAEB.

2. We persist in our conviction that French North Africa should be permitted to conduct negotiations for exchange of products with Spain and that we should not offer to Spaniards a formula to bypass French.

(*a*) Most effective control of these negotiations could be exercised through tripartite agreement in Algiers. Preliminary negotiations should be conducted in Madrid and French North African representatives should be supported by both British and United States Embassies, preferably by actual participation in discussions. This evidence of unity would be an effective counter to Vichy and Axis.

(*b*) It is immaterial whether the instrument of agreement with Spaniards is signed in Algiers or Madrid.

(*c*) The movement of goods should be closely controlled. The quantities of materials to be included in the French part of the program and the goods and services desired from Spain should be determined in Algiers. Control should be exercised so as to insure that Spanish supplies move in harmony with French North African supplies.

3. Although French can most effectively use the supply of goods to obtain needed supplies from Spain and other advantages we do not need to use French North African products as bargaining weapons for our program with Spain. By our participation in discussions the Spaniards will know that these goods are being made available

by common consent; they also are aware of the fact that we exercise additional control through navicerts and port facilities.

4. We can perceive no advantages to us from having United States Commercial Corporation and United Kingdom Commercial Corporation act as purchasers or suppliers of goods falling within the French North African-Spanish agreement. After negotiations have been concluded if the services of the companies are requested by all interested parties to facilitate the movement of goods we would not object. However, activities of the companies should be limited to such services as we may desire to have them perform in connection with any arrangements which may be concluded by British and American Embassies with Spaniards for our acquisition of Spanish goods for North Africa.

Repeated to Algiers and London.

HAYES

811.20 Defense (M) Spain/578 : Telegram

The Chargé in Spain (Beaulac) to the Secretary of State

MADRID, March 11, 1943—midnight.
[Received March 12—11 : 30 a. m.]

594. (1) Although we shall discuss with the British Embassy the proposal outlined in your 510 March 6,[20] we shall not approach the Spaniards until we receive your further instructions after studying Algiers' 274, February 24 and my 542, March 7 in which my views are fully expressed.

(2) We interpret Murphy's telegram under reference to mean that exclusion of the French from a voice in the disposition of French North Africa products is undesirable. We agree.

(3) If we are to begin discussions with the Spaniards without French North African participation this would be interpreted as indication that we do not deem it necessary to consider French views in relation to this economic program. As phosphates have the greatest interest for the Spaniards by removing them from a French program and applying them to a British-American program we weaken the power of the French North African representatives here to combat Vichy and Axis influence. In effect we deny the French the right to negotiate on important economic matters and thereby impair their effectiveness to handle their political matters hence it is not improbable that the burden of negotiations to clear up irritating political matters would fall on us. We consider this wholly undesirable.

(4) There are two clear indications that the High Commission considers it should have a voice in economic negotiations with Spain

[20] See footnote 18, p. 14.

(*a*) recently instructions were sent to Malaise relating French refugee problem to the release of phosphates, (*b*) we understand Bataille is due to arrive in Spain shortly for the purpose of discussing economic affairs.

Repeated to London, Lisbon and Algiers for Murphy.

BEAULAC

811.20 Defense (M) Spain/408

The Secretary of State to the Ambassador in Spain (Hayes)

No. 323 WASHINGTON, March 16, 1943.

SIR: The following program is suggested by the Department and the Board of Economic Warfare, after consultation with the British Embassy, as an overall trade program between French North Africa and the Iberian Peninsula.

In formulating this program, consideration has been given to your telegrams no. 1964 of December 4, 11 p. m.[21] and no. 14 of January 2, 8 p. m.; and Lisbon's telegram no. 51 of January 11, 2 [3] p. m. Your attention is also directed to earlier discussions relating to this matter contained in the Department's telegram no. 1482 of December 24 to you, repeated by you to Algiers and Lisbon, and the Department's telegram no. 205 of February 5 to Algiers repeated to you and Lisbon.

SECTION I

1. For your guidance, it is thought desirable to recapitulate the views of the Department and BEW concerning the underlying postulates and objectives that have guided us in the formulation of this program. We have been guided by:

A. Past trade relations as indicated by recent barter agreements between Spain, Portugal and North Africa and negotiations under way in November, 1942 between Spain and French Morocco. In this connection, your attention is directed to paragraph 4 (*a*) of the Department's no. 205 of February 5 to Algiers. It is our intention that present trade agreements should be followed as far as possible, but this intention should be interpreted in the light of the objectives hereinafter described.

B. The desire to increase the preemptive effect of United Nations activities in the Peninsula and thereby damage the Axis by using our control over French North African commodities to procure additional quantities of strategic and preclusive materials over and above the quantities available to us under our supply-purchase program. Thus, we are desirous of procuring the additional quantities of wolfram, zinc, and tin from the Iberian Peninsula indicated in the program below. Additional tonnages of phosphate rock and foodstuffs which

[21] Not printed.

might eventually become available in North Africa can be offered to accomplish this purpose. It will be noted that the program set forth below indicates a proposed maximum of 300,000 tons of phosphate rock for Spain and 140,000 tons of phosphate rock for Portugal. As an inducement to the procurement of the indicated quantities of wolfram and zinc, we would be willing to offer a total maximum of 250,000 tons and 550,000 tons of phosphate rock to Portugal and Spain, respectively.

C. The desire to provide necessary supplies for French North Africa from the Peninsula to minimize the strain on United Nations productive and shipping facilities. In connection with the former, where exports from Spain or Portugal are conditioned upon supplies of raw materials from the US–UK (such as raw cotton for cotton textiles) it is not our present intention to supply machinery or equipment beyond the normal supply of replacement parts now being made available to maintain their present productive capacity. It is rather our intention that French North African purchases in Spain and Portugal will utilize to the fullest extent the existing facilities and materials of those countries. With reference to the desire to decrease the strain on United Nations' shipping facilities, reference is made to the necessity of removing preclusive purchases acquired under US–UK Supply-Purchase Agreement from the Peninsula for consumption or storage in North Africa and subsequent shipment to the US–UK. Since it appears that the tonnage to be lifted from French North Africa to the Peninsula will be considerably greater than that to be carried from the Peninsula, we are hopeful that arrangements can be made to effectuate this objective. In this connection, reference is made to the Department's no. 258 of February 5 [22] to you which stated that, according to competent authorities here, small neutral vessels, including Spanish, may be permitted to enter secondary North African ports in the near future. Upon receipt of advice from you relative to this information, we shall cable you further. If a satisfactory solution is presented in response to this latter cable, this may ease the difficulty resulting from the apparent lack of port facilities as referred to in the Department's no. 205 of February 5 to Algiers, paragraph 4 (*b*). It is also our understanding that all Iberian-North African trade will be carried in Spanish and Portuguese bottoms, and possibly in small coastwise French vessels not now nominated to United Nations' use.

D. The desire to facilitate the export of surplus commodities from French North Africa in order to support and stabilize the economic life of that area. In this connection, however, it should be understood that shipments from North Africa will count against the respective world quotas for Spain and Portugal where such quotas exist. Where no specific quotas exist, as in the case of *crin vegetal* and esparto grass, such shipments will be debited against existing quotas of similar goods at ratios to be determined in advance.

2. It is our definite intention that any net peseta or escudo balance accruing to French North Africa will be made available for US–UK purchases in Spain and Portugal although it appears unlikely that

[22] Not printed.

any favorable balance will result from the proposed program, as now formulated.

3. The determination of prices to be charged for North African commodities will be left to the NAEB after prior consultation with Washington and London.

4. Finally, assurances must be given by all parties concerned that under no circumstances will re-export to the enemy be permitted of any commodities made available by virtue of this program.

5. The following paragraphs set forth the trade proposals. Figures are in metric tons unless otherwise specified and each paragraph carries its own explanation of the various statistical columns. A dash in the tables following indicates that no figures are available.

[Here follow paragraphs 6, 7, 8, 9, 10, and 11 containing tables regarding proposed exports between the Iberian Peninsula and French North Africa.]

Section II

1. It is clear that although certain of the North African goods listed in the program set forth above may interest Spain and Portugal, phosphates are the key to the situation. The foregoing program is submitted with the view of utilizing this item to its utmost effect in accomplishing the objectives set forth in paragraph no. 1 of Section I. Hence, the program is long range and as complete as possible. However, it is realized that the negotiations preceding its acceptance are apt to be lengthy. Therefore, in order to expedite the immediate resumption of trade pending the conclusion of such negotiations, the following proposals are suggested to you for immediate action within the framework of the above-mentioned program.

2. It is thought that by offering the Spanish and Portuguese the minimum amounts of phosphate set forth in the program (200,000 tons and 100,000 tons annually, respectively) on a monthly basis starting in April of 17,000 tons and 8,500 tons respectively, there will be more incentive on their part to conclude the over-all program. On our part, it is suggested that we start with the short list of the following commodities adding a miscellaneous category within which other desired orders could be placed by the USCC in Lisbon and Madrid on an *ad hoc* basis. It is therefore suggested that the initial agreements for the immediate resumption of trade be confined to a monthly exchange basis of phosphates and miscellaneous items against the following:

Portugal.

Cotton textiles	—	100 tons
Timber	—	600 tons
Cement	—	350 tons

Miscellaneous, e. g., glass, shoes, colonial products such as coffee and cocoa.

Spain.

Cotton textiles	—	850 tons
Potash	—	850 tons
Pyrites	—	850 tons

Miscellaneous, e. g., lead manufactures, matches, bottles, etc.

Woolen goods could be added to the Spanish list if the Spanish would waive their demand for a special compensating import quota, but not otherwise.

We also desire and intend to draw into the Iberian Peninsula-North African trade to the greatest possible extent, items such as woolen piece goods which may now be finding their way to Axis destinations.

3. It is expected that this trade between French North Africa and the Peninsula will result in the accumulation of balances of pesetas and escudos on the part of French North Africa. It is desired, naturally, to assure that the British and we shall come into possession of such net balances for the furtherance of our preemptive and supply programs in both Spain and Portugal. It is recommended, therefore, that the trade interchanges between Spain and French North Africa and Portugal and French North Africa should be conducted by the UKCC and the USCC on joint account. This would involve the two commercial companies acting as procurement agencies on both the Peninsula and French North Africa. Consignment of goods purchased on the Peninsula would be to NAEB, Lend-Lease or the commercial companies themselves as NAEB might decide. It is further recommended that the trade itself between the Peninsula and French North Africa should be expressed in the local currency concerned.

4. The purchase of phosphates and other North African products would be made by the commercial companies either directly against dollars and sterling in equal proportion or for French francs previously secured from the French North African fiscal authorities in return for sterling and dollars in equal proportion.

5. It is recognized that the French may attempt to secure higher prices for phosphates and their other products than the Spanish and Portuguese have hitherto been accustomed to pay. It must, therefore, be made clear to both the Spanish and Portuguese that no price raising will be indulged in on our part and that we will quote such products at cost to us.

Section III

1. The foregoing programs are presented to you for your urgent consideration. Please consult with your British colleagues and telegraph your views as promptly as possible.

Very truly yours, For the Secretary of State:
Dean Acheson

811.20 Defense (M) Spain/578 : Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, March 18, 1943—11 a. m.

485. For Murphy and Williams. Reference 274 of February 24 from Algiers, 308 of March 1 from Algiers,[23] 403 March 6 to Algiers, 510 March 6 to Madrid,[24] 542 March 7 and 594 March 11 from Madrid.

1. A preliminary review of your 308 indicates that the proposed program is incomplete in that it ignores the underlying objectives of the program developed here, namely, (*a*) the desire to increase the pre-emptive effect of the United Nations activities in the Iberian Peninsula by utilizing French North African commodities to procure additional quantities of strategic materials over and above the quantities available to us under our supply-purchase programs; (*b*) the desire to secure certain commodities from the Iberian Peninsula for North Africa in order to relieve the strain on United Nations shipping and productive facilities. These objectives are more fully discussed in the Department's instruction 323 of March 16.[25]

2. For these reasons, we requested in our 403 March 6 that Bataille not commence negotiations prior to a common US-Anglo-French understanding on the objectives and procedures which we have previously indicated as essential. Since it is apparent that the phosphate supplies of North Africa are the chief trading weapon of the French in dealing with the Iberian Peninsula, it is of the utmost importance that no commitments be made regarding phosphates without careful study of our program of reciprocal trade between the Peninsula and North Africa and that no commitments be made which would result in this most important bargaining weapon being sacrificed without an appropriate *quid pro quo*. In this connection, your attention is directed to the United States Army interest in purchasing a large quantity of lumber from Portugal and the fact that neither shipping nor supply facilities exist here to meet these needs. In cable no. 21 of March 8, from Lisbon to Algiers, the following sentence appeared: "We consider it important to be in a position to offer phosphates in return for lumber and other Portugal supplies that our armed forces in North Africa urgently require."

3. As stated in our 403 March 6 we believe that a preliminary understanding with the French in Algiers including their assent to joint negotiations in Madrid and Lisbon and to supervision of the trade by NAEB is of the utmost importance. There is not and has never been any intention of submitting a formula which would by-pass the French. As a matter of the mechanism of operation rather than as a matter

[23] No. 308 not printed.
[24] Regarding telegram No. 510, see footnote 18, p. 14.
[25] To the Ambassador in Spain, *supra*.

of substance, the most satisfactory means of handling the trade is through the USCC and the UKCC. The use of the companies would provide an effective mechanical control over the movement of goods. They would, of course, only act by direction, and not independently. If the French object to such an arrangement, it should be pointed out that this would not conflict with their desire to channel private export or import trade through the High Command. The use of USCC and UKCC merely means that we would be utilizing an already established mechanism for moving goods to and from the Iberian Peninsula. The utilization of such a mechanism in North Africa would serve to continue a tried and orderly procedure. When the goods arrive in North Africa, the USCC and UKCC would channel them through the High Command to the trade. In other words, by utilizing the USCC and the UKCC in the first instance as original consignees and consignors, we would be effecting the type of control we desire in the Iberian Peninsula and in North Africa. This would make possible our essential purpose of coordinating the proposed commercial exchanges at all times with the activities of the NAEB and the US and British missions in Madrid and Lisbon. Like the US and British operations in these areas, they would be considered as combined Allied operations rather than those of a single ally acting independently. The Department and BEW cannot agree to this one segment of what is in effect a joint supply and economic warfare program being handled independently by the French without reference to us.

4. In regard to paragraph 2 of Madrid's 542, we are in agreement that all negotiations should be joint in character and that the French should participate as equals. Our suggestion was and is that meetings be had in Lisbon and Madrid among representatives of the British and our Embassy, those French authorities sanctioned by the French High Command and the Spanish Government. The same procedure should be followed in Lisbon, though we should not wish that anyone still attached to the Vichy Legation participate in the negotiations there. It is our belief that if the French participate in the negotiations on a basis of full equality with their U.S. and British Allies, the political aims which our Embassy in Madrid has in mind will be achieved. The exact form of the joint negotiations can of course be best decided on the spot.

5. It is recognized that it might well be unwise to insist upon utilization of the USCC and the UKCC in the face of objections from the French. While we would be decidedly reluctant to abandon the mechanism of the USCC and the UKCC for the reasons stated in paragraph 3, any alternative arrangement must obviously operate under the same safeguards and detailed supervision by the NAEB as the USCC and the UKCC would provide in their capacity of original consignors and consignees. Further, it would be the NAEB who

would then be responsible for the mechanical integration of the North African trade program with the Anglo-American supply-purchase program on the Peninsula. Finally there should be a clear and unequivocal understanding with the French that they will submit for our approval any proposed program prior to undertaking discussions with the Spanish and Portuguese Governments, and that the French unconditionally agree to the supervision and direction of the NAEB. In the event the French insist on the alternative presented in this paragraph, it is necessary that we know the mechanism and type of control you have in mind; thus, do the French contemplate a commercial company of their own similar to the USCC and the UKCC? If they do not contemplate such an organization, what mechanism will they use and how will they meet deficits or dispose of credits in their balance of trade? Satisfactory answers to these questions should be obtained from Bataille and from the Haut Commissariat.

6. A further message will be sent as soon as study of your 308 has been completed. In the meantime, in conjunction with the British please discuss the matter with the French and report fully but take no final decision without consulting the Department.

Repeated to Madrid, Lisbon and London.

HULL

811.20 Defense (M) Spain/687d : Telegram

The Secretary of State to the Ambassador in Spain (Hayes)

WASHINGTON, April 14, 1943—11 a. m.

850. USCCO 1373. Department's 1924 of March 27 (USCCO 3064) to London.[26] Subcommittee of IPOC [27] on finance has considered London's 1524, 1963 and 2079 [28] on financial position in Spain. Representatives of the British Embassy attended and the following action was agreed:

1. Immediate steps should be taken by USCC in Madrid to secure as large balances of internal pesetas as quickly as possible by the several means at your disposal. Whether or not black market operations, which presumably would figure as one method, should be cleared informally by the Instituto is left to your decision. It is assumed that the British also will proceed promptly in their efforts to secure internal funds.

2. Careful consideration has been given to London's 2079, and it is now requested that you seek from the Instituto the purchase of four million dollars worth of pesetas against dollars.

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[26] Not printed.

[27] Iberian Peninsular Operating Committee.

[28] Telegrams dated March 2, March 20, and March 24, respectively; none printed.

3. It is believed here that in the course of the negotiations on the supply purchase agreement every effort should be made to secure from the Spaniards effective assurances regarding the prompt issuance of export licenses for our purchases.

The conviction existing here that under no circumstances should we risk curtailment of our preclusive program because of a peseta shortage led to the above conclusions. It was further believed that our negotiating position would be stronger if we were in possession of substantial peseta working balances, and the decision was taken in full recognition of the fact that the action to be taken under 2 above may impress on the Spaniards the rate at which their dollar balances are increasing and in turn invite their attention to the difficulty of the utilization of such balances for the purchase of goods here. There is also full recognition that this action is a safeguard for the maintenance of the program and does not apply a basic correction to the problem. Increased cotton purchases in this country, however, should tend to correct the problem of redundant Spanish dollar deposits.

Every consideration will be given by IPOC to any suggestion you may make for constructive action designed to balance the trade position. We are studying your suggestion to increase supplies to Spain. As you are aware, the supply position in this respect must be controlling.

It was pointed out in the penultimate paragraph of London's 1963 that the Instituto could not hold large balances of foreign currency because it lacks sufficient capital for this purpose. In your opinion do means exist whereby the Bank of Spain could be persuaded to acquire certain dollar balances from the Instituto and in accordance with existing U. S. Treasury regulations convert them into earmarked gold in this country. Your views in detail, with particular attention to the difficulties which might bar such action, would be appreciated on this point. According to information here, the Bank of Spain from time to time has acquired gold directly or indirectly from Germany, but its gold holdings are still believed to be relatively small. Repeated to London.

HULL

811.20 Defense (M) Spain/671 : Telegram

The Ambassador in Spain (Hayes) to the Secretary of State

MADRID, April 14, 1943—5 p. m.
[Received April 15—10 : 50 a. m.]

910. Embassy's 899, April 14, 10 a. m.[29] At a meeting of Anglo-American Committee to consider resumption of trade between Penin-

[29] Not printed.

sula and North Africa the following unanimous recommendations were made and are submitted for urgent consideration:

(1) That a special committee of NAEB to handle peninsular trade be set up on which French should be represented. In Madrid questions relating to North African trade should be under direction of the Anglo-American Committee to which French representative should be added for that purpose. These two committees would handle policy and supervise trade.

(2) That the UKCC and USCC should jointly act as consignors and consignees and should collect payments and make disbursements at each end. All shipments to North Africa whether for civil population or the Anglo-American forces would be handled in this way for the present. This is acceptable to the Spanish authorities.

(3) That negotiations with Spanish authorities be undertaken by Madrid committee through its representatives. A formal agreement is not contemplated. First objective of negotiations with the Spaniards will be to effect resumption of North African trade as soon as possible by arranging a program of phosphate shipments to Spain and return cargoes of Spanish goods now available (e. g. pyrites) in Spanish ships. Other goods to be added later.

(4) That the pesetas derived from exports from North Africa to Spain should be used exclusively for payment of exports from Spain to North Africa and transportation charges. But to provide funds for relief and other purposes the Madrid committee would endeavor to obtain the release to the representatives of the French North African authorities of the peseta balance due the Sherifian Government under the last French Moroccan-Spanish agreement representing about 8 million pesetas.

(5) Token shipment of 10,000 tons of phosphates. In view of undertakings given to Spanish Government and the promise that those phosphate shipments would be resumed at the beginning of April Anglo-American Committee also recommended that in order to avoid further delay token shipments should be dealt with outside the proposals outlined in the previous paragraphs.

(6) The foregoing recommendations have been made by the committee with the following factors in mind:

It fully recognizes desirability of French representation. At the same time it seems more than likely that the balance of payments of trade between Spain and North Africa will in due course run heavily against the latter and the deficit will have to be made up by pesetas derived from exports from the sterling and dollar areas. In this and other ways this trade is inexorably joined to the supply purchase arrangements and therefore must be controlled in connection with it. Accordingly the recommendations set out in this telegram seem to

459-972—63——3

the committee best means of effecting this control, having regard to French susceptibilities.

Repeated Algiers, London and Lisbon.

HAYES

811.20 Defense (M) Spain/683 : Telegram

The Consul General at Algiers (Wiley) to the Secretary of State

ALGIERS, April 17, 1943—midnight.
[Received April 20—5 : 05 a. m.]

642. From Murphy. My 567, April 6, 7 [2] p. m.[30] We have received an informal memorandum from Bataille as a result of preliminary conversations with him and Couve de Murville[31] on North African-Iberian trade in which the French position is explained as follows.

(1) Our desire both for uniting in a common policy of Allied economic warfare with regard to the Iberian Peninsula and for bringing into the framework of this policy North African-Iberian trade is fully shared by them.

(2) In the future French agreements with the Portuguese and Spanish these ends can be safeguarded if the French and the Allies can agree in advance as to the bases of such agreements, the lists of products and the methods of transfer.

(3) It is thought preferable to have the lists of products from Iberia in open form, i. e., specifying broad classes of goods, in order to allow the French and the Allies opportunity for maneuvering.

(4) French representatives insist upon carrying on alone the negotiations with Spain and Portugal once an agreement has been reached with the Allies. The American and British Embassies will be kept informed of the progress of the negotiations. An attempt would be made to bring outstanding balance due the French from old agreements into the new agreement.

(5) It is considered indispensable by the French that at no time should the governments involved and likewise French merchants be given reason to feel that the French cannot guarantee independently their interests with Spain and Portugal. If we wish to use the commercial corporations, therefore, it is their suggestion that an *office commerciale* be organized by them which could work in close liaison with the USCC and UKCC. They would effect purchases in Iberia through their *office commerciale*.

(6) As a result of existing stocks of French African agencies and merchants in Spain and Portugal, differences in price levels and previous existence of French African credits in Madrid and Lisbon, the general commercial agreements should be concluded before any movement of goods takes place. If exchanges are begun on a ship to ship basis they fear that they will no longer have the power to

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[30] Not printed.
[31] Former French Treasury official.

conclude a long term formal agreement and also the chance to pick up arrears due them on agreements made previously.

(7) Outstanding credits are as follows: (*a*) From Portugal approximately escudos 30 million worth of goods chiefly telegraph poles and pit-props which had been bought and licensed for export last November when trade was brought to a standstill. Only five or ten thousand tons of phosphates are owed. (*b*) From Spain a special credit of escudos 19 million was created by the French for the purchase of cotton fabrics, tea and sugar. In addition a credit of francs 70 million had been raised on their phosphate exchanges up to June 1942, expiration date of agreement. Shipments were continued after July 1942 pending new formal agreement which created an additional credit of francs 20 million. In addition they owe nothing to Spain.

(8) Conversations were taking place in November to set off French North African credits against the debit of metropolitan France notwithstanding the debits of the former. These credits are considered intact by Bataille inasmuch as a mission from the *Metropole* has been sent to Spain since that date to purchase foodstuffs and to arrange as a separate item the amortization of their debits.

We consider it imperative that an early start should be made with this trade as lumber and other supplies are desired by the armies. If only the remaining balance of five or ten thousand tons of phosphates were shipped, we do not think as Bataille does that the bargaining position would be prejudiced; however, if Portugal were offered many such shiploads as an inducement to ship lumber here such action would definitely impair the bargaining power of phosphates. This would not obviously be to our interest either. We recommend that the Bataille lists be immediately screened at both Washington and London from the economic warfare standpoint concerning which we are not fully informed here. Afterwards we will screen them ourselves and secure final agreement from the French in order to make an early start possible.

London is being sent a similar telegram by Herbert.[32]

Repeated to Madrid and Lisbon. [Murphy.]

WILEY

811.20 Defense (M) Spain/695 : Telegram

The Consul General at Algiers (Wiley) to the Secretary of State

ALGIERS, April 21, 1943—noon.
[Received April 22—7 : 59 a. m.]

671. From Murphy. My 642, April 17, midnight. The program for trade between French North Africa and the Iberian Peninsula as

[32] Roscoe Herbert of the Civil Affairs Section of the Allied Force Headquarters in French North Africa and member of the North African Economic Board.

outlined in Department's instruction 323, March 16 to Madrid and Madrid's reply No. 910 of April 14, 5 p. m., seems to be based on the following conditions:

(*a*) "Our control over French North African commodities."
(*b*) Entire control of the trade by UKCC and USCC.
(*c*) Need for fulfilment of our commitments to Spain and Portugal in respect of trade with North Africa.
(*d*) The use of North African products in furthering our economic warfare plans in the Iberian Peninsula.
(*e*) The export to North Africa of commodities needed here and also certain commodities which are not needed in this area and for which no warehouse facilities are available (any merchandise coming here must go immediately into military or trade channels: furthermore, port facilities are now being used at their maximum).
(*f*) Any peseta and escudo balances in favor of North Africa would be exclusively controlled by the UKCC and USCC.
(*g*) Some undefined French representation is envisaged.

It would be difficult to obtain wholehearted French acceptance of this program. The regime here is sensitive as to its position, is resentful of any approach which tends to treat this as an occupied area or denies it a position of respect. We feel we have gotten the French to come quite near what we want, their position being outlined in my 642, April 17, midnight. They feel strongly about their position in the actual negotiations with Spain and Portugal not only insofar as those two countries are concerned but also the French people in this area. If as outlined in my telegram the French have large escudo, franc and peseta balances in Spain and Portugal which have arisen from prior trade, the program does not seem to take this factor into consideration. In Portugal the French maintain that the lumber for which they have used their escudo credits [apparent omission]. If this be true and we guarantee return phosphate shipments for any lumber sent to this area we permit the Portuguese to get away with double bargaining.

We do not consider that any of the direct instructions to us have involved a specific detailed commodity program which we could discuss with the French. We wonder, therefore, whether we should consider the Department's mail instruction 323, March 16 to Madrid as the final detailed list to be used in our negotiations with the French, or whether we may expect to receive a screening of Bataille's list submitted in our 308, March 1, midnight.[33]

Repeated to Lisbon and Madrid. [Murphy.]

WILEY

[33] Not printed.

811.20 Defense (M) Spain/711c: Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, April 22, 1943—10 a. m.

766. For Murphy. Your 308, March 1 [34] and Department's instruction 323 to Madrid of March 16. Your proposals have been studied by us. We have meant to indicate the maximum possibilities of trade between North Africa and the Iberian Peninsula in the program covered by our airmail instructions. The attainment of all of these maximum figures, we recognize, is not possible, but such figures are offered as a basis on which to negotiate. The program outlined in your 308 apparently bears close relation to trade arrangements in the past. In our opinion, the basis for initiating negotiations is not contained in such a program unless you have available information which indicates that our suggested quantities are not available or are not likely in the near future to become available. In the negotiations the figures contained in our airmail instructions should be used, although an agreement may eventually be reached for smaller quantities. North Africa is treated as one unit in our airmail instruction proposal. You have set up a separate basis in your 308 for Morocco, Algeria and French West Africa. No separate negotiations for trade program should be carried on with either Algeria, Tunisia, Morocco or West Africa, but rather you should consider the entire area as one entity. French West Africa is included in your 308, but our airmail instructions omitted this area. The inclusion of West Africa is agreeable to us, but has not been approved by the British as yet.

The inclusion of West Africa does not mean that we wish to add new items to the imports of French North Africa indicated in our airmail instructions, since all estimated quantities available of imports we desire are comprised in the imports there shown. The French West African exports to be added to our airmail instruction program are as follows:

To Spain:	*To Portugal:*
400 tons gum arabic	100 tons gum arabic
70 tons gum copal	20 tons colanuts
80 tons colanuts	

With respect to specific commodities mentioned in your 308, please note the following comments:

[Here follows comment on the numerous commodities mentioned in telegram No. 308.]

In order that final instructions can be prepared, it is urged that you comment as quickly as possible on the proposals submitted to you. Please call this telegram to Butterworth's [35] attention upon his arrival.

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[34] Not printed.

[35] W. Walton Butterworth, First Secretary of Embassy in Spain and of Legation in Portugal. On May 1, 1943, he was ordered to Algiers to serve as a member of the NAEB staff.

Though a few changes in our airmail instructions will be forwarded to you shortly, these do not alter the facts to any great extent.

Please repeat to Lisbon, Madrid, Dakar and London as Department's 700, 919, 126 and 2554 respectively.

HULL

811.20 Defense (M) Portugal/837 : Telegram

The Secretary of State to the Minister in Portugal (Fish)

WASHINGTON, April 23, 1943—5 p. m.

710. Your 701, March 30 and 755, April 4 [3] re trade with French North Africa.[36]

1. Department and Board of Economic Warfare are anxious to get Iberian-French North African trade on regular basis as soon as possible and consequently do not favor protracted period of *ad hoc* exchanges. However, it will take considerable time to negotiate a long-term program along the lines suggested in Department's instruction of March 16, and there may also be delays in the negotiation of the interim program referred to in that instruction. Accordingly, we approve trade on a ship-for-ship basis pending further developments in the general negotiations.

2. These ship-for-ship exchanges should be permitted up to a maximum of 10,000 tons of phosphates. This would probably take from 2 to 4 ships. If the interim program has not been agreed upon by the time 10,000 tons of phosphates have been moved, consideration will be given to authorizing additional shipments of phosphates on a ship-for-ship basis. We agree that the top limit not be divulged to the Portuguese. However, it should be impressed upon Portuguese that this *ad hoc* trade is considered to be only a temporary expedient and that it is expected that a comprehensive program can be worked out in the future.

3. As for south-bound cargoes, we understand that you have made or are making arrangements to ship the coffee, beans and the sleepers requested by the Army. As to other south-bound cargo, you must, of course, clear with the NAEB to make sure that the materials to be lifted are wanted in North Africa. Please also clear with the Department by telegraph all proposed movements, including quantities, values and proposed means of financing.

4. We hope that these ship-for-ship exchanges can be arranged through the USCC and the UKCC, in line with the suggestions in your 755 of April 3. This should permit you to utilize the escudo exchange realized through the phosphate sales. Please endeavor to work this out through NAEB.

[36] Neither printed.

5. We understand from your no. 45 of April 12, 2 p. m., to Algiers,[37] that NAEB proposes leaving in suspense the question of phosphate prices subject to later adjustment. This is satisfactory, but it is not clear to the Department exactly how this will be accomplished. We believe that arrangements should be made whereby the Portuguese agree to pay a price to be fixed in relation to the prices which will ultimately be agreed upon for purchases by the British. In any event, it is important that the Commercial companies obtain a sufficient guarantee from the Portuguese to save them harmless against any loss on the transactions.

Please advise Butterworth of foregoing, and please repeat to Madrid, Algiers and London for their information.

HULL

811.20 Defense (M) Spain/671 : Telegram

The Secretary of State to the Ambassador in Spain (Hayes)

WASHINGTON, April 23, 1943—5 p. m.

927. Your 899, April 14, 10 a. m.,[38] and paragraph 5 of your 910, April 14, 5 p. m.

1. It is believed that the cross trade between the Peninsula and French North Africa should be considered in three phases: (*a*) a long-term program along the lines set forth in the Department's instruction of March 16, (*b*) an interim program also along the lines set forth in that instruction, and (*c*) the *ad hoc* phase to cover the period until the interim program is negotiated. This latter phase envisages token shipments of phosphates, coupled with shipments of materials from the Peninsula to French North Africa unless it should prove impossible to obtain south-bound cargo suitable to the NAEB in Algiers. The following comments relate to the *ad hoc* phase.

2. You are authorized to make offer to the Spaniards of a token shipment of 10,000 tons of phosphates jointly with the British. Reference your 767, March 30,[38] you may invite the French representatives in Madrid to participate in this offer, if you believe it possible to do so. However, every effort should be made to obtain from the Spaniards assurances that they will permit certain limited shipments to French North Africa when and if desired by NAEB.

3. It is our strong desire that the sale of this 10,000 tons be made through the Commercial companies so that they will derive the benefit of the peseta exchange. It is hoped that you can arrange this through NAEB.

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[37] Not printed; it was repeated to the Department as an unnumbered telegram, April 12.

[38] Not printed.

4. We understand from Lisbon's No. 45 of April 12, 2 p. m., to Algiers,[39] that NAEB proposed leaving in suspense the question of phosphates prices subject to later adjustment. This is satisfactory, but it is not clear to the Department exactly how this will be accomplished. We believe that arrangements should be made whereby the Spaniards agree to pay prices to be fixed in relation to the prices which will ultimately be agreed upon for purchases by the British. In any event, it is important that the Commercial companies obtain a sufficient guarantee from the Spaniards to save them harmless against loss on the transaction.

5. With respect to possible south-bound cargoes, you should, of course, clear with Algiers to ascertain what materials, if any, are desired. Please also clear with the Department by telegraph all proposed movements including quantities, values and proposed means of financing. It is hoped that any such south-bound movements can be carried on through the USCC and the UKCC. We consider this important, at least until the interim program has been negotiated. In the event NAEB approves any purchases by the Commercial companies in Spain for shipment to North Africa, appropriate arrangements should be made for full reimbursement to those companies, either in pesetas, dollars or sterling.

6. A later telegram will be sent commenting further on the recommendations contained in your No. 910 of April 14.

Please advise Butterworth of foregoing, and please repeat this telegram to Algiers, Lisbon and London for their information.

HULL

811.20 Defense (M) Spain/671 : Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, May 2, 1943—4 p. m.

848. For Murphy. Reference Department's 927, April 23, 5 p. m., to Madrid, and 710, April 23, 5 p. m., to Lisbon. The reference telegrams gave general instructions concerning the *ad hoc* trade. It is not desired to interfere with any arrangements that may have been made by US or British representatives for expediting the immediate shipments of phosphates as authorized in the reference telegrams, but BEW submits the following suggestions as to possibly desirable mechanism for handling the ship-for-ship exchanges.

1. *Army purchases in Portugal and Spain:*

(*a*) The U. S. Commercial Company would purchase for pesetas or escudos in Spain and Portugal such items as from time to time might be directed by the Army.

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[39] See footnote 37, p. 33.

(*b*) Such goods would be shipped in Portuguese or Spanish vessels to ports designated for lifting phosphates.

(*c*) Instructions would be sent through NAEB to Madrid or Lisbon (and repeated to Washington), as to consignee of goods in North Africa.

(*d*) The Army would pay full landed costs to the USCC in dollars either in Washington or in Algiers.

2. *Civilian goods to be purchased in Iberian Peninsula:*

(*a*) The USCC and UKCC, subject in each case to confirmation by Washington, would purchase such items as might be directed from time to time by NAEB. Goods would be shipped as set forth in paragraph 1 (*b*) above.

(*b*) Such purchases would be made c. i. f. North African port, war risk and marine insurance for seller's account, both to be satisfactory to the commercial companies.

(*c*) The goods would be disposed of by the commercial companies in North Africa for full landed cost.

3. *Phosphate purchases in North Africa for the Iberian Peninsula.*

(*a*) These would be purchased by the commercial companies, f. o. b. vessel North African port, under direction of the Procurement and Development Division, NAEB.

(*b*) Payment would be made in dollars or sterling as the case may be to the *Commandant en Chef*, or at its order, when the phosphate prices are fixed.

(*c*) The commercial companies would in turn sell the phosphates, f. o. b. vessel North African port, to the Portuguese or Spanish governments, or to such agencies as these should designate, for escudos or pesetas on the basis of the full cost to the commercial companies.

(*d*) The foregoing paragraph indicates desirability of early agreement with French for fixed prices for phosphates. It should, of course, be understood by all that prices determined for *ad hoc* trade should not be considered as precedent for prices to be established for long-range program.

4. It appears most desirable that the Spaniards and Portuguese predetermine shipping rates, so that the use of Iberian freight rates as a means of inflating export prices on commodities purchased in the Peninsula may be avoided.

5. It would doubtless be impracticable for the USCC and UKCC to handle the business on a straight 50–50 basis. Accordingly, the two companies would decide between themselves which one would handle a particular item, having in mind the desirability of a total participation on an approximate 50–50 basis.

Please repeat to Madrid and Lisbon, as Department's 992 and 776 respectively.

HULL

811.20 Defense (M) Spain/692 : Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, May 2, 1943—5 p. m.

849. For Murphy. Following are views of Department and BEW concerning Iberian cross trade, having in mind BOC 315 of April 3; Algiers' 642 of April 17, 671 of April 21, 700 of April 24 and 733 of April 28; Madrid's 910 of April 14; and Lisbon's 755, April 3 and 875, April 20.[40]

1. Every effort should be made to carry on the *ad hoc* trade referred to in Department's no. 710 to Lisbon and 927 to Madrid (both of April 23), pending negotiation of the interim and long-range programs. Lisbon's no. 875 emphasizes importance of this. This will not however be prolonged to a point where it might jeopardize the conclusion of formal commercial agreements.

2. Final approval of the commodities to be included in the long-term program cannot be given until

(*a*) receipt of Algiers' reply to comments on Bataille proposal contained in Department's 766 of April 22. As soon as reply is received, steps will be taken here to reconcile Bataille proposal with program outlined in Department's airmail instructions of March 16 and you will then be advised.

(*b*) Agreement is reached with British here as to desirability of including shipments from French West Africa to the Peninsula in the proposed program.

3. Department and BEW consider that with one or two exceptions, Madrid's no. 910 sets forth very desirable system for handling trade. However, in view of Algiers' numbers 642 and 671, it does not appear that this system will be entirely acceptable to the French. The following paragraphs attempt to reconcile the various views as seen from here and to set forth our recommendations re procedure for negotiations and system for handling interim and long-range programs.

4. A. *Type of goods to be included in programs.* Department's airgram instructions of March 16 suggested goods for interim program. Final views re goods to be included in long-term program will be sent as stated in paragraph 2 above.

B. *Parties to and situs of negotiations.* We understand that there are no objections to continuation of negotiations in Algiers between US, British and French representatives to the end that general agreement may be reached there as to scope of trade and means of implementation, having in mind the underlying objectives outlined in paragraph 1 of Department's no. 485 [41] and in the airmail instructions of March 16. In this connection, Butterworth is being instructed to

[40] Telegrams Nos. BOC 315, 700, 733, 755 and 875 not printed.
[41] Dated March 18, 11 a. m., p. 23.

proceed immediately to Algiers with Wyndham White.[42] We understand that both are now in Madrid. In accordance with request contained in Algiers' no. 733, Butterworth is being advised by separate telegram that he shall be a member of the staff of NAEB while in Algiers.

Following general agreement in Algiers, negotiations with Spanish and Portuguese should be held in Madrid and Lisbon respectively. Department considers it essential that US and British representatives participate with the French in those discussions. Only in this manner can we be assured of properly correlating our joint supply-purchase programs in Spain and Portugal with the cross trade and coordinating the movement of goods through the blockade. Will Algiers please emphasize these points in course of negotiations with the French, pointing out that we have no desire to interfere with French prerogatives nor to deny French a position of respect and also pointing out that neither Americans nor British negotiate independently with the Spanish and Portuguese on matters of joint interest. It is not at all a matter of subordinating the French negotiators to ours but simply of attaining common Allied objectives through joint Allied negotiations, all of the parties thereto being equal partners.

With respect to the personality of Pettit, the solution proposed in Algiers' no. 700 would appear to be satisfactory.

C. *Vehicle for carrying on trade.* We should much prefer to have the trade handled by the USCC and UKCC, but in light of views expressed in Algiers' no. 642, it would be satisfactory if it is handled through an official French corporation provided it acts in close liaison with the UKCC and USCC. If it should be decided that the USCC and UKCC shall handle the trade, further consideration will have to be given to the mechanics of their operations.

D. *Supervision of trade.* Regardless of the vehicle decided upon for actually carrying on the trade, we consider it important that the suggestion made in paragraph 1 of Madrid's no. 910 for its general direction be followed. That is, the Anglo-American Committees in Madrid and Lisbon should have sub-committees composed of US, British and French representatives, through whom all questions arising in connection with cross trade can be cleared and NAEB should establish some method of clearing such questions in Algiers with the French.

E. *Finance.* It will presumably be necessary to set up escudo-franc and peseta-franc accounts. In all probability the balances will run in favor of Spain and Portugal. However, if the balances should

[42] E. Wyndham White, First Secretary of British Embassy and British representative to NAEB.

in fact be in favor of French North Africa, it is hoped that some informal understanding can be reached with the French to the effect that, subject to provision being made for prior purchases of agreed lists of civilian supplies for North Africa, the French might place orders on US and UK account at the request of NAEB. These orders could be placed either through the Commercial Companies or through the French Corporation, if that is used. It would doubtless be necessary to assure the French that no such request would be pressed by us or the British if by so doing pesetas or escudos will be absorbed beyond the resources of the cross trade accounts or to an extent which would jeopardize the procurement of the agreed list of French civilian purchases in the Peninsula. If it should develop that the US and UK authorities in North Africa should wish to make purchases in the Peninsula which could not be cared for by the escudo and peseta balances in the cross trade accounts, then we should like to have the French agree that purchases could be made if we should provide the necessary pesetas or escudos. If the French would agree to some such formula it would have the advantage (*a*) of providing a means of mopping up any surplus pesetas or escudos in the cross trade accounts and (*b*) of cloaking Army purchases.

It is assumed that in setting up cross trade accounts, every effort will be made to utilize to the greatest extent possible the peseta and escudo balances presently standing to the credit of the French.

F. *Army supplies.* In addition to the possible use of the cross trade accounts for army purchases, you may wish to consider desirability of seeking agreements with Spaniards and Portuguese to permit army purchases against dollars or sterling entirely outside of our cross trade framework. Possible objection to this course, however, is set forth in Lisbon's no. 875.

G. *Form of agreement.* Madrid's no. 910 and Lisbon's no. 755 indicate that no formal agreements should be sought. We do not consider it necessary that there be a signed agreement, but we think it essential that a long-range program be agreed upon. The continuation of an *ad hoc* arrangement will result in the dissipation of our basic trading weapon, phosphates, which, if we are to obtain maximum success in our economic warfare objectives, can best be employed by coming to a definite understanding as promptly as possible.

5. It is of course impossible from this distance to assess all of the many factors to be considered in the negotiations of the cross trade agreements, and consequently we do not wish to attempt to give particularized instructions. Our negotiators will be generally familiar with the views in Washington and should be governed accordingly. The foregoing views are intended to highlight the points which we consider important and to express our views as to the most desirable

solutions. Various modifications will be necessary and many details will have to be agreed upon which we have not attempted to cover. The negotiators are not expected to clear all minor modifications or questions of detail with Washington. However, if substantial problems are raised which are counter to the views held here, it is expected that they will be cleared with Washington before any commitments are made. In any event, before final commitments are made, you should of course clear entire program with Washington.

Please repeat to Madrid and Lisbon as Department's nos. 993 and 777 respectively.

Repeated to London from here as Department's no. 2777.

HULL

811.20 Defense (M) Spain/732 : Telegram

The Consul General at Algiers (Wiley) to the Secretary of State

ALGIERS, May 4, 1943—9 a. m.
[Received May 5—10 : 40 p. m.]

786. Following from Murphy for Department, Treasury and BEW. Your 766, April 22 evidently crossed our 64, April 21.[43] We propose with the British to submit proposals to the French in the following sense if you concur. The British are cabling London in parallel terms. Your No. 938 of April 24 to Madrid[44] has just been received. We believe it confirms the approach suggested in this telegram which attempts to recapitulate and apply in detail the substance of previous communications. We feel, however, that we shall meet difficulties with the French particularly on consignment of goods to North Africa.

1. Negotiations looking to a resumption of trade between North Africa and the Iberian Peninsula should be undertaken in Madrid and Lisbon between the representatives of the Spanish and Portuguese Governments respectively on the one hand and representatives in each city of an inter-Allied committee on Iberian trade with North Africa on the other. These special committees will consist of British, French and American members in view of the inter-relations of all Allied commerce with Spain and Portugal directly reflecting common problems and policies of supply, shipping and economic warfare.

2. The objective of the negotiations will not be a formal agreement but a memorandum statement of the proposed trade program to be signed by British, American and French representatives.

3. The commodity lists, which are to be the basis of the program are being reviewed here in the light of the North African supply problem.

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[43] Telegram No. 64 not found in Department files.
[44] Not printed.

We assume that they have already been cleared by Washington from the economic warfare point of view but we await London's views which may be brought here by Wyndham White who is expected soon.

4. The management and administration of the program when established should conform closely to the arrangements made for United States purchases in the Iberian Peninsula which, as we understand them, utilize UKCC as agent for USCC in the interests of efficient, simplified and coordinated purchasing and handling with US representatives protecting USA interests on the Administrative Committee. Consignment outward from North Africa would thus be to the UKCC as agent for the appropriate French agency and transfer would take place in Portugal or Spain. We should prefer the consignment of goods to North Africa to correspond to the consignment of other imports controlled by NAEB for ultimate transfer to our forces or the French authorities as the case may be. If, however, the French propose to create a commercial company of their own we would propose consignment to the three commercial companies, the executive agent however to be UKCC whose representatives are on the staff of NAEB thus facilitating the integration of all imports into a single program.

5. We assume that neutral ships would be used, but permission for each sailing must first be obtained from C. Inc. [*C. in C.*] here.

6. Prices will necessarily be the subject of extended negotiation here and in Madrid and Lisbon in the light of circumstances referred to in previous telegrams on this subject.

7. It will be understood that any balances resulting from the trade in favor of French North Africa will be available for the Allied program of economic warfare in Iberian Peninsula. Different assumptions about prices to be established and the volume of trade to be realized have given rise to differing estimates as to nature of the trade balance which will result. We are continuing to study means of meeting a balance of trade against North Africa in this connection. We are inquiring further as to the size and nature of French North African balances which may be available in Spain and in Portugal. We should like instructions on the possibility, suggested in Madrid's 910, April 14, that such deficits be met if necessary out of our supply of pesetas and escudos, resulting from our exports to the Iberian Peninsula, presumably with reimbursement to us out of French North African dollar funds.

8. Preliminary ship-by-ship exchanges of phosphates and supplies urgently needed here should be undertaken if the shipping situation permits. There is French reluctance to allow this but we should emphasize that in the interests of the war it is essential to obtain Iberian supplies and to employ their ships in carrying them. Such trade will almost certainly be negligible for some time to come for

urgent shipping reasons. We shall endeavor to have it agreed that pending ultimate agreement this trade will be conducted by the commercial companies.

9. We had assumed that the negotiations with Portugal would be undertaken first. Your 927 to Madrid April 23 implies, however, that trade with Spain is the more urgent. We shall not comment to the French on this point until further instructed.

10. This telegram has also been approved by Treasury and BEW members of NAEB.

To the Department; repeated to London, Madrid and Lisbon. [Murphy.]

WILEY

811.20 Defense (M) Spain/783 : Telegram

The Consul General at Algiers (Wiley) to the Secretary of State

ALGIERS, May 18, 1943—2 p. m.
[Received May 19—5 : 22 a. m.]

911. From Murphy.

1. Butterworth and Wyndham White in consultation with officials of NAEB have completed a series of conversations with the French regarding resumption of French North African-Iberian trade which have resulted in agreement. The arrangements agreed upon with the French authorities are embodied in a memorandum [45] which they initialed yesterday but of course subject to final approval being given by Washington and London. Also this settlement with the French embodies the desiderata which the American and British missions in Madrid and Lisbon have put forward.

2. To avoid duplication and to lighten the burden on our coding staff which is some days behind on incoming messages I am not telegraphing the text of the memorandum or the lists of products which constitute appendices A and B thereto but the British Embassy in Washington is being requested to give copies to you and likewise the British Embassies in Madrid and Lisbon to our Missions there.

3. The following are Butterworth's comments on the settlement reached:

(*a*) It provides a degree of flexibility which will give us freedom to maneuver as the circumstances in the Mediterranean and in French North Africa change. In so doing it also meets the recommendations of the American and British Missions in Madrid and Lisbon which attach great importance to flexibility from point of view of dealing with Spaniards and Portuguese. Furthermore, the realization that under this arrangement the continued flow of phosphates would be de-

[45] See enclosure to despatch No. 162, May 21, from the Chief Civil Administrator in French North Africa, p. 43.

pendent on shipment of supplies from Iberia to French North Africa helped considerably in obtaining French concurrence to token shipments.

(*b*) Through the mechanism of the Tripartite Committees in Madrid and Lisbon and Algiers we should be able both to keep the trade under adequate control and at the same time to satisfy the strong French desire to take the lead in the trade discussions. Our control is reinforced by the French [apparent omission] employ the UKCC as their final contracting agents even if and when a *bureau commerciale* is in operation.

(*c*) Royce [47] and Herbert approved the formula in paragraph No. 7 of the memorandum which they feel should give them sufficient control to coordinate distribution of Iberian imports with those from other sources.

(*d*) It has been made quite clear to Owns [*sic*] that the lists must be regarded as tentative and are subject not only to such reasonable changes as you and London may recommend but also to variation from time to time. In this connection please refer to last sentence of appendices A and B.

(*e*) A Monsieur Drouin [48] is expected to leave shortly for Madrid where he will contact British and American Embassies with a view to arranging for an initial meeting of the Tripartite Committee. A similar procedure will be followed in Lisbon.

Butterworth is returning the Peninsula but Wyndham-White who has other matters to attend to in Algiers will remain here for at least 10 days and will therefore be in a position to handle any details which may arise.

Sent to Department, Liberia, Lisbon and Madrid. [Murphy.]

WILEY

811.20 Defense (M) Spain/755 : Telegram

The Secretary of State to the Consul General at Algiers (Wiley)

WASHINGTON, May 20, 1943—10 a. m.

965. For Butterworth.

1. Lisbon's no. 1015 of May 9, midnight [49] (repeated to you) indicates that, because of German pressure, Portuguese may refuse to carry many materials in their own bottoms to French North Africa. We deem it important that a strong line be taken with Portuguese on this point and should like to request the Legation in Lisbon to advise the Portuguese authorities along the lines of paragraph 2 below, if you see no objection.

2. The Portuguese should be informed that the resumption of shipments of phosphates from French North Africa to Portugal is de-

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[47] Alexander B. Royce, Director of Economic Operations of the Civil Affairs Office, Allied Forces Headquarters, North Africa.

[48] Roger Drouin, representative in Spain of the French Committee in Algiers.

[49] Not printed.

pendent upon the Portuguese ability and willingness to carry to North Africa in Portuguese bottoms materials which fall within the normal limits of previous trade between the two areas. This applies equally to the *ad hoc* trade as well as to the long-range program.

3. In the event the Portuguese indicate they will not carry certain types of goods, will Lisbon please ascertain what they are, telegraphing both Algiers and Washington.

4. Department understands from previous telegrams from Algiers that French would concur in position set forth in paragraph 2 above. If so, and if you agree, please telegraph Lisbon approving Legation approaching the Portuguese along those lines.

5. In the event Lisbon telegraphs list responsive to paragraph 3, will Algiers please telegraph whether satisfactory arrangements can be made to lift the materials in United Nations bottoms.

Repeated to Lisbon, Madrid and London as Department's nos. 891, 1144 and 3193 respectively.

HULL

811.20 Defense (M) Cross Trade/8

The Chief Civil Administrator in French North Africa (Murphy) to the Secretary of State

No. 162

[ALGIERS,] May 21, 1943.
[Received June 9.]

SIR: I have the honor to enclose for the Department's information five (5) mimeographed copies of a memorandum dated May 16, 1943, setting forth a proposed procedure for resuming trade exchanges between French North Africa and Spain and Portugal.

It is suggested that copies of this memorandum will be of interest to the Board of Economic Warfare and to the Office of Lend-Lease Administration.

Respectfully yours,

For the Chief Civil Administrator:
ALEXANDER B. ROYCE
Director of Economic Operations

[Enclosure—Memorandum]

The British, American and French representatives agree on the following procedure for resuming trade exchanges between French North Africa, which expression in this memorandum is understood to include French West Africa, and Spain and Portugal:

1. Having regard to:

a. the desirability of avoiding lengthy technical negotiations and
b. the desirability at a time when the war situation is moving in

favor of the Allies of avoiding long term commitments, no formal agreements on this subject should be negotiated with the Governments of Spain and Portugal.

2. It is proposed, therefore, to proceed as follows—

a. The French authorities will immediately send to Madrid and Lisbon one or more representatives to take part in discussions with their British and American colleagues and to represent the French authorities in negotiations with the Spanish and the Portuguese.

b. In order to facilitate regular inter-allied consultation and collaboration, informal Franco-British-American Committees shall be set up in Madrid and Lisbon to supervise the operation of French North African-Iberian trade. At the same time, a sub-committee of the Joint Economic Commission in Algiers will be constituted in order to coordinate action from Algiers.

3. As soon as possible after the arrival in the Peninsula of the French representative or representatives he/they (in association with his/their British and American colleagues) will inform the Spanish/Portuguese Governments that French authorities are prepared, subject to the exigencies of the military situation, to make available for transport by Spanish/Portuguese vessels from French North African ports to be specified from time to time, a list of French North African commodities (of which phosphates will be the principal item). These goods will, however, only be available provided that Spanish/Portuguese Governments are prepared to give facilities to French North African authorities for purchasing and exporting on the Spanish/Portuguese vessels engaged in the trade an agreed list of Spanish/Portuguese goods.

4. In their discretion, the allied negotiators (British, American and French) may inform the Spanish/Portuguese Governments that they expect the Spanish/Portuguese authorities to give facilities for export and carriage on vessels engaged in the French North African-Iberian trade of materials of Spanish/Portuguese origin required by the British/American military authorities in French North Africa (which materials required for military purposes may, on occasion, have to take precedence over other supplies). These military goods will, of course, be bought and financed by British/American Governments out of their own resources.

5. As soon as Spanish/Portuguese Governments signify their desire to commence exchanges on the above basis, they will be required to inform the Allied authorities of the shipping program they have in mind sufficiently far in advance (1) to permit voyages to be cleared with appropriate naval and military authorities and (2) to enable French authorities to indicate what Iberian produce they will require to export during the same period.

It is recognized that owing to the relative bulk of phosphate shipments (which will constitute the larger part of shipments to be made from French North Africa) a high proportion of vessels sailing from the Iberian Peninsula will necessarily proceed in ballast.

6. Owing to the complexity of the economic operations being conducted in the Peninsula by the Allies, it is essential that all economic activities should be closely coordinated. It is agreed, therefore, that the considerable resources of the U.S. and U.K. Corporations should for this purpose be placed at the disposal of the French authorities for the purpose of acquiring and contracting for goods in the Peninsula and to act in appropriate cases as consignees and consignors of the goods to be exchanged.

The French authorities are considering the formation of a *Bureau Commerciale* to coordinate any orders that French North Africa importers wish to place in the Peninsula and for acquiring and moving to accessible ports goods to be exported to the Peninsula from French North Africa. The Bureau, or other official purchasing agent of the French authorities, will negotiate, in full collaboration with USCC and UKCC, the necessary contracts and will employ the UKCC as its agent to sign the final contracts in the same way as the UKCC at present acts for the USCC.

7. Imports from the Peninsula to French North Africa shall be coordinated with the over-all arrangements existing from time to time for distribution of imports from other sources. Distribution will be the subject of recommendation by the Franco-British-American subcommittee of the Joint Economic Commission. It is contemplated that Spanish and Portuguese goods should be consigned to the *Bureau Commerciale* if and when such an organization is set up by the French North African authorities, and in the meantime that shipments be consigned to UKCC as agent for the French authorities.

8. It is important that the above arrangements should be brought into operation as soon as possible and it is therefore agreed that the allied authorities will take all possible measures on their part to the end that the arrangements described above shall be operative as from June 15.

9. In the meantime, it is recognized that the immediate resumption of phosphate shipments to the Iberian Peninsula is a matter of allied concern from two standpoints—

a. to maintain the allied economic position in the Peninsula which depends upon the flow into those countries of essential supplies from allied sources and

b. in order to create an atmosphere favorable to the successful negotiation of the arrangements set out above.

It is therefore agreed that, subject to the concurrence of the Commander in Chief, Spanish/Portuguese authorities be informed that they may forthwith nominate vessels to load phosphates up to a total of 10,000 tons for each country. As an interim measure, pending settlement of the arrangements to be operative from June 15, it is agreed that phosphates should be offered by UKCC as agent for Comptoir des Phosphates at prices to be determined later.

ALGIERS, ALGERIA, May 16, 1943.

811.20 Defense (M) Spain/755 : Telegram

The Secretary of State to the Minister in Portugal (Fish)

WASHINGTON, May 23, 1943—3 p. m.

908. References Lisbon's 1015 May 9,[51] Department's 965 of May 19 [*20*] to Algiers. Lisbon 79 and 80 of May 18 and 19 to Algiers and Algiers' 885 of May 15 to Department.[52]

1. We believe it highly desirable to start some movement of the cross-trade and understand that Algiers has agreed with the French that no consideration for the token shipment of 10,000 tons of phosphates should be asked. For these reasons we conclude that in the case of the token shipments an exception should be made to the principle that the resumption of phosphate shipments is dependent upon Portuguese willingness and ability to carry to North Africa in Portuguese bottoms, materials within the normal limits of the previous trade, and that the Portuguese vessels nominated for the token shipments may go south in ballast. However, since Madrid 1201 of May 9 [51] indicates that the Spanish have agreed that one vessel should carry cargo southbound,we believe that the Portuguese should be asked to do the same. To this extent the instructions in Department's 965 of May 19 [*20*] are modified as a result of the subsequent receipt of the other telegrams under reference.

2. At the same time that the Portuguese are informed of the approval of the token shipments even though all or all but one vessel move south in ballast, a strong line should be taken and the Portuguese should be informed that future shipments, whether as part of the *ad hoc* trade or as part of the long range program, are dependent entirely upon their ability and willingness to carry to North Africa in Portuguese bottoms, materials within the normal limits of previous trade between the two areas.

3. We assume from Algiers' no. 885 of May 15 that it is understood that British and American representatives will be associated with

[51] Not printed.

[52] None printed; telegrams Nos. 79 and 80 were repeated to the Department as unnumbered telegrams.

Theodore [53] when the Portuguese are informed of the offer of a token shipment of 10,000 tons of phosphates.

Repeated to Algiers, Madrid and London as Department's Nos. 993, 1177 and 3262, respectively.

HULL

811.20 Defense (M) Spain/806: Telegram

The Ambassador in Spain (Hayes) to the Secretary of State

MADRID, May 26, 1943—12 p. m.
[Received May 27—3: 17 p. m.]

1399. 1. Monsieur Drouin is scheduled to arrive here Friday.

2. The terms of the memorandum intailed [*initialed*] in Algiers on May 16 were given the full approval of the Anglo-American Committee today and the British and American Missions have appointed their representatives on the French North African Trade Committee which will be formally set up as soon as Drouin arrives.

3. The Spanish have now nominated three vessels to pick up the 10,000 ton token shipment of rock phosphates and the appropriate data are being telegraphed NAEB. In the course of discussing these arrangements, Taberna [54] inquired whether the French North African authorities had instructed Drouin to attempt to negotiate a formal, detailed, and long term arrangement, and expressed great satisfaction and relief when he learned that a procedure not dissimilar to that employed in the Anglo-American supply purchase arrangements would be followed.

Repeated to Algiers, London, Lisbon.

HAYES

851R.01/588: Telegram

The Secretary of State to the Minister in Portugal (Fish) [55]

WASHINGTON, May 26, 1943—midnight.

937. The First Secretary of the Portuguese Legation called on May 21 under instructions from his Government to urge the early resumption of commercial exchanges between Portugal and French North Africa and particularly immediate authorization for Portugal to obtain phosphates. Recognizing the connection of this question with that of representation of the North African regime in Lisbon, he said that his Government, while maintaining diplomatic relations with Vichy,

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[53] Ernest Théodore, General Giraud's representative in Portugal.

[54] Vicente Taberna, Director General of Economic Policy in the Spanish Ministry for Foreign Affairs.

[55] The same to the Consul General at Algiers as No. 1012, to the Ambassador in Spain as No. 1203, and to the Ambassador in the United Kingdom as No. 3349.

was quite prepared to consider the possibility of receiving in Lisbon a representative of the North African regime who would be authorized to concern himself not only with commercial matters but also with visas, refugees and related questions. He added, as you indicated in your number 1114, May 20,[56] that the Portuguese Consul General in Rabat had been instructed to proceed to Algiers to negotiate on these points.

The First Secretary was informed that, in addition to military considerations, the lack of accepted representation of the North African regime in Lisbon had undoubtedly been one of the factors which had delayed the resumption of commercial exchanges. He was told that the expression of his Government's willingness to accept such representation would presumably facilitate the opening of commercial negotiations concerning which our representatives have for some time been conferring with the French in Algiers and that it was our understanding that a token shipment of 10,000 tons of phosphates to Portugal would be authorized without awaiting the commencement of negotiations.

HULL

[56] Not printed.