

PERU

ENTRY OF PERU INTO A STATE OF BELLIGERENCY WITH THE AXIS POWERS AND ADHERENCE OF PERU TO THE UNITED NATIONS DECLARATION

740.0011 E. W./1-1245 : Telegram

The Acting Secretary of State to the Ambassador in Peru (White) ¹

WASHINGTON, January 12, 1945—3 p. m.

43. For your personal and secret information the President of Chile has, after long and careful consideration, informed us that critical political conditions in Chile, where congressional elections will be held in March, precludes Chile's taking the initiative at this time regarding the situation explained to you by Wright upon the occasion of his recent trip.² Accordingly, it has been decided to proceed forthwith to inform Peru, Ecuador, Venezuela, Uruguay, and Paraguay of this situation.

I am sure that you have well in mind the instruction which Wright showed you, but to recapitulate, the principal points are:

(1) A country may become a member of the United Nations only if it is at war with either Germany or Japan.

(2) The time is approaching when the "Associated Nations" may find themselves in the painfully embarrassing position of being placed in a category apart from their sister republics who are United Nations. It is quite probable that certain of our allies who have suffered great loss of life and material damage will not agree to allow the "Associated Nations" to enter into the postwar discussions of the United Nations on an equal footing unless and until those "Associated Nations" have formally aligned themselves shoulder to shoulder with the nations engaged in this war. This does not mean that any further material contribution would have to be made by those nations to the prosecution of the war.

(3) This Government has done and will continue to do what is feasible to gain admission to United Nations conferences on an equal footing for the "Associated Nations" irrespective of whether they regularize their status, but we are not sanguine that this will be possible in the light of the strong feeling which exists on the subject by nations which have been invaded or suffered greatly.

¹ Repeated, *mutatis mutandis*, January 12, 3 p. m., to Ecuador as No. 39 and to Venezuela as No. 21.

² For the beginning of the mission to Chile, Peru, and other states of James H. Wright, Chief of the Division of North and West Coast Affairs, see despatch 1888, December 5, 1944, *Foreign Relations*, 1944, vol. VII, p. 691.

(4) Quite aside from clarifying the position of Peru as regards the forthcoming meeting relating to an International Security Organization, this action should have an important practical and psychological effect on the earlier termination of the war and the nations concerned could well take pride in this.

(5) The awkwardness of the position of the six American "Associated Nations" was manifest on January 1, when the French Ambassador here signed the Declaration by United Nations³ at a ceremony to which were invited only representatives of the United Nations. Furthermore, there is increasing evidence that very soon will arise concretely the problem of what nations will be invited to the forthcoming United Nations Conference to consider the Dumbarton Oaks proposals.⁴

(6) The "Associated Nations" are cooperating in the war, but are not in a formal state of war. A formula which could be used locally to formalize their status is: "The Lima and Panama declarations⁵ established the doctrine that aggression by a non-American power against an American power is an aggression against all; this aggression has occurred against several American republics; relations were broken; it is commonly recognized that although no formal state of war exists, the actions of the 'Associated Nations' have been such as to make their status just short of being at war; and there should be ample ground for formalizing their status by an appropriate action declaring that as of a certain date, present or past, the nation concerned is or has been in a state of war with, for example, Japan".

You will realize that Peru's reaction to this proposition is likely to be negative unless it is presented as a significant opportunity for Peru to improve its own position and at the same time to make a positive contribution not only to inter-American solidarity in the war but also to the building of an international security organization.

We feel that in all fairness to Peru we must recommend strongly that in its own interest Peru should take steps to regularize its status at the earliest possible moment. Please see either the President⁶ or the Foreign Minister⁷ as soon as possible and discuss this matter with him in secrecy and frankness. As soon as you have done this, please telegraph the Department.

³ *Foreign Relations*, 1942, vol. I, p. 25.

⁴ For documentation on the United Nations Conference on International Organization, San Francisco, April 25-June 26, 1945, see vol. I, pp. 1 ff. For documentation on the Dumbarton Oaks Conversations, see *Foreign Relations*, 1944, vol. I, pp. 713 ff.

⁵ For text of the Lima Declaration, see *Report of the Delegation of the United States of America to the Eighth International Conference of American States, Lima, Peru, December 9-27, 1938* (Washington, Government Printing Office, 1941), p. 189; for text of the Panama Declaration, see Resolution XIV of the Consultative Meeting of the Foreign Ministers of the American Republics, September 23-October 3, 1939, at Panama, Department of State *Bulletin*, October 7, 1939, pp. 331-333.

⁶ Manuel Prado y Ugarteche.

⁷ Manuel C. Gallagher.

This matter is not being discussed with the Peruvian Ambassador here.⁸

GREW

740.0011 EW/1-2645

The Acting Secretary of State to the Ambassador in Peru (White)

No. 3840

WASHINGTON, January 26, 1945.

SIR: I refer to the Department's secret telegram no. 43 of January 12, concerning the importance of Peru's formalizing its status by becoming a member of the United Nations. This matter is taking on added importance and, in order to present the need for early action and make his own stand clear and unequivocal, the President has considered it best to address personal letters in the premises to the Presidents of the six American republics⁹ concerned.

The letter addressed to the President of Peru is enclosed¹⁰ and you are requested to deliver it immediately to President Prado. A copy is likewise attached for your secret information. Similar presentations are being made at Quito, Santiago, Caracas, Montevideo and Asunción.

I wish to underline the fact that the highest importance is attached to Peru's taking this step at the earliest possible date. I am confident that you will present the matter urgently and at the same time in its proper perspective.

Please submit a telegraphic report as soon as possible.

Very truly yours,

JOSEPH C. GREW

740.0011 E W /1-3045: Telegram

The Ambassador in Peru (White) to the Secretary of State

[Extract]

LIMA, January 30, 1945—11 a. m.

[Received 1:30 p. m.]

96. I yesterday handed Foreign Minister enclosure secret despatch 3840 January 26 for delivery addressee, apprised him of content, requesting information as to progress.

⁸ Pedro Beltrán.

⁹ Chile, Ecuador, Paraguay, Peru, Uruguay, and Venezuela.

¹⁰ This letter was the same, *mutatis mutandis*, as the letter addressed to the President of Chile, printed on p. 758.

He said that for internal political reasons he was exploring possibility avoiding special session Congress, thus reversing his stand reported telegram 54, January 16, 1 p. m.¹¹

WHITE

740.0011 E W /2-445 : Telegram

The Ambassador in Peru (White) to the Secretary of State

LIMA, February 4, 1945—7 p. m.
[Received February 5—1:48 a. m.]

122. *Herald Tribune* story¹² re President and six Associated Nations published this morning's press. Peruvian Ministry is making no statement.

Foreign Minister summoned me today to state that meeting of Congress impossible in view of local political situation. It was accordingly proposed to make a statement similar to that of Colombia dated November 26, 1943 against Germany.¹³ This referred to aggression and consequent necessity taking measures for defense, which, however, should not interrupt normal constitutional course of juridical institutions.

Proposed Peruvian statement would refer to Lima, Habana and Rio Conferences;¹⁴ recite actions performed of belligerent nature, declare that these acts amounted to belligerency as also intention to sign United Nations Declaration.

Peruvian Government naturally does not wish to make this announcement unless previously assured by Department that it will fill the billet. Foreign Minister cited last paragraph of President's letter¹⁵ in support of this proposal.

He seemed to think Venezuela would adopt similar line.

WHITE

¹¹ Not printed; the Foreign Minister was reported as foreseeing no obstacles, "not excluding summoning of special session of Congress." (740.0011 EW/1-1745)

¹² *New York Herald Tribune*, February 3, 1945, p. 1.

¹³ For substance of this statement, see Department of State *Bulletin*, November 27, 1943, p. 379.

¹⁴ The reference is to the resolutions of the Eighth International Conference of American States at Lima in 1938, and to the Second and Third Meetings of the Ministers of Foreign Affairs of the American Republics at Habana in 1940 and at Rio de Janeiro in 1942, respectively.

¹⁵ See footnote 10, p. 1314.

740.0011 E W /2-445: Telegram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, February 5, 1945—4 p. m.

128. Reurtel 122, February 4, 7 p. m. In order for this Government, as depository for Declaration by United Nations, to accept the adherence of Peru, we should have a formal statement from the Peruvian Government that Peru is in a status equivalent to being "at war" with Germany or Japan or both. The expression "at war" is used in the United Nations Declaration. In presenting this matter to the Foreign Minister please show him copy of the Declaration, sent with our instruction 1067 of March 25, 1942.¹⁸

By following the formula contained in paragraph number 6 of Department's telegram 43 of January 12 and in your 122 of February 4, 7 p. m., it would appear that Peru would be in a position to make a formal statement as indicated above. However, this is of course a matter which Peru must determine.

Please telegraph immediately whether contemplated action would be against Germany or Japan or both.

GREW

740.0011 E W /2-845: Telegram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, February 10, 1945—6 p. m.

146. Reurtel 139, February 8, 8 p. m.¹⁸ Garland¹⁹ came in this morning with a proposed draft which appears entirely satisfactory except for the last paragraph. We said it was necessary that this paragraph be slightly revised to read generally as follows: The President of Peru, with approval of Council of Ministers, declares or recognizes that as a consequence of these acts there has resulted a state of effective belligerency between Peru and the two Axis nations and it has been decided that Peru adheres to the Declaration by United Nations by subscribing to that international document.

We believe that this slight change will be acceptable to Peru as it follows the general line of the Colombian procedure which we understand Peru is using as a guide. Garland was satisfied with proposed modification, which he is cabling to the Foreign Office.

Please immediately see the proper authority to reinforce Garland's cable.

GREW

¹⁸ Not printed.¹⁹ Eduardo Gorland, Peruvian Chargé in Washington.

740.0011 EW/2-1245

The Peruvian Embassy to the Department of State

MEMORANDUM

In compliance with the request made in the Memorandum of the Department of State, dated February 12th, 1945,²⁰ the Peruvian Embassy considers that the terms "state of effective belligerency" are equivalent to the expression "at war" as contained in the Declaration by the United Nations.

WASHINGTON, February 12, 1945.

740.0011 E.W./2-1145

The Acting Secretary of State to the Peruvian Chargé (Garland)

WASHINGTON, February 13, 1945.

SIR: I acknowledge the receipt of your note of February 11, 1945,²⁰ in which you quote a declaration of the Government of Peru stating that it recognizes a state of effective belligerency between Peru on the one side and Germany and Japan on the other; that it has resolved upon the adherence of Peru to the Declaration by United Nations; and that you have been authorized to sign in the name of Peru.

The Government of the United States, as depository for the Declaration, is gratified to welcome Peru formally into the ranks of the United Nations. Arrangements are being made for you to sign the Declaration on February 14, 1945.²¹

Accept [etc.]

JOSEPH C. GREW

DISCUSSIONS BETWEEN THE UNITED STATES AND PERU
CONCERNING DEFENSE QUESTIONS²²

810.20 Defense/2-1645 : Telegram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, February 16, 1945—7 p. m.

165. It is agreed by the State, War, and Navy Departments that Military and Naval Staff conversations with Peru should start March 19. Refer Department's secret circular instruction August 1, 1944,²³

²⁰ Not printed.

²¹ For a report of the ceremonies of signing the Declaration in behalf of Peru and other states on February 14, see Department of State *Bulletin*, February 18, 1945, pp. 234-237.

²² For previous documentation on defense questions, see *Foreign Relations*, 1944, vol. VII, pp. 1504 ff.

²³ *Foreign Relations*, 1944, vol. VII, p. 105.

January 10, 1945.²⁴ Please consult the Foreign Minister and cable Department whether that date is agreeable to the Peruvian Government.

Conversations in Peru will be under the supervision of General Brett²⁵ and Admiral Kingman.²⁶ They will get in touch with you directly concerning details of the conversations. General Brett will provide you with a program outlining the purpose of the conversations and the topics to be discussed. On receipt of it please transmit the program to the Peruvian authorities, unless you receive [*perceive*] objection in order that they may be prepared in advance.

It is emphasized that the forthcoming staff conversations are entirely exploratory in nature, will involve no commitments by either party, and will be confined to technical military and naval discussions, not to include political matters.²⁷

GREW

823.248/3-1445

Memorandum by the Director of the Office of American Republic Affairs (Warren) to the Secretary of State

[WASHINGTON,] March 14, 1945.

I have investigated the request made of you at Mexico City²⁸ by the Peruvian Foreign Minister to expedite delivery of twelve dive bombers. This has long been a contentious case in which the Department has taken a firm stand that the dive bombers should not be delivered to Peru. Our established Lend-Lease policy is that offensive weapons of this nature should not, at this stage of the war, be delivered (except in the most extenuating circumstances) to American republics other than to equip the Brazilian Expeditionary Force and the Mexican Expeditionary Air Squadron. Peru is stronger in offensive air weapons at this time than any other West Coast country and, if we further strengthen Peru, vehement protests will ensue from her neighbors, particularly Chile, Colombia and Ecuador. If we give in to the Peruvians on this matter, we will have to give way to others and will start the armaments race we want to prevent.

I have drafted for your consideration a letter which you may wish to send to Foreign Minister Gallagher in the premises.²⁹

A. M. WARREN

²⁴ *Ante*, p. 600.

²⁵ Lt. Gen. George H. Brett, Commanding General, Caribbean Defense Command.

²⁶ Rear Adm. Howard F. Kingman, Commander, Panama Sea Frontier.

²⁷ Ambassador White reported in his telegram 181, February 23, 1945, midnight, that Peru was agreeable to the beginning of conversations (810.20 Defense/2-2345).

²⁸ The Inter-American Conference on Problems of War and Peace held at Mexico City, February 21-March 8, 1945; for documentation, see pp. 1 ff.

²⁹ See *infra*.

823.248/3-1645

*The Secretary of State to the Peruvian Minister for Foreign Affairs
(Gallagher)*

WASHINGTON, March 16, 1945.

MY DEAR MR. MINISTER: Immediately upon my return to Washington, I investigated the matter of twelve dive bombers for the Peruvian Air Force which we discussed at Mexico City. I find that the war needs are such that the dive bombers in question cannot be furnished, but I am assured that Peru's need of training planes is being fully and currently filled. Although combat planes are not available, this Government nevertheless wishes to do all possible adequately to provide for pilot training, and if it later develops that the training plane situation is not satisfactory, I would be glad to have a study made, with a view to determining what could be done to correct the situation.

Permit me to take this opportunity again to express to you my warm appreciation for the splendid collaboration which the United States delegation received from Your Excellency and the members of the Peruvian delegation at Mexico City.

With renewed assurances [etc.]

EDWARD STETTINIUS, JR.

811.24523/4-245

*Memorandum by the Chairman of the State-War-Navy Coordinating
Committee (Dunn) to the Secretary of State*

[WASHINGTON,] April 2, 1945.

Pursuant to the directives of the President, dated 7 January and 1 February 1944,⁸⁰ the Joint Chiefs of Staff have determined that the United States requires the following post-war military base rights in Peru:

1. The general right for United States military aircraft to operate into and away from El Pato Airbase, Talara, and to fly over Peruvian territory en route to or away from said base, subject only to the same regulations or restrictions as may be imposed on Peruvian military aircraft.

2. The specific right:

a. As the maximum desired—jointly with the government of Peru, to occupy, control, improve, maintain and operate El Pato Airbase and its facilities, including the essential communications systems, aids to navigation, radar or other defense installations, and to station thereat the personnel required to carry out such a joint undertaking.

⁸⁰ These were general directives to initiate negotiations for military bases; for texts, see *Foreign Relations*, 1944, vol. VII, pp. 546 and 550.

b. As the minimum acceptable—the right to utilize El Pato Airbase and its facilities with the same freedom as is accorded to military aircraft of Peru, and to install there such additional facilities or make such improvements as may from time to time be necessary for the operation of United States military aircraft and for the defense of the western hemisphere.

3. Exemption from Peruvian taxes, duties or imposts of any kind of all United States personnel or materiel imported into or located in Peru in connection with the operation of the base or the exercise of the other rights obtained.

The Secretaries of War and the Navy concur in the above determination by the Joint Chiefs of Staff and request that negotiations for an agreement in this matter be initiated with the government of Peru at the earliest moment you deem favorable.

For the State-War-Navy Coordinating Committee:
JAMES CLEMENT DUNN

810.20 Defense/5-1745

The Ambassador in Peru (White) to the Secretary of State

[Extracts]

No. 3312

LIMA, May 17, 1945.

[Received May 30.]

SIR: In conformity with the Department's telegraphic instructions No. 452, May 8, 7 p. m.,³¹ I have the honor to report further on the recent Staff Conferences.

REMARKS REGARDING THE DISCUSSIONS

The opening meeting described in my despatch No. 2864 of May 20³¹ was the only one which I attended, and subsequently thereto my information was that obtained from some of the American officers who assisted. This was in general to the effect that the discussions were proceeding smoothly and fairly rapidly and that the Peruvians displayed, on the whole, a very reasonable attitude.

The Aviation conversations were apparently the least precise and longest drawn out. The specifications for these had been drawn up by our War Department but it was the Marine Mission which was principally responsible for carrying on these negotiations, although some Military Aviation Officers assisted in the discussions as observers. Apparently the Marine Mission did not learn till quite late of the detailed data required.

³¹ Not printed.

POSSIBLE LIMIT OF STATE DEPARTMENT'S INTEREST

There has since arrived a series of folders, some 36 in number, giving an account of the discussions. Most of these are of a highly technical nature and scarcely tempt civilian curiosity; moreover, in view of the very secret nature of the contents it would be fairer to the Peruvians to avoid any but the most unavoidable dissemination of the data contained therein as to the strength, location, etc., of forces.

It is specifically stated (Folder 2, page 3, heading E) that no subjects of a diplomatic or political nature were developed during the conversations. Therefore, from the Department's point of view, it would seem that once it is assured that the conversations and projects connected therewith do not run counter to our general Latin American objectives, the important point for its information is that of ways and means—in other words, what will the projects cost, and to what extent is this cost compatible with available Peruvian resources—to say nothing of the ultimate interest of the American taxpayer. As doubtless the Department fully appreciates, the general objectives of the Conference seem entirely praiseworthy and desirable.

CONVERSATIONS NOT BINDING AND EXPLORATORY

Before entering upon the question of costs in greater detail, I will refer to certain other aspects developed in the course of the discussions.

In the first place, though quite understood beforehand, it might be well to repeat Admiral Kingman's remarks at the opening Naval meeting on March 20 (Folder 28) to the effect that the results of the exploratory conversations are not binding on either Peru or the United States and merely form the basis of a report to Washington, and also that these conversations related specifically to the post-war period.

If the Department desires further information, I shall be glad to try to obtain the same.

Respectfully yours,

J. C. WHITE

810.20 Missions/8-2145

The Chairman of the State-War-Navy Subcommittee on Latin America (Warren) to the Ambassador in Peru (Pawley)

WASHINGTON, September 28, 1945.

MY DEAR MR. AMBASSADOR: Prior to his resignation from the Department, Mr. Rockefeller³² referred to me your letter to him of

³² Prior to his resignation, accepted on August 25, 1945, Nelson A. Rockefeller was Assistant Secretary of State.

August 21, 1945, with which was enclosed a copy of your despatch of August 10³³ regarding the placement of United States military missions in the other American republics.

I have read your letter and despatch with great interest since it concerns a matter which has been under study in the Department for some time. As you know, the agenda for the various staff conversations contained a section asking whether the American republic with whom the conversations were being held desired the establishment of a United States military mission. It is contemplated that, upon request of the various governments concerned, military missions will be placed in those countries not now having them as part of the implementation of the staff conversations.

I agree thoroughly with your analysis of the advantages which may be derived from judicious activity of establishing military missions, and your thinking on this subject parallels that of the Department. We are anxious to achieve a program of standardization and recognize the important part which United States missions may play in this regard. However, as you point out, we must be careful not to send to the other American republics military equipment in such quantities and of such power as to upset the balance of their domestic economy and make them a threat to the peace of the hemisphere. Therefore it is most important that the military missions, keeping in mind the objective of limiting the armed forces to those necessary to maintain internal security, act, as you suggest, to deter unreasonable expenditures on armaments rather than as a medium through which the armed forces of the recipient government are unduly expanded. This demands that we in the State Department be completely informed of the activities of the military missions and be in a position to guide them from a political point of view.

Any further thoughts or suggestions on this general subject would be most welcome.

With kind personal regards,
Sincerely yours,

A. M. WARREN

811.24523/10-1845

*Memorandum by the Chief of the Division of North and West Coast Affairs (Flack)*³⁴

[WASHINGTON,] October 18, 1945.

Among the factors that need to be taken into consideration in connection with the opening of negotiations with the Peruvian Government for permanent rights at Talara are the following:

³³ Neither printed.

³⁴ Addressed to the Director of the Office of American Republic Affairs (Briggs) and to Assistant Secretary of State Braden.

1. *Political.* It has never been suggested to Peru that the United States has any intentions other than to abandon completely the Talara air base no later than six months after the termination of the war. The Peruvian public has found reason for reassurances on this point from time to time; and it is not impossible that the idea will meet with very unfavorable public reaction.

Political stability is in a state of crisis at the moment, with the administration of President Bustamante precariously balanced. The dominant popular force is APRA,³⁵ traditionally an "anti-Yankee imperialism" party, (although it has followed a policy of supporting the United States during the war). The party appears to be poised to take over the Government. To inaugurate discussions at this time might well precipitate the crisis.

For this reason the idea of permanent occupation of Talara by the United States is apt to be politically "hotter" than usual. Therefore, we should not count too heavily on prompt favorable reaction from Peru.

2. Agreement for use of the Talara air base was signed April 24, 1942 by representatives of the War Department and Peruvian military authorities, to be in effect "during the time that the United States is engaged in the present war". The Foreign Office transmitted official approval thereof in a Note to the American Embassy dated July 8, 1942.

3. The land on which the base is located is owned in fee simple by the International Petroleum Company, Ltd., a Canadian corporation. Moreover, the land is within a proven oil field, and the Company is anxious to regain it to carry on future drilling operations.

4. The proposed rental contract between the United States Government and the Company was never consummated. It was signed by the United States but not by the Company since it had not been able to obtain a written consent of the Peruvian Government. The contract provides for occupation of the land for six months after termination of the emergency and/or the war with the Axis countries.

5. Since the inter-government agreement stipulates that the Peruvian Government acquires the installations, et cetera, upon abandonment of the base by the U. S., the presumption is that Peru will expropriate. The oil company fears adequate compensation will not be forthcoming. In such case the question arises whether the Company has grounds, legal or moral, on which to look to the U. S. for remedy.

6. Ownership of the land complicates the situation. Since it concerns oil land, it will presumably cost a substantial sum of money either to expropriate it or to rent it. Conceivably Peru may be persuaded to execute a joint-occupancy agreement in the interest of com-

³⁵ Alianza Popular Revolucionaria Americana.

mon defense, but it appears unlikely that the Peruvian Government could be persuaded to foot the bill. Therefore, it would seem that this Government must be prepared to pay the full cost of acquiring permanent land rights at Talara from the International Petroleum Company.

JOSEPH FLACK

811.24523/10-1945

The Ambassador in Peru (Pawley) to the Secretary of State

No. 437

LIMA, October 19, 1945.

[Received November 8.]

SIR: I have the honor to enclose to the Department herewith an exchange of notes between Rear Admiral L. N. McNair, Chief of the U.S. Naval Mission to Peru, and myself³⁶ with reference to the permanent retention of the Talara Army Air Base, Talara, Peru by the United States Government.

In this connection I should appreciate being advised by the Department as to whether or not the War Department is proceeding with the necessary arrangements for taking over and maintaining permanent control of the Talara Air Base. This base is now under the jurisdiction of the Sixth Air Force, a unit of the Caribbean Defense Command.

In my opinion, the delay in negotiating for the permanent control of this base is being taken by the Peruvian Government and by the Peruvian Air Force to mean that this base and its equipment might soon be transferred to Peru.

Respectfully yours,

WILLIAM D. PAWLEY

**AGREEMENT BETWEEN THE UNITED STATES AND PERU DEFINING
THE MILITARY SERVICE DUE BY NATIONALS OF EACH COUNTRY
RESIDING IN THE OTHER**

[For text of the agreement, effected by an exchange of notes signed at Washington, May 23 and June 12, 1945, see Department of State Executive Agreement Series No. 477, or 59 Stat. (pt. 2) 1606.]

³⁶ Not printed; Admiral McNair was concerned with housing for personnel at Talara, and the Ambassador feared that the Admiral's communication, in the hands of Peruvian naval officials, would have an adverse effect on negotiations with Peru.

EFFORTS TO SECURE COOPERATION OF THE PERUVIAN GOVERNMENT IN THE ELIMINATION OF AXIS BUSINESS INTERESTS IN PERU ³⁷

800.515/1-1045

The Ambassador in Peru (White) to the Secretary of State

No. 2369

LIMA, January 10, 1945.

[Received January 24.]

[Extracts]

SIR: I have the honor to refer to the Department's Confidential Instruction of December 6, 1944 ³⁸ requesting information concerning enemy investments and plans, and the activities of persons attempting to preserve the enemy's economic, political and military potential abroad after the cessation of hostilities.

Peru, through a series of emergency decrees and laws, has successively tightened its controls over the persons and properties of Axis subjects, and it may be said that at the present time the majority of Axis investments in this country have been liquidated and the proceeds frozen. Of the businesses, properties or investments owned by Axis subjects which have not yet been liquidated under this emergency legislation, the greater part are under intervention or administration by the Peruvian Government so that with only a few exceptions the situation here is well under control. However, as our Government's policy, as described in the instruction under reference, envisages the necessity of regulating the activities and investments of Axis subjects in the post-resistance period when as far as is now known Peruvian controls will come to an end and frozen Axis funds handed over to the individual owners, it is obviously necessary that surveillance over such individuals be continued.

It is not known that any looted property has found its way into Peru and it is not regarded as probable that entities domiciled in or controlled from Germany are a vital factor in the local situation, although the few cases in which that probability figures, such as Farbenindustrie, Bayer and Ferrostaal, are in themselves important. The local branches of these organizations have been expropriated and liquidated but as the individuals who managed them are at liberty attempts to reestablish those instruments of German economic penetration in the period following cessation of hostilities are a definite possibility. In general, however, the enemy assets here which may become available to Axis interests in the post-resistance period will belong to Axis subjects or sympathizers actually domiciled in Peru

³⁷ For previous documentation, see *Foreign Relations*, 1944, vol. VII, pp. 1553 ff.

³⁸ Not printed.

who will either act for themselves as local controls permit or through cloaks and other confidential agents. Consequently our register of enemy assets in Peru will not ordinarily contain much information of interest in the investigation and examination of records and individuals in the Axis homelands. Data on hand and to be compiled by this Embassy will be more local in scope but will nevertheless constitute a defense against reestablishment of the enemy's military potential in or from this country.

As a result of Peruvian emergency measures nearly all of the Axis property remaining in this country is in the easily hidden or transferable form of money. It will therefore be very difficult if not impossible in most cases to obtain definite evidence of improper employment. However, our familiarity with all phases of the local situation will enable us to determine with reasonable certainty the identity and methods of those who act as cloaks and intermediaries in the mobilization of the elements of Axis economic resurgence here. . . .

Respectfully yours,

For the Ambassador:
 JULIAN GREENUP
Counselor for Economic Affairs

740.23112A/3-2345

The Ambassador in Peru (White) to the Secretary of State

[Extract]

No. 2896

LIMA, March 23, 1945.

[Received April 3.]

SIR: . . .

An up to date appraisal of the overall Proclaimed List situation in Peru should be useful to the Interdepartmental Committee in considering the forthcoming case-by-case reviews, which, we may as well say straight away, are going to be found quite unsatisfactory as concerns a few of the spearhead firms. The causes are explained in the following paragraphs in so far as it is possible to do so at this time.

For almost every practical purpose, the Peruvian Government's Proclaimed List work may be considered as about ended. Finance Minister East, Minister of Foreign Affairs Gallagher, and Superintendent of Economy Pflücker consistently describe the task as completed. They insist that the remaining duties represent only simple formalities to comply with the laws governing auctions, foreclosures, loans and collections, appeals by persons indirectly affected, etc. This attitude

is based on their view that the existing decrees and regulations have outlawed every undesirable German and Japanese business, that none of them exist as legal entities. But they disagree with us on the question of undesirability, and have accorded total or partial immunity to such culprits as Welsch, Klinge, Woyke, Ishikawa, Bayer, Anilinas, Hardt, Ostern, etc.

Persistence, as in the past, against the "immune" group, and recommendations for eventual inclusion in the post-resistance list are the only measures within the immediate reach of the Embassies unless the policy-forming officers wish to receive suggestions on possible counter action. However, we feel that such a course is out of question at this advanced stage of Peru's association with the United Nations.

It is believed that tactful persuasion is the only course remaining after Peru's declaration of belligerency. This method has been used consistently, the latest example having been notes dated March 10 and 12 by the three missions to the Minister of Foreign Affairs regarding the Peruvian Government's most uncooperative and continuous support of the Casa Welsch. There is no decent excuse for its flagrant official endorsement of one of the most obstinate pro-Nazi firms in this country. Self-explanatory copies of the three notes are enclosed.³⁹ The results, if any, will, of course, be reported.

However, Peru has delivered effective blows against the Axis. Those who have not studied all details, nor participated in every hour of the Peruvian campaign, nor witnessed the sincerity of the responsible Peruvian executives, are apt to forget, in their zeal to detect and exterminate the very last virus, that 80 per cent or 90 per cent is about the best we can do with human elements.

There are many common factors we are apt to overlook in our determination to reach the goal of perfection. Comparing Peru's accomplishments with those of Great Britain, Canada, the United States, and our other Allies, before war was forced directly upon them, it would appear that Peru took more drastic action sooner. As for political influence, corruption, and friendship, they produce peculiar results even beyond the territorial jurisdiction of Peru. Unbridled sentimentality is an especially potent force; it impels some to commit even injustices for a friend, but bars even justice for an enemy. . . .

In résumé, the work is not completed; but it has advanced close up to the goal and will progress further. It is believed the extirpation of Axis economic activities in Peru has been sufficiently realistic and thorough to afford reasonable assurance the old roots will not easily sprout under any conditions now predictable. It is improbable that

³⁹ Not printed.

an Axis agent will again try to set up in business in this country under an Axis title. The few who have remained as a result of the human weaknesses cited excuse themselves with explanations they may have been Germans, but never Nazis, that they have been deceived, etc. Others admit they simply backed the wrong horse, and I imagine that the quota of opportunists is equally distributed throughout the nations, that they were equally dangerous then and harmless now. In any event, it seems improbable that even the firms heretofore favored with total or partial immunity will survive the effects of a post-resistance list consistently applied by the Allied Governments. If any should, it seems obvious they would be such ringleaders as Bayer, Ostern, and other big German organizations which may be expected to lie underground and bide their time. It is for this reason that we believe a post-resistance list is imperative.

So far as the three Embassies in Lima ⁴⁰ are concerned, the superior authorities may, after receiving and considering the forthcoming case by case descriptions and our accompanying comments and recommendations, proceed with the deleting in successive supplements, of all of the minor offenders, as described in despatch No. 1976 of November 18, 1944.⁴¹ We do feel, however, that in reducing the present list to its post-resistance status, it would be advisable to apprise the Embassies of the names selected for deletion, in order to permit final examination here; and possibly consultations with the Peruvian authorities in certain cases in which they might be interested, just prior to publication of the contemplated deletions.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

Counselor for Economic Affairs

740.23112A/6-2845

Memorandum of Conversation, by the Chief of the Division of Economic Security Controls (Mann)

[WASHINGTON,] June 28, 1945.

Participants: Mr. Pawley, American Ambassador to Peru
 Mr. Wells, NWC ⁴²
 Mr. Gallagher, Peruvian Minister of Foreign Affairs
 Mr. Beltran, Peruvian Ambassador
 Mr. Chavez, Commercial Counselor, Peruvian Embassy
 Messrs. Mann and Monsma, ES ⁴³

⁴⁰ The British, Canadian, and American.

⁴¹ Not printed.

⁴² Division of North and West Coast Affairs.

⁴³ Division of Economic Security Controls.

This meeting was held at the request of the Peruvians to discuss matters relating to the administration of the Proclaimed List in Peru.

Mr. Gallagher expressed some concern over the possibility that the deletion of names from the Proclaimed List would make it legally impossible for Peru to continue to block funds or to complete its nationalization program. He stated that the Peruvian controls were, in some respect, tied to the Proclaimed List and that it would be necessary to modify Peruvian law so as to make it clearly appear that the Government would continue to have authority to control the property of deleted persons. This, he said, could be arranged before publication of the July supplement to the Proclaimed List and would receive his personal attention as soon as he arrived in Lima.

It was pointed out to Mr. Gallagher that the Proclaimed List was being reduced in certain countries, including Peru, because the local controls were adequate and Axis firms have been eliminated; and that many deleted persons deserved to continue to be subjected to Peruvian controls. Mr. Gallagher agreed in principle and implied that any relaxation in Peruvian controls would be made only as to minor and unimportant offenders.

At Mr. Gallagher's request it was agreed that all the future mass deletions from the List for Peru would be cleared with the Peruvian authorities.⁴⁴

Mr. Gallagher was particularly interested in the type of press release which would be issued in connection with the July supplement and it was agreed that the Peruvian Embassy would be informed in advance of the text of any such release.

740.23112A/7-1145

Memorandum of Conversation, by Mr. Burr C. Brundage of the Division of North and West Coast Affairs

[WASHINGTON,] July 11, 1945.

Participants: ES—Mr. Mann
 Mr. Monsma
 NWC—Mr. Brundage
 Mr. Chavez, Peruvian Embassy

Mr. Mann explained at the meeting that the Department wanted the Peruvian's reaction to reducing the inordinately large number of names on the Peruvian Proclaimed List, down to a hard core. He explained that of the over 1,000 names still on the PL for Peru over

⁴⁴ In telegram 652, June 20, 1945, 10 a. m., the Chargé reported that the Superintendent of Economy (Pflucker) and the Minister of Finance (East) had cleared for deletion all names in the supplement of June 23 (740.00112A E.W./6-2045).

800 were Japanese, some of them certainly of minor consequence, and that the Department was asking the advice of the Embassy as to what names, if any, could be pared away.

Mr. Chavez was personally in complete agreement with this procedure and also stated he was sure that his Government would look with favor upon such a process if it were found to be feasible.

740.23112A/7-1145 : Telegram

The Acting Secretary of State to the Chargé in Peru (Trueblood)

WASHINGTON, July 11, 1945—2 p. m.

670. Committee plans reduce PL for Brazil, Chile and Peru to hard core in July 27 supplement. Brazilian and Chilean lists will comprise and Mexico list already comprises total of 400 to 500 names each, including Jap names. If possible without injury to prestige of List or replacement program, Dept desires to accord similar treatment to Peru, particularly since press release will indicate July deletions made on basis of progress in eliminating spearheads.

Working from residual list attached Urdes 1976, Nov 18⁴⁵ subcommittee has approved hard core list of non-Jap names for Peru which is being airmailed to you and London for clearance. Upon receipt of this list cable your views.

If you concur Dept believes it desirable reduce total of 800 Jap names by deleting minor and insignificant offenders. Cable urgently Jap names which can now safely be deleted.

Gallagher and Peruvian Emb have been informed of foregoing. All names to be deleted should be cleared with Peruvians and Brit.

Gallagher stated he would immediately amend Peruvian law to divorce it from PL so that local replacement program could proceed indefinitely without major policy change. Has this been done? Important that Peruvians do not misinterpret reduction of List as loss of interest on our part in replacement program.

Urgency of this matter will be appreciated in view of necessity of clearance of all names with London.

GREW

740.23112A/7-1945 : Telegram

The Chargé in Peru (Trueblood) to the Secretary of State

LIMA, July 19, 1945—noon.

[Received 5:36 p. m.]

756. Re your telegram 670, July 11. Local tripartite committee, chiefs American, British, Canadian Mission, FBI, Naval Attaché,

⁴⁵ Not printed.

Military Attaché, Chinese Ambassador and Minister Gallagher consider it inadvisable delete any Japanese names⁴⁶ owing inability determine who if any are minor offenders and also because it is believed psychologically unsound to delete when pronounced anti-Japanese feeling exists among Peruvian public. Chinese Ambassador and leaders Chinese colony strongly feel greatest offenders are the least known.

Consequently recommend proposal delete Japanese names July supplement be suspended and that due credit be given Peru by mentioning comprehensive replacement liquidation program has been achieved but that names have not been deleted owing precautionary measures considered convenient in special circumstances prevailing here.

If this recommendation unacceptable under Dept's policy inform Embassy urgently so list (which would have to be largely on basis of guess work) may be cabled.

Finance Minister, as in past, prefers make no recommendation for or against deletion but stated decision United States will be supported accordance Rio Convention.⁴⁷

Decree dated June 22 holds all frozen funds in that condition regardless deletions until the Congress decides to the contrary in every individual case.

Hardcore list (re your telegram 670) received today will receive prompt attention.

TRUEBLOOD

740.23112A/7-2845: Telegram

The Acting Secretary of State to the Ambassador in Peru (Pawley)

WASHINGTON, July 28, 1945.

747. Proclaimed List press release for publication after 9 PM, July 28, will include:

"The names of a considerable [number?] of persons and enterprises in Chile and Peru have been deleted in the current supplement. These deletions are possible because of the effective action taken by the Chilean and Peruvian Govts to eliminate Axis enterprises and because the laws of these countries are deemed adequate to control deleted persons whose activities still require supervision. With some exceptions, the deletions in these countries do not indicate that continued control by the Chilean and Peruvian Govts is unnecessary; on the contrary it means that the laws of these two countries are deemed to be adequate to control the activities and assets of undesirable persons which have been deleted."

GREW

⁴⁶ Department's telegram 721, July 21, 1945, 3 p. m., indicated concurrence in this opinion (740.23112A/7-1945).

⁴⁷ See recommendation 5 of the Report on the Third Meeting of the Ministers of Foreign Affairs of the American Republics, Department of State *Bulletin*, February 7, 1942, p. 124

462.00R/11-1545

Memorandum of Conversation, by the Assistant Chief of the Division of North and West Coast Affairs (Wells)

[WASHINGTON,] November 15, 1945.

Participants: Señor Adhemar Montagne, First Secretary of Peruvian Embassy
Señor Fernando Schwalb, Second Secretary of Peruvian Embassy
Mr. Milton K. Wells—NWC

Messrs. Montagne and Schwalb called to follow up the visit made yesterday by the Peruvian Minister-Counselor⁴⁸ for information concerning the reparations meeting now being held at Paris. The Peruvian Foreign Office had requested the Embassy to ascertain the Department's attitude in respect to the participation (or nonparticipation) in this meeting of the other American republics.

I explained the situation to them essentially as set forth in the Department's circular telegrams of August 28, 9AM and October 29, 9AM.⁴⁹ With reference to the reparations meeting, the other American republics were not invited because it was felt that the disposition of German assets in this hemisphere should be considered as an inter-American problem under the terms of Resolutions XVIII and XIX of the Mexico City Conference;⁵⁰ and that one reason for suggesting this procedure was the fact that the German assets in the Western Hemisphere would in all probability be in excess of the claims, the contrary of which would be true in Europe.

It was further explained that this Government proposed to bring up the matter at the meeting of the Inter-American Economic and Social Council⁵¹ which was inaugurated today. I outlined in some detail the five points covered in the Department's circular of October 29 as forming the basis of our line of thought: (1) each American republic should satisfy its legitimate war claims against Germany out of German assets within its jurisdiction; (2) German assets in excess of these claims should be distributed among the war devastated United Nations; (3) this policy should operate to defend the other American republics from claims of German and of German nationals arising out of action taken in this hemisphere against Axis interests, and that former German owners must look to the German Government for damages arising out of such actions; (4) that the terms "German assets" and "legitimate war claims" would have to be defined clearly; (5) and that looted properties should be restored to former owners.

⁴⁸ Guillermo Fernandez Davila.

⁴⁹ Neither printed.

⁵⁰ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace*, pp. 55-59.

⁵¹ For documentation on this Council, see pp. 1 ff.

Attention was called to the recent Allied Control Council order vesting German external assets abroad.⁵² It was pointed out that while this order has a definite bearing on the situation, it did not change the basic ideas outlined in the five points, and that the Department is presently consulting with the Allied Control Council regarding a solution of the question of the disposition of Axis assets in the Western Hemisphere.

**DISCUSSIONS OF THE PERUVIAN FOREIGN DEBT AND PAYMENTS ON
LEND LEASE**

[For previous documentation on the foreign debt problem and Lend-Lease, see *Foreign Relations*, 1944, volume VII, pages 1568 ff. and pages 1504 ff., respectively. Documentation for 1945 is filed in the Department under 800.24, 823.24, and 823.51.]

**CONTINUATION BY THE UNITED STATES OF THE PROGRAM TO
PROCURE STRATEGIC MATERIALS FROM PERU**⁵³

811.20 Defense (M) Peru/2-245

*Memorandum by the Minerals Attaché in Peru (Vanderburg) to the
Ambassador in Peru (White)*⁵⁴

LIMA, February 1, 1945.

Reference is made to the memorandum dated January 26, 1945 from the Peruvian Ministry of Foreign Relations to this Embassy requesting the Department to hold in abeyance the recent revisions made by the U. S. Commercial Company in the Over-All Metals and Minerals Agreement on December 6, 1944⁵⁵ with respect to the quantities of copper, lead, and zinc ores and concentrates it agrees to purchase and the decreased price for zinc contained in concentrates.

The arguments advanced in the memorandum for the continuance of mineral purchases as originally specified in the Agreement may be summarized as follows:

- 1—Mutual advantages to the United States and Perú through the sale-purchase of prime materials in accordance with existing contracts.
- 2—Unemployment and lower standard of living for the working classes that would result from decreased purchases.

⁵² For documentation on United States participation in the Allied Control Council, see index entries in vol. III.

⁵³ Continued from *Foreign Relations*, 1944, vol. VII, pp. 1518-1533.

⁵⁴ Addressed also to the Counselor for Economic Affairs (Greenup); copy transmitted to the Department by the Ambassador in Peru in his despatch 2553, February 2, received February 12.

⁵⁵ For documentation on the agreement of 1943, of which this was an extension and revision, see *Foreign Relations*, 1943, vol. VI, pp. 735 ff.

3—Loss to Peruvian mining companies which have not yet had time to amortize large sums of money invested to increase production of minerals for the war program.

4—Economic and social stability of the country will be affected by decreased mineral purchases.

Comment on the foregoing arguments follows:

1—According to information available here at the present time we have reached a position of adequate supply in virtually all the metals produced in quantity in Perú with the exception of lead, and it is difficult to see what economic advantage would accrue to the United States through purchases by the U. S. Commercial Company of minerals not essential to the war program. Our domestic mineral producers are concerned over the disposal of huge surpluses of metals which will have accumulated at the end of the war in stockpiles, battlefield and demolition scrap and further purchases of metals not required for the war program will only increase our problem. Furthermore this step would be out of line with the declared policy of our Government to divert international trade back into private channels as rapidly as conditions permit.

2—For the last four years there has been a chronic labor shortage in the mining industry due largely to the construction of roads, irrigation works, port projects, hydroelectric installations, etc., by the Government, and a greatly expanded program of building construction in Lima; most of this activity having no relation to the successful prosecution of the war. Only a fractional part of this construction has been in low cost housing or directly related to raising the living standard of the low income classes. When the procurement agencies were concerned about increasing the production of Peruvian minerals during the first months of our entry into the war no effort was put forth by the Peruvian Government to correct the labor shortage, and the Government's participation in the war effort has been restricted largely to rhetorical gestures.

3—The statement that large sums of money have been invested by Peruvian mining companies to increase the production of minerals for the war program is wide of the mark and not borne out by the facts. An analysis of the investments made by mining companies in Perú shows the following approximate amounts which have not yet been amortized:

Compañía Minera Santa Elena	\$100,000
Volcan Mines Company (at end of contract)	60,000
Perú Molibdeno S. A. (at end of contract)	20,000
Compañía Minera Atacocha, S.A.	15,000
San Antonio de Esquilache Mines, Ltd.	40,000
Minas de Cercapuquio, S.A.	7,000
Sociedad Minera Yauli	5,000
Total	\$247,000

Out of the foregoing total the first three companies were granted loans by the Metals Reserve Company of which about \$180,000 still remains to be amortized. The remainder, or \$67,000 invested by Peruvian firms, does not indicate any great effort to produce minerals for the war program. It seems pertinent to refer here to the fact that Peruvian gold mines have enjoyed uninterrupted prosperity during the war while the gold mines in the United States were forced to cease operations by Government edict. In connection with the Peruvian production of minerals during the present war reference is made to Embassy Report No. 503, "Statistical Summary of Production and Exports of Mineral Products, Perú, 1934-1943," dated November 16, 1944.⁵⁶

4—The rehabilitation of international trade on a sound and enduring basis is one of the major problems of the world at the present time and in this readjustment the repercussions in Perú with its well balanced internal economy, the prosperity it has enjoyed during the war years, the comparatively light tax burden placed on its nationals for meeting the cost of the war, places the Republic in a more favorable position than most of the other countries of the world. At this juncture we are reminded that impending social and economic repercussions were predicted by the Government when the U.S. Commercial Company made cutbacks in antimony, tungsten, and molybdenum purchases, but to date these threatened catastrophes have not materialized. Most of the producers of these metals are still in business and disposing of their products in private markets. It is far better for Perú to seek markets for its minerals through private marketing channels at this time in order to cushion the effect of an abrupt transition, rather than to lean upon an economic crutch such as would be the case if we complied with the request that the U. S. Commercial Company continue to purchase minerals or other products which we do not need. To underwrite the economy of Perú and other Latin American countries is beyond even the financial capabilities of even an over-generous Uncle Sam.

In view of the tremendous debt facing the American taxpayer to defray the cost of the war—the end of which is not yet in sight—it is my opinion that the Peruvian Government is "off the beam" in requesting the United States Government to continue purchases of Peruvian minerals which we do not require for the war program.

⁵⁶ Not printed.

102.8951 : Telegram

The Secretary of State to the Ambassador in Peru (White)

WASHINGTON, April 19, 1945.

387. For Rubber Development Losa⁵⁷ from Truslow.⁵⁸ RDC rubber agreement with Peru terminates December 31, 1946.⁵⁹ The price premium agreement terminates March 31, 1946.⁶⁰

[Here follow paragraphs the same, *mutatis mutandis*, as in telegram 1000 of the same date to Rio de Janeiro, printed on page 704.]

A similar proposal is being presented to each other American country participating in rubber program.

[Truslow]
STETTINIUS

102.8951 : Telegram

The Ambassador in Peru (White) to the Secretary of State

LIMA, April 24, 1945—6 p. m.

[Received April 25—12:41 p. m.]

410. Losa requests following be sent Truslow, RDC:

“Reurtel 387, April 19, discussions with Peruvian Government re extension agreements held in abeyance pending Embassy clarification of phrase in your instructions to me reading ‘such proposals should be made unconditionally, that is to say, no attempt should be made to obtain settlement of any pending or other matters as a condition to such extensions. Likewise, you are not authorized to accept changes in these agreements as a condition to Peru’s acceptance of such extensions.’[”]

Other passages telegram 387 and Department’s circular telegram April 19, noon,⁶¹ indicate certain responsibilities of Embassy in this matter. See also circular airgram March 30, 9:25 a. m.,⁶² all of which is important in the light of possible future congressional investigation.

⁵⁷ Otto Losa, Special representative of the Rubber Development Corporation.

⁵⁸ Francis A. Truslow, President, Rubber Development Corporation.

⁵⁹ Agreement signed April 23, 1942, not printed; for negotiations, see *Foreign Relations*, 1942, vol. VI, pp. 665–670.

⁶⁰ The agreement between the Rubber Development Corporation and the Peruvian Amazon Corporation (not printed) was made by an exchange of letters dated February 16 and 25, 1944, and extended by a similar exchange of August 25 and 29, 1944. It effected a 33½% price increase.

⁶¹ Not printed; the Department expressed concurrence in the policy of extending the rubber agreements and instructed Embassy officers to effect formal ratification by exchanges of notes (800.6176/4–1945).

⁶² Not printed; it quoted the text of a letter sent by the President to 16 departments and agencies regarding centralization of responsibilities for economic activities abroad in an economic counselor or minister in the mission (121.53/3–3045).

While Embassy naturally cannot judge RDC renewal instruction in light of general worldwide rubber situation, so far as Peru is concerned, I consider such a handout of psychology [*sic*], justifying Peru's fiscal delinquencies and undermining efforts to conduct over-all economic relations in practical manner.

The FEA representative⁶³ feels that in accordance with resolution 21 of Mexico City Conference,⁶⁴ negotiations for cancellation of flax agreement would be materially helped if rubber and retenone extension agreements are handled by Embassy as correlative part of our responsibility under economic program.

As regards rubber agreement itself, this appears to require that all of \$1,200,000 development fund be spent or left in Peru. With only \$200,000 spent to date and total needed not likely to exceed \$400,000 why should American taxpayers be charged with the balance? Should not also Peruvian Government repay million-odd soles contributed for purchase Maximo Rodriguez land in Madre de Dios, and/or take over any bad loans? Is there not a difference of opinion as to the number of airports to be built, which calls for solution? Doubtless detailed study of contract might raise other points for adjustment. In view of telegram No. 387, Losa does not consider himself authorized to give me his views on these matters.

WHITE

800.6176/4-3045 : Telegram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, April 30, 1945—8 p. m.

423. There is a thorough appreciation here of the Embassy's feelings, as expressed in its 410 of April 24, regarding the desirability of coordinating the economic programs of this Government as they may affect Peru. It is, however, believed that the instructions contained in Department's 387, April 19 and circular telegram of April 19 noon,⁶⁵ can only fairly be judged in the light of the world rubber situation as well as the Peruvian and other agreement country situations. When it is considered that there is a framework of rubber agreements, at least bordering on the reciprocal most favored nation type, which it is essential to retain intact, and that each country has other agreement problems and open questions, the extreme difficulty of attempting to do more than simultaneously extend the rubber agreements in their present form will be apparent.

⁶³ Claude Courand, special representative of the Foreign Economic Administration in Lima.

⁶⁴ Pan American Union, *Final Act of the Inter-American Conference on Problems of War and Peace* (Washington, 1945), p. 61.

⁶⁵ See footnote 61, p. 1336.

The summary of the Rubber Study Group proceedings, recently forwarded to the Embassy, clearly indicates that the shortage of natural rubber is expected to continue for at least two years after the liberation of rubber producing areas in the Far East. Within the past month the War Production Board has determined that it will be essential to procure from Western Hemisphere sources during 1946 as much or more rubber than will be obtained during 1945. The Directors of RDC, including a Department representative, considered the matter at some length and decided that to carry out such determination it was essential to seek immediate extension in unchanged form of all the existing Western Hemisphere agreements.

It is believed here that the Rodriguez matter stands as set forth in Department's 618, May 28, 1943⁶⁶ under an agreement whereby the unamortized balance, if any, of the loan by RDC would be chargeable to the development fund.

The Department and RDC are aware of the possibility of a difference of opinion between the Peruvian and American authorities on the matter of the disposition of whatever funds remain in the development fund at the expiration of the rubber agreement. It is not considered advisable, however, to assume the initiative at this time in opening this matter for discussion. Such initiative might lead to the unfortunate inference by the Peruvians that the American authorities, in an endeavor to spend less than the stated commitment, may not be prepared to examine on their merits and approve projects for the development of wild rubber production.

It is felt also, that the aviation program question might better be discussed without reference to the extension of the rubber agreement. While the airport question is connected with rubber, it appears that its solution will depend in large measure on a further examination of what transpired at the Rio de Janeiro Conference.⁶⁷

There also appear to be a number of questions on which the Peruvian authorities would seek more favorable terms if alterations in the rubber agreement, other than postponing its expiration date, were discussed. Outstanding among these are probably the matter of the tonnages to which the volume premiums apply and the production tonnage withheld for Peru's consumption.

Since rubber program is so vital, it is believed that the offer to extend the agreement is more properly to be considered the opposite of a "hand-out" and should not be jeopardized by its use in connection

⁶⁶ Not printed.

⁶⁷ For documentation on the Third Meeting of the Foreign Ministers of the American Republics, Rio de Janeiro, January 1942, see *Foreign Relations, 1942*, vol. v, pp. 6 ff. For text of the recommendations of the Conference, see Department of State *Bulletin*, February 7, 1942, pp. 117 ff.

with negotiations for termination of the flax agreement or other matters which the Embassy and other United States agencies are seeking.

While the Department's 387 was designed to limit Losa's authority in connection with the offer to be made to Peruvian officials, there was no intention to limit his freedom to discuss all problems fully with the Embassy even should he disagree with the policies or instructions of his Washington office.

The foregoing represents the thoughts of the Department and RDC after full consultation. It is therefore requested that the Embassy and Losa proceed in accordance with Department's 387 and the circular telegram unless further serious objections not covered by this telegram are perceived. It would appear particularly desirable to make the offer as soon as possible lest Peruvian authorities learn first from other sources that RDC is making these offers generally and thereby mistakenly conclude that Peru is not to be offered an extension. The Rio de Janeiro discussions are virtually completed and wide publicity is contemplated in Brazil.⁶⁸

GREW

102.8951 : Telegram

The Ambassador in Peru (White) to the Secretary of State

LIMA, May 11, 1945—8 p. m.

[Received May 12—1:20 a. m.]

485. Truslow RDC from Losa. Reurtels 387, April 19, and 423, April 30, 8 p. m. Have concluded an exchange of letters with Ministerio de Hacienda regarding extension of the rubber and price bonus agreements to June 30, 1947. Their reply expresses complete agreement to these extensions in principle and under the same present terms and further indicate their readiness to formalize these extensions with official exchange of notes through American Embassy. This offer to extend agreements to June 30, 1947, greatly appreciated by both Minister East and Peruvian Amazon Corporation directors. Am confident that effective publicity will be given this news with resultant gratifying results in the form of increased rubber production for the remainder of the program.⁶⁹ [Losa.]

WHITE

⁶⁸ For documentation on the extension of the rubber agreements with Brazil, see pp. 701 ff.

⁶⁹ The notes exchanged were dated May 15 and 18, 1945, not printed.

811.20 Defense (M) Peru/7-2445

The Acting Secretary of State to the Ambassador in Peru (Pawley)

No. 25

WASHINGTON, August 7, 1945.

SIR: There is enclosed a draft of a suggested note ⁷⁰ for transmission to the Minister of Foreign Affairs ⁷¹ discussing the future plans of the United States Government concerning the purchases of ores and concentrates of lead, zinc, and copper in Peru.

The Foreign Economic Administration has informed the Department that supply-requirement estimates indicate some further revision will be necessary for purchases of metals and minerals in foreign countries, including Peru, during the fourth quarter of this year. To insure future flexibility for orderly curtailment in purchases by the United States Government, FEA has suggested that an appropriate note be sent to the Peruvian Government. The note is also in compliance with the Overall Metals and Minerals Agreement as revised August 28, 1944, which provides for three months' notice for revision of the quantity of any metal or mineral covered by the Agreement.

The Department is advised by FEA that no immediate reduction in purchases of lead is contemplated and, since some zinc concentrates must be purchased to secure lead, zinc purchases may not necessarily be limited to the quantity stipulated in the suggested note.

For the information of the Embassy, FEA is sharply curtailing its procurement of copper from all foreign sources in the fourth quarter, particularly its purchases of copper ores and concentrates. Maximum future flexibility to curtail purchases of these materials is desirable since processing to refined copper is not completed until several months after their delivery.

Very truly yours,

For the Acting Secretary of State:

NELSON A. ROCKEFELLER

811.20 Defense (M) Peru/9-1445: Telegram

The Ambassador in Peru (Pawley) to the Secretary of State

LIMA, September 14, 1945.

[Received 3:45 p. m.]

951. Reurtel 871, 12th.⁷² Suggested note to Peruvian Government was delivered personally by me on August 20 to Ministry for Foreign

⁷⁰ Not printed; the draft note provided for a limitation on the purchase of lead ores and concentrates to 10,000 metric tons per year, of zinc sulphide ores and concentrates to 25,000 metric tons per year, and none of copper ores and concentrates.

⁷¹ Javier Correa Elias.

⁷² Not printed; it referred to draft note enclosed with instruction 25, August 7, *supra*.

Affairs which to date has not acknowledged same. Since note simply gave notice it is possible no reply will be received.

PAWLEY

811.20 Defense (M) Peru/9-2445

The Acting Secretary of State to the Ambassador in Peru (Pawley)

No. 89

WASHINGTON, October 5, 1945.

SIR: There is enclosed a draft of a suggested note ⁷³ for transmission to the Minister of Foreign Affairs concerning the future plans of the United States Government for purchases of lead and zinc in Peru.

The Foreign Economic Administration has suggested that the Overall Metals and Minerals Agreement be further revised to eliminate this Government's obligation to purchase zinc ores and concentrates in the final three months of the Agreement. It is also suggested that the Peruvian Government be advised of the intention of the U.S. Commercial Company to terminate the Overall Metals and Minerals Agreement effective six months from the date of notice, as provided for in the Agreement as revised, August 25, 1944.

The Embassy will note that no change is being made with respect to the stipulated quantity of lead ores and concentrates to be purchased in the final three months of the Agreement.

Very truly yours,

For the Acting Secretary of State:
WILLIAM L. CLAYTON

103.9151/11-845: Telegram

The Chargé in Peru (Trueblood) to the Secretary of State

LIMA, November 8, 1945.

[Received 9:42 p. m.]

1126. Rubber Development Agency here is involved in various judicial proceedings whereunder individuals are presenting claims. In absence of provisions in basic agreements bearing on legal responsibility of agency, he [zt] has requested Embassy to address Foreign Office pointing out that organization is agency of United States Government, that neither he [zt] nor any officer in it is empowered to participate in judicial proceedings in Peruvian courts, and recommending that Peruvian Government arrange to handle these proceedings with any valid claims resulting therefrom to be presented for discussion on diplomatic level since contempt proceedings already initiated against agency for failure to appear in Iquitos courts. The Department's prompt instructions would be greatly appreciated.

TRUEBLOOD

⁷³ Not printed.

103.9151/11-845 : Telegram

The Secretary of State to the Chargé in Peru (Trueblood)

WASHINGTON, November 10, 1945—1 p. m.

1012. Your 1126 November 8. Endeavor to persuade Foreign Minister to have suits against Rubber Development Corporation suspended pending efforts to effect reasonable direct settlements. Further instructions will follow.

BYRNES

103.9151/11-845 : Telegram

The Secretary of State to the Chargé in Peru (Trueblood)

WASHINGTON, December 4, 1945—7 p. m.

1054. Discuss orally with Foreign Minister R.D.C. cases referred to in Dept's 1012, Nov 10. With reference to suit relating to taking of sand, say Dept is informed that there was an understanding between R.D.C. and Peruvian Foreign Office that former would be free to take sand from the lands in question.

As to suits of employees, R.D.C. assures Dept that it is willing to pay such amount in each case as Peruvian Labor Office considers due, and that compensation paid or offered to employees was in accordance with determination made by Labor Office.

Endeavor to have cases disposed of in accordance with above understandings and suits withdrawn. Unless this is done it may be necessary to assert sovereign immunity.

BYRNES

103.9151 : Telegram

The Chargé in Peru (Trueblood) to the Secretary of State

LIMA, December 28, 1945.

[Received December 28—7:02 p. m.]

1307. Corson ⁷⁴ RDC [from] Losa. Value equipment supplies property plant and equipment available for sale to PAC ⁷⁵ totals 571,000 soles. PAC agreeable to purchase same at following payment terms, 171,000 soles cash upon immediate delivery, balance in four equal 60-day installments of 100,000 soles each covered by notes. Thus permitting collection total value maximum 8 months. Sale equipment supplies includes 3 million tapping cups for which no ready market due present heavy PAC stocks. Consider sale terms equitable and our

⁷⁴ H. G. Corson, Vice President, Rubber Development Corporation.⁷⁵ Peruvian Amazon Corporation.

best interests. Recommend immediate authorization conclude sale these terms.⁷⁶ [Losa.]

TRUEBLOOD

DISCUSSIONS BETWEEN THE UNITED STATES AND PERU REGARDING
TRADE CONTROLS⁷⁷

823.61331/1-1345: Airgram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, January 13, 1945.

A-27. Embassy's despatches 2002 of November 22 and 2042 of November 28, 1944.⁷⁸ It would be appreciated if the Embassy would report on the outcome of further conversations which it may have had with the Peruvian authorities regarding the proposed 2% ad valorem import tax and the 10-centavos tax on imported tobacco products.

It is noted that Finance Minister East gave assurance that the new import tax would not conflict with international agreements but that he made no commitment with regard to the tax on tobacco products which is higher in the case of imported products than in the case of domestic products. As the Embassy is aware, these two provisions are in conflict with Articles VII and II, respectively, of the trade agreement between the United States and Peru.⁷⁹

The Embassy is also requested to let the Department know whether or not the new tax measure has become effective and whether or not it has been modified in any respect. If the law has been promulgated, the Embassy should so report as soon as possible in order that publication of it may be made by the Department of Commerce.

The Embassy may, in addition, have something to report regarding the subject of the Peruvian excise taxes on tobacco products referred to in Department's instruction no. 3741 of December 15, 1944.⁸⁰

GREW

⁷⁶ According to a monthly report transmitted in despatch 954, February 4, 1946 (neither printed), an agreement was concluded in December by which the Corporation sold to PAC supplies, equipment, and other properties in Lima, Iquitos, Pucallpa, and Puerto Maldonado (103.9151/2-446).

⁷⁷ Continued from *Foreign Relations*, 1944, vol. VII, pp. 1534-1552.

⁷⁸ Neither printed; these communications contained information on pending tax legislation that might adversely affect oil companies and on the contention of the Peruvian Government that no contravention of the trade agreement between the countries was intended (823.512/11-2244 and /11-2844).

⁷⁹ Department of State Executive Agreement Series No. 256; 56 Stat. (pt. 2) 1509.

⁸⁰ Not printed; the Department indicated that the taxes in question were discriminatory (823.61331/10-2344).

823.51/1-2445 : Telegram

The Ambassador in Peru (White) to the Secretary of State

LIMA, January 24, 1945—7 p. m.

[Received 10:20 p. m.]

83. The more favorable exchange situation described in despatch 2283 of January 2,⁸² seems to have deteriorated suddenly despite assurances to the contrary up to a few days ago. Central Reserve Bank reports a decline in foreign exchange holdings to slightly less than 12 million United States dollars. This development has strengthened the position of a group advocating controls, as a result of which comprehensive import and exchange control measures were made effective this morning. Permits approved in advance are required for all imports. It is stated that all applications for essential commerce, industry and financial services will be granted but that those for luxury, unnecessary and excessive imports will be curtailed or denied.

All exporters are required to turn over the total foreign exchange proceeds of exports to the Central Reserve Bank and no export permit will be granted unless proof or assurance of such delivery of foreign exchange to the Central Reserve Bank is given. Finance Minister stated no exceptions will be made for Cerro de Pasco International Petroleum and other companies operating with foreign capital, although their needs of foreign exchange will be amply cared for.

It is stated that these import and exchange control measures are definite and not subject to immediate withdrawal. Despatch follows.⁸³

WHITE

623.113/1-2645

The Ambassador in Peru (White) to the Secretary of State

[Extract]

No. 2491

LIMA, January 26, 1945.

[Received February 7(?).]

Subject: Representations to the Foreign Office as to Tax Discriminations on American Import Merchandise.

SIR: I have the honor to refer to Embassy Airgram No. 38 of January 18, 1945, 2:30 p. m.⁸² in response to the Department's Airgram

No. A-27 of January 3 [13], 1945, and, in connection therewith, to enclose a copy of the formal note dated January 22, 1945,⁸² sent to the Minister of Foreign Affairs,⁸⁴ in which violations of Articles II and

⁸² Not printed.⁸³ Despatch 2482, January 26, not printed.⁸⁴ Manuel C. Gallagher.

VII of the Peruvian-American Reciprocal Trade Agreement are discussed in connection with certain taxes on American import merchandise. As soon as a response is received from the Minister of Foreign Affairs to my request that I be advised what steps the Peruvian Government can take toward adjusting the differences discussed to the provisions of the Trade Agreement, a prompt report will be duly forwarded to the Department.

In making these representations, I considered that inasmuch as informal discussions had failed to achieve useful results, it was desirable to include in a formal communication a complete statement of instances involving violations of the provisions of the Trade Agreement on the ground suggested in the Department's Airgram No. A-29 of January 17, 1945⁸⁵ that acquiescence in the continuation of minor violations, such as the port taxes at Salaverry and Pisco, might only encourage the continuance of the greater violations. For this reason, mention was made in my note of the additional port charge of \$1.00 per 1000 board feet imposed on lumber, a minor instance contrary to the provisions of Article VII, as mentioned in Embassy Report No. 23 of January 18, 1945,⁸⁵ entitled, "Payment of Port Charges on the Importation of Wheat, Coal and Lumber at Peruvian Ports Other Than Callao". Inclusion of the discriminatory excise tax on tobacco products was based upon the Department's Air Mail Instruction No. 3741 of December 15, 1944,⁸⁵ File 823.61331/10-2344.

As a reassurance to the Department that in other respects American imports receive the benefits to which they are entitled by virtue of Schedule I attached to the Trade Agreement and under the Most-Favored-Nation clause, attention is invited to the special tables presented on pages XXXV-XLI of the *Anuario del Comercio Exterior del Peru*, 1943, in which the uncollected duties applicable to merchandise entitled to preferential treatment in accordance with Peruvian Trade Agreements with Brazil, Chile (including the *Modus Vivendi* relating to the Tacna Customhouse), the United States, Great Britain and Colombia are listed. . . .

Respectfully yours,

J. C. WHITE

823.51/1-2445 : Airgram

The Acting Secretary of State to the Ambassador in Peru (White)

WASHINGTON, February 17, 1945.

A-99. Reference Embassy's confidential telegram no. 83 of January 24, 1945. The Department has been investigating informally

⁸⁵ Not printed.

and confidentially through Federal Reserve Bank of New York, the dollar position of Peru in an endeavor to ascertain the reasons which impelled the Government to establish exchange control. At present Department's data are preliminary and indicative of a trend rather than definitive and conclusive as to the actual movements. Briefly, the Department finds that over the last year there has been a weakening in the dollar exchange position of the Peruvian Central Bank and a decided strengthening in the dollar position of the Peruvian commercial banks and/or Peruvian individual accounts. Present data indicate possible decline of 5 million dollars in Central Bank position and substantial increase (possibly 10 million dollars or more) in commercial bank and/or private accounts. Data presently available do not break down the commercial bank-private dollar accounts, but the Department believes the bulk of the increase is in accounts of Peruvian individuals and firms, this term including any accounts for which Peruvian addresses are given on books of New York banks. This view is supported by statements of New York banks to Federal Reserve Bank of New York to effect that recent exchange difficulties are attributable primarily to failure of Peruvian exporters to deliver exchange to Central Bank Most of the data on which the foregoing tentative views of the Department are based pertain to 1944 and indicate that the tendencies described became especially notable in the latter months of that year.

The Department will continue its investigation and will inform the Embassy of the results by despatch.

GREW

623.113/3-545

The Ambassador in Peru (White) to the Secretary of State

No. 2771

LIMA, March 5, 1945.

[Received March 13.]

SIR: I have the honor to refer to Embassy Despatches No. 2491 of January 26, 1945, entitled, "Representations to the Foreign Office as to Tax Discrimination on American Import Merchandise", and No. 2567 of February 5, 1945,⁸⁶ entitled, "Reply of the Foreign Office as to Tax Discrimination on American Import Merchandise", and in connection therewith to enclose copies and translations of a formal note from the Peruvian Foreign Office, No. (H)-6-3/40, of February 24, 1945, and its accompanying memorandum dated February 5, 1945,⁸⁷ from the Ministry of Finance and Commerce in reply to the Embassy's formal representations with regard to tax discriminations

⁸⁶ Despatch 2567 not printed.

⁸⁷ Enclosures not printed.

against various American products in contravention of the Peruvian-American Reciprocal Trade Agreement.

The opinion of the Ministry of Finance and Commerce, which the Ministry of Foreign Relations apparently shares, is flatly expressed to the effect that the cited legal provisions and the taxes created by them are applied in perfect harmony with the Agreement, and abide by its terms and spirit.

With respect to toilet articles, the Finance Ministry asserts that the taxes in question were applied prior to the conclusion of the Agreement, which may not be applied retroactively. A similar argument is presented with respect to the taxes imposed on tobacco products, with the additional pleas that, on an *ad valorem* basis, the *rate* of taxation on imported tobacco products is lower than for domestic products, and that tobacco products are not included among the commodities specifically exempt from new taxes as provided in Article VII. This, of course, entirely ignores the facts that the taxes for the Peruvian Santa Corporation are entirely new and give domestic products a competitive price advantage.

With respect to the port taxes at Salaverry and Pisco, the Finance Ministry refers to a report from the Superintendency of Customs dated June 23, 1943, in which it was contended that the collections made by the Customhouses at Salaverry and Pisco were in compliance with Article II of the Treaty, which permits taxation on merchandise covered by Article VII whenever it relates to an internal tax imposed on a national product. The Finance Ministry contends that inasmuch as the taxes created by Laws No. 9777 and No. 10016 are applicable to coastwise trade, they are not in conflict with the Treaty.

This argument ignores the attitude of the Department, duly reported to the Foreign Office by the Embassy, to the effect that the United States would have deferred favorable action on the Trade Agreement had it been aware of the discriminatory taxes on toilet articles.

No copy of the report of the Superintendency of Customs dated June 23, 1943, was furnished to the Embassy, and it has no record of a memorandum to the Ministry of Foreign Relations dated June 22, 1943 (apparently a typographical error which should read "June 2, 1943"), in which, as stated in the Finance Ministry's memorandum, the Peruvian "opinion . . . was officially accepted by the Department of State". The pertinent statement on this subject was made by the Embassy in an informal memorandum of June 2, 1943 (subsequent to the receipt of the Department's air mail instruction No. 2452 of May 27, 1943, File 623.116/19A),⁸⁸ reading in part as follows:

⁸⁸ Not printed.

"A recent communication from the Department of State regarding this matter expressed the view that Article IX has no application to the taxes in question; and that the application of the taxes to imports of articles in Schedule I appears to be in conflict with the provisions of Article VII of the Agreement. However, the United States Government is not disposed to invoke the provisions of the Commercial Agreement in respect to these taxes at the present time, these being relatively small as applied to exports as well as to imports.

"The above résumé of the views of the Department of State regarding the import and export taxes recently imposed at Salaverry and Puerto Chicama is accordingly brought to the attention of the Ministry of Foreign Affairs for its information and for such action as may be considered desirable in the harmonious application of the Commercial Agreement between the two nations."

Since the views of the two Governments are at such variance, it is thought that the Department may wish to indicate the nature of the reply to be made to the Peruvian Government.

Respectfully yours,

J. C. WHITE

623.006/6-1645

The Ambassador in Peru (White) to the Secretary of State

[Extract]

No. 3475

LIMA, June 16, 1945.

[Received June 23.]

SIR: Supplementing Despatch No. 3319 of May 21, 1945,⁸⁹ entitled "Peru's Trade Controls Affect Imports from United States", I have the honor to inform the Department that import as well as exchange permits have been granted with diminishing liberality during the last three weeks, owing, it is said, to a 15% decline in the Central Reserve Bank's foreign exchange reserve fund.

The classes of merchandise more acutely affected were the so-called luxury goods and other articles which the import and exchange committees decided were unnecessary or could be replaced by domestic manufacturers.

Under date of May 30, 1945, the Lima Chamber of Commerce distributed among the importing houses a memorandum explaining the norms of the system as previously reported, but reversing one of the former decisions. ". . . the Committee announces," stated the circular, "that it will not authorize the importation of any article for the simple reason that the importer declares he has the necessary foreign exchange, because if it should do so, it would imply encouragement to the foreign exchange black market. Foreign exchange in possession of the trade should be employed exclusively for the importation of merchandise of interest in the national economy, in accordance with the

⁸⁹ Not printed.

permits which the Import Committee may authorize prior to the placing of the order.”

Certain officials and business men attribute this less favorable situation to accentuated hesitancy during the days prior to and after June 10, when the national elections took place, but others, and, it is believed, the majority, incline to the belief that the natural accumulative consequences of such controls are the dominant factors. These observers feel that substantial improvement will take place only after the incoming authorities achieve the monetary and administrative reforms which both parties have promised in their platforms; and that the only alternative is a rigid control system.

Respectfully yours,

For the Ambassador:
JULIAN GREENUP
Counselor for Economic Affairs

623.113/3-545

The Acting Secretary of State to the Chargé in Peru (Trueblood)

No. 4140

WASHINGTON, July 2, 1945.

The Acting Secretary of State refers to the Embassy's despatch no. 2771 of March 5, 1945 regarding several Peruvian tax laws which include provisions considered to be in contravention of certain articles of the trade agreement between the United States and Peru.

In view of the forthcoming change of Administration in Peru⁹⁰ and of the number of controversial matters that were still pending at the time the Embassy's despatch was received, the Department considered it advisable to hold in abeyance an instruction on the subject of the trade-agreement violations. However, now that the new Administration will soon take office, it is hoped that the Embassy will early find a favorable opportunity to discuss this matter with the Peruvian authorities.

The following comments are made on some of the statements in the memorandum addressed to the Peruvian Ministry of Foreign Relations by the Ministry of Finance and Commerce, a copy of which the Embassy enclosed with the despatch under reference.

The interpretation given in several places in the memorandum with regard to the non-retroactive effect of the general provisions of the trade agreement is contrary to well-established international practice and the clear intent of the trade agreement. Were the general provisions of the trade agreement which apply to customs treatment (except for the duty reductions on Schedule items) to be considered

⁹⁰ José Luis Bustamante Rivero was elected President May 10 and was inaugurated July 28, 1945.

applicable only to laws and regulations which come into effect after the date of signature of the trade agreement, the result would be to continue in effect many of the very conditions which the agreement was intended to remedy. The so-called "national treatment" article in trade agreements embodies a recognized principle, just as does the unconditional most-favored-nation provision, which is applicable, from the effective date of the agreement, to all the commerce between the two signatory countries regardless of what the practice to the contrary may have been in the past. In other words, the discriminations in the form of taxes on toilet articles and tobacco products which are higher on imports from the United States than on like national products and which were in effect at the time the trade agreement was signed, should have been removed just as any discrimination in favor of a third country was or should have been removed because of the unconditional most-favored-nation provision.

The wording of Article II clearly indicates that products imported into either country from the other shall be exempt from *all* discriminatory internal taxes, regardless of whether or not such taxes were in effect at the time the agreement was signed.

The taxes on tobacco products provided for by Peruvian Law 8433 and Law 10090 would not be considered discriminatory if the *ad valorem* equivalent of the specific taxes were identical, or practically identical, on imported and national products. However, under both laws certain national products are exempt from the tax and in the case of Law 8433, at least, the *ad valorem* equivalents of the specific tax rates on the national product and on the like product of certain third countries are substantially lower than the *ad valorem* equivalent of the rate on the United States product. The Embassy is requested to ascertain whether the *ad valorem* equivalent is identical in the case of the taxes under Law 10090, as claimed in the Ministry's memorandum.

With regard to Law 8433, the discrimination in favor of foreign countries other than the United States is, of course, a violation of the most-favored-nation provisions set forth in Article I and in the last phrase of Article II of the trade agreement. The wording of Article I clearly indicates that these provisions apply to charges of *any* kind and with respect to *all* laws or regulations in connection with importation, and to *all* laws or regulations affecting the sale, taxation or use of imported articles within the country. Furthermore, Article I clearly has retroactive effect since it expressly states that "any advantage, favor, privilege or immunity which *has been* or may hereafter be granted . . . to any article originating in or destined for any third country shall be accorded immediately and unconditionally to the like article originating in or destined for the Republic of Peru or the

United States of America, respectively". (Underlining added.)⁹²

In the case of the Peruvian port taxes, the Department has been giving this matter further study and has come to the conclusion that if these taxes are levied also on the coastwise trade, as the Ministry's memorandum claims, they are not of the kind for which exemption can be claimed under Article VII of the trade agreement as outlined in the Department's instructions nos. 2174 and 2452 of March 2 and May 27, 1943, respectively,⁹³ and a separate instruction will be sent the Embassy on this subject at a later date.

Since the Department will need further information from the Embassy with regard to port taxes and port charges, which may take time to assemble, the Embassy may wish to take up informally with the Peruvian authorities, as soon as the occasion presents itself, only the subject of the discriminations in the taxes on toilet articles and tobacco products. In that event, if the subject of port taxes is brought up, the Embassy may wish merely to say that the matter is being given further study by the Department.

It will be noted that in the foregoing paragraph it is suggested that the Embassy take up informally the matter of the discriminatory taxes. One reason for this is, of course, that the Embassy will probably be dealing with a new set of officials, and the other is that it would be well to avoid a written representation which would undoubtedly have to refer to the Embassy's note 546 of January 22, 1945⁹³ in which the port taxes were mentioned and in which there were inadvertently omitted references to the exemptions from taxation of certain toilet articles and tobacco products of domestic origin. (See Embassy's despatch no. 2491 of January 26, 1945.)

800.24/7-2445: Airgram

The Chargé in Peru (Trueblood) to the Secretary of State

LIMA, July 17, 1945.

[Received July 24—6 p. m.]

A-481. Reference Department's secret circular telegram of July 14, 1945, 2 p. m.⁹⁴ concerning the proposed liquidation of the Decentralization Plan for export control.⁹⁵

⁹² Printed in italics.

⁹³ Not printed.

⁹⁴ *Ante*, p. 545.

⁹⁵ The decentralization plan lodged considerable responsibility for war-time trade controls in the individual states, and produced a small positive list of commodities in short supply about which those countries indicated their preferences.

The Country Agency has been informed by letter of this proposal, and the verbal comments of its chief⁹⁶ have been obtained. He stated that he would welcome the total abolition of the Decentralization Plan and the import recommendation procedure, and pointed out that the Peruvian Government has in its own Import License system a complete control over the quantities of each commodity imported into Peru from any source.

From previous remarks on the general subject of the import recommendation system, the Embassy is confident that the Peruvian Minister of Finance and Commerce (of whose Ministry the Country Agency is a part) will likewise be entirely agreeable to the liquidation of the Decentralization Plan.

The Chief of the Country Agency suggests that no public announcement of this liquidation be made until the third quarter import recommendations have been processed locally and issued to the prospective importers. This would probably involve the withholding of a public announcement until August 15. He fears that if the proposed liquidation is announced before that time, the Decentralization Plan will more or less collapse well before October 1, 1945, interrupting the regular issuance of third quarter import recommendations and thus adversely affecting FEA's⁹⁷ administration of the quotas involved. The Embassy concurs in his suggestion.

The Embassy agrees that it would be desirable to liquidate the Decentralization Plan in the near future, and concurs in the proposal that this be effected as of October 1, 1945. Since the Embassy is not sure, from the wording of the Department's circular telegram of July 14, 2 p. m., whether it is only *proposed* to liquidate the Plan or whether it has been definitely decided to do so, the Embassy requests that it be instructed as to whether or not it may inform the Peruvian Government, by formal note, that the liquidation will definitely become effective on October 1.⁹⁸

TRUEBLOOD

623.116/9-2045

The Acting Secretary of State to the Peruvian Ambassador (Beltrán)

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Peru and has the honor to bring to his attention a matter which has for several months been of considerable concern to the United States Government.

⁹⁶ The Superintendent of Imports, Wilfredo Pflucker.

⁹⁷ Foreign Economic Administration.

⁹⁸ Ambassador Pawley reported in telegram 709, July 31, 4 p. m., that the proposed liquidation of the Decentralization Plan was approved by the Country Agency, the Embassy, and the representatives of the Foreign Economic Administration (800.24/7-1345).

As His Excellency is aware, the Peruvian Government in January of this year felt it necessary to institute import and exchange control regulations. This decision was observed with regret by the United States Government not only because Peru had hitherto served as an outstanding and inspiring example to other nations of the world of a country which had kept its foreign trade free of controls but also because these controls were instituted at a time when many other countries, including the United States, were relaxing their wartime trade restrictions and were planning to make every effort to end the remaining wartime controls at the earliest possible moment in the interest of the world trade expansion which is so necessary to the prosperity and peace of the world.

At the time the Peruvian system of import and exchange control was instituted, it was announced that the import permits were required in order to impede the entry into the country of de luxe articles, unnecessary articles, or articles which exceed the necessities of consumption. However, American exporters have complained that, in the operation of this import control, licenses for necessities such as pharmaceuticals have been refused while licenses for some luxuries have been granted. In addition, it has been reported by United States exporters that there has been discrimination in favor of Peruvian importing firms as compared with American and other foreign importing firms, and that licenses have been denied for the importation of products, not on the basis of a scarcity of exchange but because of competition with Peruvian products. It is understood also that imports have been impeded by delays in the granting of import licenses; import licenses have been denied without explanation of the reason therefor, and no lists of luxury or unnecessary goods have ever been published. Importers have therefore never known in advance whether or not their application for import licenses would be rejected, which has added to the expense of importers in placing orders abroad.

In addition to regretting the restrictive effect of such controls on the trade of the United States and other countries at a time when it would seem more appropriate for measures to be taken looking toward an expansion of world trade, the United States Government believes that the import restrictions should be considered by the Peruvian Government in the light of the pertinent provisions of the trade agreement between the United States and Peru.

Since the United States Government has accepted the proposal of the Peruvian Government that preliminary and confidential discussions regarding a new or revised trade agreement be undertaken soon, the question of the Peruvian exchange and import controls is of especial interest at this time, and it is hoped that the system of controls

may be considerably relaxed and that the import control, as distinguished from exchange control, may be removed before such discussions reach the end of the preliminary stage. The subject of exchange control will also necessarily have to be considered during the preliminary discussions.

Since it is understood that His Excellency's Government is now giving consideration to revising its system of import control, the Acting Secretary of State would appreciate it if His Excellency would convey to his Government the sentiments set forth above.

WASHINGTON, September 20, 1945.

611.2331/9-2545

The Acting Secretary of State to the Ambassador in Peru (Pawley)

No. 80

WASHINGTON, September 25, 1945.

The Acting Secretary of State refers to the Department's instruction no. 21 of August 7, 1945⁹⁹ regarding the possibilities of initiating preliminary and informal discussions looking toward the negotiation of a new trade agreement between the United States and Peru.

On September 12 a memorandum⁹⁹ was handed to the Peruvian Ambassador which stated that the United States Government would be glad to undertake such discussions at a mutually agreeable time, that studies are being undertaken by this Government preparatory to such discussions, and that the Department would be happy to receive any proposals which the Peruvian Embassy might be prepared to make for use in these discussions.

A Country Committee on Peru has been constituted, including members from the Departments of State, Commerce, Agriculture, and Treasury, and the Tariff Commission, and the Committee will hold its first meeting on September 27 to consider pertinent information of a preliminary nature and to plan the groundwork for the discussions.

The Peruvian Ambassador left for Lima on September 21 and expects to return to Washington around October 6 with proposals from the Peruvian Government. Conversations may begin a week or two thereafter.

The Embassy will be kept informed of developments and will no doubt be called upon to furnish information of various kinds as the work and discussions progress.

In the meantime, the Embassy is invited to make any comments and to furnish any information it considers would be helpful to the Department and the Country Committee.

⁹⁹ Not printed.

The Embassy is also urged to reply as soon as possible to the Department's instruction no. 22 of August 7¹ regarding the subject of port taxes and port charges, as well as to report what progress is being made in its discussions with the Peruvian authorities regarding the subject of the Peruvian internal taxes referred to in the Department's instruction no. 4140 of July 2.

It would be appreciated, in addition, if the Embassy would keep the Department currently informed of developments in the matter of the proposed revision of Peru's exchange, export and import control and would make fairly frequent reports on the operation of these controls.

611.2331/10-1845

The Ambassador in Peru (Pawley) to the Secretary of State

[Extracts]

No. 425

LIMA, October 18, 1945.

[Received November 8.]

SIR: Replying to the Department's confidential instruction No. 80 of September 25, 1945, I have the honor to forward the following observations regarding the proposed negotiation of a new trade agreement between the United States and Peru.

The data regarding port taxes and charges requested in the Department's instruction No. 22 of August 7, 1945,¹ are nearing completion and will be forwarded during the coming week. [P.S.: This report now completed is No. 256 (Restricted), dated October 19, 1945, entitled, "Port Charges in Peru not Previously Reported (Except as Otherwise Noted)".]¹

Nothing new has developed with reference to the internal taxes mentioned in the Department's instruction No. 4140 of July 2, 1945. The subject was taken up with the Minister of Foreign Affairs in the Embassy's note No. 44, dated August 20, 1945, but no reply has been received.

In order to avoid further delay, the Embassy reviewed and submitted the available data on the internal tobacco taxes in Despatch No. 286 of September 17, 1945, which enclosed a copy of note No. 44² referred to above. The latter solicited the Peruvian Government's assistance in analyzing the internal as well as the port taxes and charges, since the Peruvian technicians no doubt are in possession of factual details not available to the Embassy. In its conversations with the Peruvian

¹ Not printed.

² Neither printed.

delegates in Washington the Department may wish to suggest the value of full and prompt cooperation if it is desired to conclude a mutually satisfactory agreement within a reasonable period of time.

The instruction invited the Embassy to make any comments and to furnish any information it considers would be helpful to the Department. Those occupied with the pre-negotiation studies may find it useful again to review Secret Despatch No. 123 of August 17, 1945,³ entitled "Business and Economic Angles on Peru's New Government and Congress", and to the various despatches referred to therein, in order to refresh their memories of Peru's rather persistent irregularities of the past.

Although it is probable that certain of our pending problems in this country cannot be solved or even considered directly in the treaty negotiations, it is believed that the Department and the negotiating officers will welcome reference again at this time to some of the more prominent background information. The oldest and most difficult of the unsolved problems are, of course, the dollar loans, originally totaling 95 million dollars. These are composed of the 7 per cent Tobacco Loan, 1927-1959, for 15 million dollars; the 6 per cent First Series National Loan, 1927-1960, for 50 million dollars; and the 6 per cent Second Series National Loan, 1928-1961, for 25 million dollars. The service was suspended in 1931 after the principal had been reduced to \$81,547,500. Detailed information regarding the efforts of the bond holders' representatives to adjust this debt problem, and a considerable amount of miscellaneous information pertaining to Peru's general economic and financial conditions may be found in the series of despatches of which the last was No. 489 dated June 2, 1944,³ entitled "Seventh Session Dollar Debt Discussions, May 31."

The main point to be brought out here is that the Peruvians have made no serious effort to renew service on these bonds in recent years when the economic situation has been reasonably favorable, and notwithstanding the fact that the Tobacco Loan was guaranteed by the gross revenue of the tobacco monopoly, which ranged from S/12,030,218 in 1927 up to approximately S/34,000,000 in 1934.

The Peruvian trade control system may become, or may even now be, one of the most obnoxious, for the obvious reason that a few men may restrict or kill business by their own individual decision, without laws or regulations to govern them or to protect the business men. The complaints by Peruvian, American, Chilean, Canadian, Chinese and British merchants and officials are now so numerous and coherent as to point directly to such a conclusion. (There is also an accumulating volume of testimony that Ricardo Madueño, Manager of the

³ Not printed.

Peruvian Government's Banco Industrial is the principal hatchet man; that he is anti-American, nationalistic, and stubborn.) It was the Bank's sales of silver, under Madueño's management, to the Casa Welsch (Proclaimed List) which caused the Banco Industrial to be placed on the Confidential List.

Mr. Wilfredo Pflucker, Superintendent of Importations, whose resignation of July 31, 1945, was finally accepted on October 13, stated that his views had been entirely disregarded and that he had not been attending committee meetings for several weeks.

According to Mr. Pflucker, the committeemen have the support of the large importing companies, which for the most part deal in machinery, building materials, foodstuffs, chemicals, and other commodities which have been classified as essentials. By virtue of that situation they are able to obtain practically all the dollar exchange they need, find their business prospering, and in fact look upon the system as a convenient method of eliminating a certain amount of competition.

In like manner, the local producers of medicinals, pharmaceutical products, hats, shoes, textiles, etc., defend the import controls because they are thus able to dispose of their manufactures, which, because of inferior quality in many cases, do not move well in competition with the finer imports (usually of United States origin.) As a general rule, the local manufacturers are now enjoying unwonted profits by charging import prices for their products.

Minor employees all along the line are in agreement also because they make money on the margin by accepting fees or presents for rendering special favors, according to the testimony of numerous importers.

Mr. Pflucker reported that all of this had been discussed in the meetings of the general steering committee, among whose members, he said, are Messrs. Clemente de Althaus and Alcides Velarde of the Central Reserve Bank, Superintendent of Banks Figari, Mr. David Dasso, Price Control Officer Diaz Dulanto, Mr. Ricardo Madueño, Mr. Jorge Chamot, and (until October 12) Mr. Pflucker. According to this experienced informant, the committee, as well as the President himself, defends the system as the only practical method during this period of political uncertainty which encourages the continued flight and hiding of dollar exchange.

It is now evident that we are not going to obtain a clear solution of this problem by the simple process of persuasion, although we shall no doubt be able to effect adjustments here and there in individual cases, as have been reported in previous communications.

We have engaged in repeated conversations with the leading representatives of American exporters, encouraging them to take united action. One of their most concerted acts was a protest published in

the newspapers of September 5, 1945, a translation of which is attached hereto as enclosure No. 1.⁴ The document is excellent and self-explanatory. Nevertheless, it produced no useful results, as may be observed by reading ex-Finance Minister Ferrero's reply, which is translated in enclosure No. 2.⁴

My Note No. 44 of August 20, 1945, to the Minister of Foreign Affairs, a copy of which was enclosed with Despatch No. 286 of September 17, 1945, entitled "Discriminatory Taxes on American Tobacco and Other Products", has remained unanswered, as has Mr. Greenup's letter of September 4, 1945, to ex-Finance Minister Ferrero (enclosure No. 3⁴).

Our latest official communication on the subject, Mr. Greenup's Memorandum of October 11, 1945, (Enclosure No. 4)⁴ to the new Finance Minister Carlos Montero Bernales, has not yet been answered, although the Minister stated that he would look into the matter, and published a notice in the newspapers the following day (October 12) to the effect that he "contemplated the revision of the system of control on foreign trade, the 'traffic' in foreign exchange, prices, and other controls exercised by this Ministry in order to put them in line with the economic exigencies of the moment and coordinate them with the other controls exercised by other Ministries". It is beginning to appear as if statements and promises of this character are appeasers, similar to those to the effect that Peru is going to exert every effort "within the economic possibilities of the country," to meet the defaulted debt obligations.

The Peruvians no doubt will endeavor to use the trade and exchange controls as a bargaining instrument. Such procedure would be most unfair in view of the exceptionally great favors we have accorded to this country. To obstruct any movement of that nature, one of the higher officers might intimate to Ambassador Beltran that the United States expects an immediate improvement in the application of the controls to the United States before serious consideration can be given to granting concessions to Peru.

The hour for straight-forward, unsentimental, business methods with Peru is overdue. It is bad enough to injure ourselves, but deliberately to go on providing a friendly nation and people with the facilities for perpetuating "political and economic gangsterism" is dangerous to both countries. This may well represent my own conclusion and that of our compatriots of long experience in Peru, but what is really important is that the conspicuous Peruvian leaders have the same opinion. The foregoing descriptive terms (in quotations) are their own, and in using them they have declared in sincerity

⁴ Not printed.

that it would be a godsend to this nation if the United States would place emphasis on fairness in our governmental economic relations rather than upon cooperative or unconditional contributions. I believe that such a practice, added to our overall good neighbor policy, would contribute much toward making the relations between Peru and the United States exemplary in the family of nations.

Despatch No. 423, of October 17, 1945,⁵ regarding a proposed law to increase the export duty on silver, produced largely by the American Cerro de Pasco Copper Corporation, contributes additional suggestions and recommendations of value.

Respectfully yours,

WILLIAM D. PAWLEY

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Memorandum of Conversations, by Mr. Alexander Schnee of the Division of North and West Coast Affairs

[WASHINGTON,] November 30, 1945.

Participants: Sr. Carlos Montero Bernales, Peruvian Finance Minister

Sr. Carlos Vidal, Member Advisory Committee, Peruvian Finance Ministry

Sr. Carlos Franco, Member Advisory Committee, Peruvian Finance Ministry

CP⁶—Mrs. Amelia H. Hood

CP—Lt. Col. Harry R. Turkel

FN⁷—Mr. James C. Corliss

NWC—Mr. Alexander Schnee

At the outset of the conversations Mr. Schnee explained to the Minister that the Department was anxious to avail itself of the opportunity provided by his presence in Washington to learn something of the Peruvian Government's plans with respect to import and exchange controls. It was explained that this interest grew out of the general interest in the subject as well as recent reports which indicated that the Peruvian Government was giving some thought to the desirability of enacting into law the controls which had been instituted early this year.

The Minister stated that he had already taken steps to reorganize the control administration with a view to centralizing administrative procedure and liberalizing control measures. The Minister stated that important measures had already been taken towards this end and that as a concrete example of the results he could point to the permits,

⁵ Not printed.

⁶ Division of Commercial Policy.

⁷ Division of Financial Affairs.

issued at his suggestion shortly before he left Lima, for the importation of 400 automobiles from the United States.

Sr. Montero stated that he was optimistic with respect to the Peruvian exchange position during the coming months in view of (1) the United States purchasing program, (2) the return of capital which had left the country because of the political uncertainty which followed the elections, (3) the prospects for future expansion of industry with the aid of United States capital, and (4) the informal arrangement ("gentlemen's agreement") made with a few of the larger American companies operating in Peru which would result in their voluntarily reinvesting a greater proportion of their returns in Peru for the next year or two.

As a result of the foregoing developments the Minister stated that he confidently expected that within a period of five or six months the Peruvian Government would be able to eliminate import and exchange controls.

Sr. Franco then reviewed briefly the conditions which necessitated the establishment of controls and stated that the flight of capital referred to above was an important factor in the establishment of these controls.

In connection with the subject of foreign capital in Peru, Sr. Franco mentioned plans to build up the economy of Peru, by industrialization and otherwise, and made the statement that he felt that Peruvian capital should be used to a greater extent, that Peruvians should have a 50 percent interest in enterprises in Peru in which foreigners are interested, and that foreigners should send out of the country only that portion of their net profits aggregating a return of 10 percent, investing the balance in Peru. Whether or not these were merely his own personal views or those of some of the members of the Aprista Party was not clear. The Finance Minister was not in the room when this statement was made.

In reply to a direct question as to whether it was the policy of the present Peruvian administration to continue controls the Finance Minister stated that it definitely was not and that he was sure of the support of Haya de la Torre, leader of the Aprista Party, and Senator Seoane in this viewpoint. Colonel Turkel referred to Articles III and X of the present trade agreement between the United States and Peru, which have to do with import restrictions, and stated that it has been the policy of our Government to discourage the use of exchange controls as a means of curbing trade and that under conditions requiring a nation to regulate imports the United States has favored publicly announced quota arrangements. Sr. Franco replied that he agreed that the proper procedure would be to eliminate exchange controls first and that if continued import controls were necessary, they

should be on a quota basis. The Minister made notes upon mention of the trade agreement, and Colonel Turkel gave him a copy of the agreement.

During this discussion the Minister stated that it was his hope that the new approach to international trade as envisioned in the Bretton Woods Agreement⁸ would facilitate the handling of Peruvian foreign exchange requirements and would thus decrease the necessity for trade and exchange controls. He mentioned the December 31 deadline, which would indicate that Peru hopes to sign the Bretton Woods Agreement before that date.

Finally, the Minister suggested that the proposed preliminary conversations regarding a new trade agreement be postponed until after the first of the year when the Peruvian situation would be clarified. This was the only mention of the proposed negotiations.

⁸ For documentation on the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, July 1-22, 1944, see *Foreign Relations*, 1944, vol. II, pp. 106 ff. For texts of the agreements, see Department of State, Conference Series No. 55: *Final Act and Related Documents*.