BOLIVIA

PROBLEMS INVOLVED IN THE PROCUREMENT OF BOLIVIAN TIN BY THE UNITED STATES

824.6354/1-2347; Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

La Paz, January 23, 1947—6 p. m.

81. In informal conversation with Acting ForMin Saenz 2 today he told me of depression and disappointment of the Junta about slim prospects for any increase in price of tin revealed in information from Cañedo Reyes. 3

I feel that question of price of tin is inescapably tied up with Bolivian internal economy and public order and that unless adequate increase to offset increased cost of imported foodstuffs is attained the new govt will have difficult situation dealing with mining labor in particular.

Jorje Zalles, Grace 4 Vice President, now here informed me he has been told by intimate friends that brisk statement by US that tin price resulting from negotiations would not be retroactive as heretofore, has caused very bad impressions and feeling that Bolivia is being squeezed. These people feel that they are entitled to better treatment than was the dictatorial Villarroel regime 5 and that US should contribute to stability of democratic institutions by more friendly treatment on the tin price question. This attitude was factually demonstrated by decision of producers to withhold tin shipments pending conclusion of the tin negotiations.

I hope that Dept may consider this question in the light of implications in our overall relations with Bolivia and our desire to stimulate democratic institutions which have emerged since July 21. These points might be usefully stressed in talks with RFC.

Flack

1 For documentation on obtaining Bolivian raw materials in 1946, see Foreign Relations, 1946, vol. xi, pp. 374 ff.
2 Eduardo Saenz Garcia; his regular position was Minister of National Economy.
3 Raúl Cañedo Reyes, Bolivian Director General of Mines and Petroleum.
4 W. R. Grace and Company.
5 For documentation on the overthrow of the Villarroel regime and the position of the United States, see Foreign Relations, 1946, vol. xi, pp. 340 ff.
Memorandum of Telephone Conversation, by Mr. James Espy of the Division of North and West Coast Affairs

SECRET

[WASHINGTON,] February 18, 1947.

At 3 o'clock today Mr. Jesse Johnson, Deputy Director, Metals Reserve, RFC, telephoned me and said that at the meeting of the Board of Directors of RFC this morning, it was decided to reconsider RFC's position that RFC would not agree to enter into a new tin concentrates purchase contract with the Bolivian producers for a higher price than that of the last contract; and to offer to negotiate a new firm contract with the Bolivian producers at an "acceptable" price for the rest of the year. Mr. Johnson said that RFC would not be able to pay 76¢ which the Bolivians are asking and I gathered that RFC's top limit might be something around 72¢.

Mr. Johnson continued by informing me that he was consulting the political side of the Department for its views and also the economic side. He mentioned that the Economic Division, Mr. Kennedy's office, had registered its strong opposition to any increase in price to be paid for Bolivian tin but he also wanted to know our opinion. He mentioned in this connection that he imagined that if political disturbances were occasioned in Bolivia because of the tin price they could affect the production of Bolivian tin which would be a natural concern to RFC.

I told Mr. Johnson that I believe that our views were the same as those which had been conveyed to him during the meeting in Mr. Kennedy's office on Feb. 5th. I repeated them as follows, saying that unless he received word from me to the contrary, they could be accepted as stated: (a) we were not requesting RFC to raise the price of Bolivian tin; (b) we considered that the negotiations between RFC and the Bolivian producers were a commercial transaction between that Agency and the Bolivians and that we did not enter into it as regards price or terms; (c) we feel however, that if RFC could not arrange a contract or other methods of purchase with the Bolivian producers for their tin concentrates at a price acceptable to the Bolivians then (d) tin should be placed on a free market status which would allow Bolivians to sell it wherever and at such a price and on such terms as they were able to arrange.

With respect to the last point (d) I said that it was my opinion that unless the Bolivians were able to sell on a free market, then—despite the fact that there was no intent to do so, despite the fact that we have and are paying a very high and fair price, despite the fact that before any hypothetical court we could without question prove that we were

* Donald D. Kennedy, Chief, International Resources Division.
fair and square with the Bolivians and that they had been remiss in not making the necessary readjustments to set their economic house in order—in the eyes of the Bolivian public, and possibly even the world at large, this country and Great Britain may well appear to be constituting what amounted to a purchasing cartel and that this again, with all the provisos that I have mentioned, laid us open to criticism on the part of Bolivia of restricting their trade in tin concentrates. Accordingly, to get this Government out of this position, we feel that our views as expressed in point (d) are logically justified. Mr. Johnson remarked that he fully appreciated this position and agreed with it.

824.6254/2-2447: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, February 24, 1947—noon

161. Recent press editorials and expressions of private opinions are continuing to stress Bolivia's great interest in question of tin price in current negotiations in Washington and to urge necessity of securing 76 cent prices.

Saturday evening Alberto Ostria Gutierrez, Bolivian Ambassador in Chile and former Bolivian Foreign Minister, now here on leave, came to my house at his request to express, he said, his personal views as a friend and democrat. He characterized Bolivia's situation as very grave, mentioned a previous talk he had with Ambassador Bowers in Santiago on the same matter, and speaking personally said he wished to impress upon me the seriousness of the political and economic situation of Bolivia which without our aid would place Bolivia under Perón's influence. He asserted that Argentina through recent agreement with Chile had begun to emerge as a Pacific power on the road to domination of the southern part of the hemisphere, and that Bolivia's present democratic status is an obstacle to expansion of Argentine influence since that country is seeking every opportunity to enhance its influence in this part of the world.

Remytel 686, July 22,7 in the early days of the regime pointing out that young Bolivian democracy would need much material help, I reiterate those statements on the basis of my subsequent experience and recommend Dept's favorable consideration of the personal viewpoint expressed by Ambassador Ostria which in main reiterates others previously transmitted.

FLACK

The Ambassador in Bolivia (Flack) to the Secretary of State

La Paz, February 26, 1947.

No. 1021

Sir: I have the honor to refer to previous communications reporting the fact that the two presidential candidates, Drs. Enrique Hertzog and Luis Fernando Guachalla, recently requested a conference with me for the purpose of presenting their views on the above-mentioned subject.8

As previously stated, the two candidates then expressed their intention of submitting a memorandum setting forth more precisely the views previously expressed to me orally. This memorandum, dated February 24, was received yesterday by me and I enclose a copy with translation of the covering letter together with a copy and translation of the memorandum signed jointly by Drs. Hertzog and Guachalla.9 A copy of the Spanish text of the original letter will be submitted at a later date since it is desirable that the present report be despatched at the earliest possible moment.

The memorandum treats chiefly with the following points:

1.) Tin is Bolivia’s chief source of foreign exchange for the purchase of imported goods, mostly from the United States, and delay in the exportation and suspension of income from tin prejudices Bolivia’s general economy.

2.) The point is made that the tin producing companies have either suffered considerable losses requiring the closing of certain properties, including Oploca, or they have been unable to afford the necessary equipment for modernization of their mines.

3.) Emphasis is given to the fact that the Banco Central of Bolivia has already invested all of its available assets in dollars to pay for needed imports and has been obliged to negotiate loans with the United States banks at high rates of interest, using Bolivian gold reserves in the Federal Reserve Bank as security.

4.) Emphasis is also given to the necessity of avoiding the outbreak of social conflicts and labor disturbances resulting from unemployment and the point is made that it is a high moral duty of the United States towards Bolivia to instruct its fiscal agencies to proceed to the early conclusion of a new contract for Bolivian tin at the price which the producers have solicited.

I need scarcely emphasize the importance of the views of Drs. Hertzog and Guachalla, the two leading political figures in Bolivia, one of whom will be President of the country from early March 1947 until 1951. Their views are likewise strongly supported by the members of

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8 i.e., higher price for tin.
9 None printed.
the present Junta of Government and other leading figures in Bolivia’s political and economic life as previous reports of this Embassy will reveal.

I therefore recommend to the Department the most favorable consideration of these viewpoints since I have the very distinct impression from all of the men of influence in Bolivia with whom I have talked that Bolivia will have a very strong feeling of having been let down, in addition to the dire economic consequences which she will confront if the United States is unable to come to her assistance at this time in this matter, and to consider the question of the tin price not alone as a commercial transaction.

Respectfully yours,

JOSEPH FlACK

824.504/3-1147

The Ambassador in Bolivia (Flack) to the Secretary of State

LA PAZ, March 11, 1947.

No. 1077

Sir: I have the honor to transmit herewith two memoranda 10 from the labor reporting officer 11 concerning recent developments at the Catavi mine of Patiño Mines and Enterprises Consolidated (Incorporated). (Enclosures 1 and 2) Mr. Deringer, General Manager of Catavi, called on the Ambassador on the morning of March 8 and essentially repeated his views as quoted in the memoranda. At the request of the Ambassador, he promised that all women and children and as many of the male employees as possible would be evacuated from the Catavi area before any effort is made to bring on a showdown with the workers over the question of their pay for the eight-hour shift which took part in a sit-down strike on March 3.

The Junta of Government has issued a decree definitely characterizing the sit-down strike called by Juan Lechin 12 as illegal and relieving the mining companies of any responsibility for wages for the shift which did no work during the eight-hour strike period. (See enclosure no. 3).

Although it is expected that the workers in general, and especially those at Catavi, will make all efforts to collect the wages in question, the mining industry is determined not to pay wages for a period in which no work was done. Patiño Mines and Enterprises is especially adamant in its determination not to pay and is apparently willing to resist to the point of closing down the Catavi property. The legal position of the mining companies cannot be questioned and has been reinforced by the decree of the Junta to which reference is made above.

10 Enclosures not printed.
11 Spencer M. King.
12 Executive Secretary, Federación Sindical de Trabajadores.
Because of the general fears of serious trouble in the mining areas, and especially at Catavi where the management was forced to sign an agreement to pay the wages in question, the Ambassador handed a note to the Sub-Secretary of Foreign Affairs at 2:30 P. M. on March 7, requesting protection for the American personnel at Catavi.13

Respectfully yours,

JOSPEH FLACK

824.6354/3-1147

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

CONFIDENTIAL

BOLIVIAN TIN NEGOTIATIONS

Participants: Señor Don Ricardo Martinez Vargas, Ambassador of Bolivia
Señor Don Raul Diez de Medina, Bolivian Minister
Counselor
Assistant Secretary Braden
Mr. Wright, A–Br
Mr. Smith, A–Br
Mr. Wells, NWC

Repeating the history of his negotiations with RFC as stated to Mr. Briggs 14 yesterday, the Ambassador lamented the original intransigent attitude of RFC, the long drawn-out haggling over every cent increase, his successful efforts to persuade the Bolivian producers to compromise their demand for 76 cents, and the embarrassing end results. He is on a spot, having reported to his Government with much satisfaction the conclusion of an agreement at 74 cents coincidentally with the Argentine offer of 76 cents. He is not certain how to proceed, but has counseled the producers to do nothing for the moment. Before taking further steps, he wishes to ascertain the attitude of this Government, particularly as to whether RFC would contract for the 12,000 tons remaining should Argentina purchase 8,000.

He reiterated forcibly his opinion that our take-it-or-leave-it attitude and our willingness to take advantage of price controls to drive a one-sided bargain are doing immense harm to the Good Neighbor policy. He contrasted our attitude with that of the Argentine mission, which is reported to have arrived at La Paz “to do business, not to bargain over price” and had concluded an agreement in six days.

13 In a note of the same date the Sub-Secretary for Foreign Affairs provided the assurances requested (824.504/3-1147).
14 Ellis O. Briggs, Director, Office of American Republic Affairs.
Mr. Braden agreed that the Ambassador’s principal points were well taken. In the Ambassador’s presence, he telephoned Mr. Thorp 15 and urged that the economic divisions consider the matter urgently in order that the Bolivian Ambassador may be informed regarding our position. He suggested that the Ambassador, in the meantime, cable La Paz to inquire as to his Government’s attitude toward the RFC offer in view of the draft agreement with Argentina.

824.6354/3-1747
Memorandum of Conversation, by the Assistant Chief of the Division of North and West Coast Affairs (Hall)

CONFIDENTIAL

[WASHINGTON,] March 17, 1947.

Participants: Assistant Secretary Braden
Ambassador Martínez Vargas
Mr. Wright, A–Br
Mr. Briggs, ARA
Mr. Wells and Mr. Hall of NWC

The Ambassador called to ask for advice regarding the next steps to be taken in the tin negotiations. It was pointed out to him that RFC was still awaiting answer to their 74c offer and Señor Martínez said that he would call them to say that his Government could not accept the same.

The Ambassador expressed hopes that RFC would meet the Argentine offer of 76c, in which case he would use his best efforts to reduce the Argentine allocation from 8,000 to say 3,000 tons, or roughly the production handled by the Banco Minero. He said that his Government would probably be willing to consider an RFC contract until September, for one year, or even for two years.

Mr. Braden replied that his officers would confer with RFC tomorrow, after which any available information would be passed on to the Ambassador.

824.6354/3-2047: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

SECRET US URGENT

LA PAZ, March 20, 1947—7 p. m.

267. Information given me late this afternoon by Subsecretary Alvarado indicates that on basis of official information from Washington tin contract at 76 cents may be signed tomorrow, thus remov-

15 Willard L. Thorp, Assistant Secretary of State for Economic Affairs.
ing all but Banco Minero’s production of scarcely 3,000 tons from scope of proposed Argentine Agreement.

Alvarado stated further that as a result of representations made by Brazilian Ambassador the provisions in proposed agreement re Mutum iron and Beni rubber would be eliminated from draft. Also that Brazil would not only furnish funds for construction of Cochabamba-Santa Cruz railway but for La Paz-Boni railway as well thus forestalling Argentina attempts at controlling these routes and hinterland. Brazilian participation in connecting link in railway from Arica to Santos (Cochabamba-Santa Cruz sector) was stated to have been established in exchange of notes in 1943.

Alvarado stated that Bolivian counterproposal would be finished this evening taking note of points above detailed. He hopes that this will be published in line with previous decision to keep public informed and he feels that when this is made known to the Argentines they will reduce their offers of financial assistance to Bolivia by at least half if not more or make proposition unacceptable.

Foreign Office has concluded that only use Argentina could make of large amount of tin contemplated is for sale to Russia since economic negotiations with Russian delegation now taking place in Buenos Aires.

In reply to Alvarado’s question about our views on draft agreement with Argentina I replied that as yet I had no official indication from Washington; this was evidently primary purpose of calling me to Foreign Office.

824.504/3-2147

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

No. 1134

La Paz, March 21, 1947.

Sir: With reference to numerous previous despatches informing the Department of the steps taken by the Embassy with the Bolivian Government with a view to providing adequate protection for the lives of American citizens residing at the various mines in Bolivia, I have the honor to enclose a copy of Memorandum No. 236 of March 19, 1947

which I handed to the Minister for Foreign Affairs, Dr. Urriola-goitia, on that day.

In handing him this memorandum I referred to the threats of death which had been made by the miners who in this connection had named Messrs. Deringer and Peters, two American engineers working at

16 Not printed.
Catavi, and asked that the Bolivian Government take such additional steps as it might feel were necessary to safeguard the lives of these two men, their families, and other Americans at Catavi. In discussing this question Dr. Urriolagotia said the problem was an extremely difficult one and that he realized that in addition to the personal safety of the foreigners at the mines, it was also a threat to the mine production and was a very serious matter for Bolivia from both of these standpoints. He said that the Bolivian Government is giving most careful consideration to the steps which it should take to attain the desired result and that it was considering the question of sending in some troops but that he was not sure if this would be the right thing as it might be taken by the miners as an additional cause for dissatisfaction.

Yesterday some members of the Embassy visited Catavi in the course of visits to other places in the plane of the Air Attaché of the Embassy and spent the night there. They learned that the Government is contemplating sending in a cavalry regiment composed of experienced men scheduled to arrive at Catavi on the afternoon of Saturday, March 22, as a major design to forestall any further trouble or menaces against the foreign officials working there. Likewise I am informed by our officials who just returned from Catavi that this measure is very gratifying to Mr. Deringer, the Manager, and he feels that it will be accepted by the miners without any demonstration of hostility.

Respectfully yours,

Joseph Flack

824.6354/3-2047: Telegram

The Acting Secretary of State to the Embassy in Bolivia

CONFIDENTIAL US URGENT WASHINGTON, March 25, 1947—4 p. m.

1320. For Bugbee 17 from Karl Anderson.18 Embtel 1748, 20th.19 RFC made offer March 21, purchase 15,000 tons Bol tin to end this year at 76 cents.

Three weeks ago RFC offered price 74 cents. Since then Bol-Arg trade agreement signed whereby latter agrees purchase for 5 years minimum, 8,000 tons Bol tin annually and additional 12,000 tons annually if free from other contracts at price 76 cents for 1947.

After receipt latest RFC offer 76 cents Bol states impossible sell US more than 11 or 12,000 tons since cannot reduce Arg commitment below 8,000 tons. [Anderson.]

Acheson

17 Howard C. Bugbee, Attaché at the Embassy in Bolivia.
18 Karl L. Anderson, Assistant Chief, International Resources Division.
19 Not printed.
824.504/5-1947: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL LA PAZ, May 19, 1947—2 p. m.

481. ReEmbtel 478, May 17. Catavi Pulperías opened Saturday but operations not resumed as company felt insufficient guarantees to warrant return many top personnel fled to Oruro.

Effort made Sunday 6 a. m. evacuate remaining 30 top employees and families. Special train stopped by armed mob. Occupants arrested and held 2 hours by strikers before women and children permitted continue Oruro. Nine men including five Americans held virtual house arrest in homes and unable leave. Late last night managed to seek safety in army barracks. Company continuing efforts evacuate all but three who [chose] to remain.

Orders issued yesterday three additional regiments move into area cancelled last night. Hochanwe in disposition troops. Ministers Labor and Government travelling to Catavi today. Deringer to join party Oruro. No announcement yet made but Embassy believes company to go through with plan close property, pay off all workers and rehire approximately 85 percent workers on new basis. Possible one month delay resumption operations. Government attempting pressure to force immediate resumption. Directors adamant before special session Cabinet last evening and appeared determined.

FLACK

824.63/5-2247: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL US URGENT LA PAZ, May 22, 1947—2 p. m.

493. ReEmbgram 407, December 12, 1946. Request instructions position Embassy in event Bolivian Government seizes Patiños Catavi, El Allagua and Siglo Veinte properties tomorrow. Such action quite likely in view Government decree ordering resumption operations 7 a. m., tomorrow. Company may refuse since feels move would virtually present workers with property. In addition technical and administrative personnel including nationals as well as Americans, British, Argentines and Dutch almost unanimously refuse return Catavi without guarantees protection.

Government promises protection and guarantees but no steps yet taken against perpetrators incident Sunday morning (ReEmbtel 481,

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29 Not printed.
30 Alfredo Mendizabal and Luis Ponce Lozada, respectively.
May 19). Public statements Ministers Government and Labor indicate strong possibility intervention unless reopened as ordered.
Embassy anticipates request by company for assistance.

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824.63/5-2247: Telegram

*The Secretary of State to the Embassy in Bolivia*

304. Urteil 481, May 19 and 493, May 22. Present issue appears to be solely internal matter for determination between Patiño Mines and Bol Govt which if eventuates into seizure would not per se give grounds Emb intervention. Dept however, should be informed for its further consideration should subsequent developments result discriminatory treatment any Am interests involved or should it appear such interests would be denied just compensation.

Dept concerned safety Am citizens and assumes Bol Govt is taking effective measures protect their lives and property for which of course it has primary responsibility.

MARSHALL

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824.6354/11-347

*The Ambassador in Bolivia (Flack) to the Secretary of State*

RESTRICTED     LA PAZ, November 3, 1947.
No. 1841

Sir: I have the honor to transmit a translation of a letter received from Mr. Raúl Canedo Reyes, Director General of Mines, outlining his views on the forthcoming tin negotiations.

Mr. Canedo Reyes, on handing the reporting officer the letter, said that he wished to explain once again his apparently overly antagonistic attitude towards the RFC in Washington. He said that he has recently fought against members of the Ministry of Economy who wished to orient Bolivia completely towards Argentina. With this background, he feels he can do no less than be absolutely frank in his criticisms of the United States. However, he assured the reporting officer once again that his expressions concerning the RFC and the United States negotiators, who have in the past been unfair to Bolivia, should not be taken as any indication of an anti-American feeling. He

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* The domestic turmoil subsided and seizure was not effected.
* Not printed.
still believes that Bolivia’s economic future and independence must be based on cooperation with the United States.

This letter does not go into the question of the price which Bolivia will demand except where a vague reference is made to an appreciably increased price. Nevertheless, the general views contained therein furnish an indication of the mental attitude with which the Bolivian negotiators will be equipped when they go to Washington to draw up the contract for 1948. For this reason the letter is believed to be important.

It should be noted that Mr. Canedo Reyes states that Bolivia would like a long-term contract at prices guaranteeing Bolivian producers a steady even though small profit which would enable the country to increase production.

Another important point is the reference to economic imperialism, based on the general feeling that the United States, exercising a consumers’ monopoly, refuses to allow free play of the law of supply and demand which would mean a high price. However, when Far Eastern production again creates an over-abundant supply, the United States will allow this law to operate, driving prices down, and bringing about the ruin of Bolivia. There does seem to be some justification for this argument.

There is little doubt that Bolivia is unable to compete with other producers of tin in normal times. The question for the United States to consider is, therefore, that of the importance of preserving Bolivia’s capacity to produce. The Patiño and Aramayo groups can probably produce at almost any price. These two companies, even in their best years, produce approximately only 20,000 metric tons. Production by other companies depends largely on price—if the United States wants much more than 20,000 tons in the long run, it will have to pay higher prices. The Bolivian demand for $1.00 per pound is based on the assumption that such a price will revitalize the industry which has continued to deteriorate even though the demanded price of 76 cents was obtained during 1947. (The price was obtained only because of Argentina’s interference.) The steady deterioration during 1947 is taken as proof that the Bolivians not only were not demanding excessive prices for 1947, but underestimated their needs. Mr. Canedo Reyes points out that he fears the implications of the Argentine treaty, since the latter country is not interested in maintaining Bolivian production of a product for which it has no use, although it is committed to purchase it. The United States, on the other hand, should have great interest in maintaining a high level of production. He therefore asks that the over-all implications of tin supply be considered by the United States and that consideration be given to strategic and political factors dur-
ing the forthcoming negotiations in place of the previous cold business-
like effort to purchase tin at the lowest possible price.

Respectfully yours,

For the Ambassador:  
JOHN A. E. ORLOSKI  
Commercial Attaché

824.6354/12–447

Memorandum by the Ambassador to Bolivia (Flack)\textsuperscript{25} to the Assistant Secretary of State for Political Affairs (Armour)

CONFIDENTIAL  

[WASHINGTON,] December 4, 1947.

On November 3, the day before my departure from Bolivia, President Hertzog asked me to come to see him at the palace and, among other things, stated that he would like me to convey a message from him to President Truman about the price of tin in the new contract for 1948. While President Hertzog did not mention any price per pound which he may have had in mind, he said that he felt that Bolivia should have an adequate price for tin for the following reasons:

1. Bolivia is obliged to pay the high prices for the manufactured goods and foodstuffs which it must buy almost exclusively in the United States, and these prices are constantly increasing while the price of tin has been fixed by the contract with RFC.

2. An increase in the price would augment tin production in Bolivia and thus provide Bolivia with additional foreign exchange.

3. Increased production would likewise augment the national revenues which depend largely on tin which would enable the Government to pay salaries and maintain adequate administrative functions.

4. President Hertzog stated that due to the illiteracy of the Bolivian Indians and the ignorance of the laborers, Bolivia is a fertile field for Communism unless the economy of the country can be maintained on which a functioning democratic Government can rest. He said that, for a relatively small amount more each year for tin, Bolivia could accomplish all of these things and provide a stable nucleus in the southern part of South America. He considered this very important from the standpoint of Hemisphere defense and said that he felt that Bolivia was particularly open to possible infiltration of Communists and the agitation they bring with them.

5. He mentioned that, since the United States is spending such vast sums to check Communism in Europe and other places, he felt that the assistance which could be rendered to Bolivia's tin industry through an adequate price increase is fully justified and would act as insurance against possible rise of Communism in Bolivia, while stabilizing Bolivia's economy and democratic institutions.

\textsuperscript{25} The Ambassador returned to Washington on November 4 and appears to have remained there for several months.
I told President Hertzog that after my arrival in Washington I would endeavor to seek an interview with the President for the purpose of conveying to him the personal message above mentioned.

Joseph Flack

824.6354/11-1847

The Department of State to the Bolivian Embassy

Memorandum

Reference is made to the Memorandum dated November 18, 1947 from the Bolivian Embassy presented by His Excellency Señor don Ricardo Martinez-Vargas to Assistant Secretary of State, Mr. Norman Armour, on November 19, 1947.

The Memorandum referred to informal negotiations initiated with the Reconstruction Finance Corporation to determine the price and conditions of a new tin purchase contract to cover the year 1948. It states that the Government of Bolivia and the Bolivian tin producers consider the price that is to be fixed for 1948 should be substantially higher than that in the current contract. It further requests that the negotiations for the new contract be conducted in the City of La Paz. It explains that the reason for this latter request is that by holding negotiations in Bolivia representatives of the Government of the United States would have the opportunity to acquaint themselves by direct observation with the economic condition and the state of progress of the Bolivian tin mining industry as a basis for future agreements that may permit, for reciprocal benefit, a greater and closer collaboration between the United States and Bolivia.

It will be recalled that on the presentation of this Memorandum, Mr. Armour informed His Excellency Ambassador Martinez-Vargas that the questions raised in the Memorandum would be studied fully by this Government and in this respect that the Memorandum would be referred for consideration to the Reconstruction Finance Corporation, the Agency of this Government directly concerned in negotiations for the purchase of Bolivian tin concentrates.

The Department of State has just received from the Reconstruction Finance Corporation a communication submitting its views on the Memorandum under reference.

It is the opinion of the Reconstruction Finance Corporation that it would be inadvisable to conduct the negotiations in the City of La Paz. It is explained by that Agency that an acceptance of the Bolivian invitation would imply a willingness on the part of the Reconstruc-

26 Not printed.
tion Finance Corporation to establish a price based on production costs. This, in its view, would be contrary to its policy of seeking to purchase commodities for the industrial needs of the United States at the equivalent of a fair market price. It states that it has been concerned in the past with production costs only in purchases that had involved subsidies and that subsidy purchases have been discontinued. It explains, furthermore, that production costs are affected by labor regulations, social laws, taxation, and other conditions of a social or political nature and that it does not consider it is proper for representatives of the Reconstruction Finance Corporation to discuss such matters with a foreign government in connection with negotiations for a commercial contract. Finally it mentions that reliable cost data could be obtained only after extensive investigation which could not be completed before the present Bolivian tin contract expires.

With respect to the price to be decided upon for the contract for the year 1948, the Reconstruction Finance Corporation advises that it does not believe that the world price for tin should again be determined solely by its negotiations with the Bolivian tin producers as has been the case in the past few years; and that in this connection, the tin apparently available to the United States from Bolivia now represents a relatively small proportion of the estimated total tin procurement by the United States for the year 1948. The Reconstruction Finance Corporation states that it is informed that as a result of diversion to Argentina, Bolivia is in a position to give the Reconstruction Finance Corporation a firm commitment only for a portion of Bolivia’s 1948 tin concentrate production, estimated at nine to ten thousand long tons of fine tin. This amount is equivalent to only one-seventh of the total quantity of tin which the Reconstruction Finance Corporation expects to purchase in 1948 and only one-sixteenth of the estimated world production during the year 1948.

The Reconstruction Finance Corporation further states that by letter of October 8, 1947, it advised His Excellency, the Bolivian Ambassador, that it was prepared to discuss a tin purchase contract to cover the year 1948 and suggested that negotiations with the Bolivian tin producers be held at an early date so that the new contract could be concluded before the contract now in effect expired.

The Reconstruction Finance Corporation is prepared to continue negotiations for a new contract for the purchase of Bolivian tin concentrates for the year 1948.

WASHINGTON, December 5, 1947.

*27 Not printed.*
Memorandum by the Ambassador to Bolivia (Flack) 

CONFIDENTIAL

[WASHINGTON,] December 16, 1947.

I lunched with the Bolivian Ambassador today, and he told me informally that Mr. Jewett (RFC) informed him this morning of RFC's offer of $0.88 per pound for Bolivian tin. Mr. Jewett informed him at the same time that RFC, being a purchasing agency, could only conduct this transaction on a commercial basis and it could not admit political considerations into the question of price.

The Bolivian Ambassador mentioned that he understood $1.00 a pound was being talked about in London and said that he assumed I knew that the Bolivians had asked $1.07 per pound. In the light of what he understood to be the possible London price, he felt that $0.88 was very low and that the producers would not accept it. He said he felt "very depressed" about the prospect of negotiations, and he went on to say that he had hoped that they would be concluded by December 31, 1947 in order not to further complicate Bolivia’s tin relationship with Argentina.

Memorandum by the Assistant Chief of the Division of North and West Coast Affairs (Mills) 

RESTRICTED

[WASHINGTON,] December 31, 1947.

Mr. Jewett of Metals Reserve, RFC, telephoned this morning to inform me that late yesterday RFC reached an agreement with Bolivian producers for the purchase of Bolivian tin by the Corporation during the years 1948 and 1949.

The contract covers all non-Patiño tin except 8,000 tons which Bolivia may be required to sell to Argentina under the recently concluded trade agreement with that country. In 1949 RFC can exercise an option and cancel the contract on six months’ notice.

The base price is 90 cents a pound compared with 76 cents in the 1947 contract. There is a tie in with the RFC selling price for Grade A tin—the price paid the Bolivians will go up or down if the RFC selling price fluctuates. There is also included in the contract a deferred pricing arrangement under which the Bolivian producers can select

28 Addressed to Mr. Sheldon T. Mills, Chief of the Division of North and West Coast Affairs, and Mr. James Espy, Assistant Chief, and to Mr. Paul C. Daniels, Director of the Office of American Republic Affairs.
29 Addressed to Messrs. Daniels and Anderson and to Mr. Lyons of A-A.
the effective pricing date which cannot be before and must be within three months after the delivery date. Another provision reduces the “unit deduction” by one tenth or by 2.2 lbs. per ton. The effect of this as I understand it is that RFC pays for 2.2 lbs. more in each ton than under the 1947 contract.

There was almost a last minute hitch in the negotiations. The Bolivian producers and the RFC negotiators were congratulating each other on having concluded the agreement late yesterday afternoon. Jewett of RFC mentioned to the Bolivian Ambassador that as soon as he sent to the latter a signed copy of a draft letter regarding a guarantee of deliveries by the Bolivian Government, and the Ambassador replied, the agreement would be complete. The Ambassador replied that he was not happy about the terms and the Bolivian Government could not agree to them. Jewett was greatly surprised since the Bolivian Ambassador had had his draft letter for a week and had not raised any points with respect to it. Its provisions are the same as those which have been observed during the past seven years. He said if the Bolivian Ambassador meant that the Bolivian Government would not guarantee deliveries then the whole agreement fell to the ground. The Bolivian Ambassador talked vaguely about a free market and if higher prices were paid in such a market Bolivia should receive them.

This morning the Bolivian Ambassador told Jewett by telephone he would answer the letter guaranteeing deliveries and deliver his answer by 10:30.

At 11:15 Jewett called to say that the Bolivian Ambassador had informed him by telephone he had been delayed but he would deliver his letter of guarantee this afternoon. He authorized RFC to issue, at 11:30 as planned, the agreed press release and Jewett planned to do this.

Jewett said that agreement with the producers is complete while that with the Bolivian Government may be a little fuzzy, but probably it will do.

FINANCIAL AND TECHNICAL AID BY THE UNITED STATES FOR THE ECONOMIC DEVELOPMENT OF BOLIVIA

824.50/1-1747

The Ambassador in Bolivia (Flack) to the Secretary of State

No. 863

LA PAZ, January 17, 1947.

Sir: The General Manager of the Bolivian Development Corporation, Joseph C. McCaskill, has attempted to answer in a press statement published January 10, 1947, the various criticisms regarding its
activities which have recently been leveled against that Corporation, and I have the honor to transmit herewith a copy of the article as it appeared in the press and a translation thereof \(^{50}\) and to refer to Embassy’s despatch no. 664 of November 29, 1946, \(^{60}\) entitled “Transmitting Boletín Comercial for November Containing Article Criticizing Bolivian Development Corporation” calling attention to various phases of earlier criticism.

Mr. McCaskill called specific attention to the fact that the Corporation is operating with an exceedingly small capital. In the first place, he said, credits extended to the Corporation by the Export-Import Bank in Washington are restricted to the Cochabamba–Santa Cruz highway and to the petroleum program. In the latter instance, the Corporation serves merely to channel these credits from the bank to YPFB. The entire agricultural program and any other program the Corporation might undertake must be financed from funds provided by the Government of Bolivia. For this purpose the government in 1943–1944 made available to the Corporation §9,000,000. Mr. McCaskill stated that of these nine millions the government directed the Corporation to lend two millions to the Banco Agrícola, one million to the Dirección General de Riegos for the construction of the Angostura and Challapata projects, and one million to the Dirección General de Ferrocarriles for the purchase of locomotives and freight cars for the Villazon–Atocha railroad. In addition, the Export-Import Bank required that before it would make advances under the road credit, the Corporation must put three millions of its own funds into the highway. This was later reduced to two and one-half millions. Thus, six and one-half million dollars of the nine million were immediately obligated before the Corporation could get a program underway. Further, the Corporation always has a million dollars tied up in the highway awaiting reimbursement from the Export-Import Bank inasmuch as the bank does not advance money except for refunds for expenditures already incurred. This accounts for seven and one-half million of the nine million dollars while loans to municipal and private industry aimed at the development of the country have required another half million.

Nevertheless, the General Manager stated, the Corporation is attempting from its limited funds 1) to develop the Bení program designed to supply meat to La Paz and much needed merchandise to the population in the vicinity of Reyes; 2) to set up a tractor unit for the clearance of land of private owners; 3) to build a large sawmill at Espejo; 4) to develop a plantation for production of rice and other products at Chané; and 5) to carry out the preliminary work necessary

\(^{50}\) Not printed.
for the installation of the sugar mill at Saavedra. In addition, a small sum has also been set aside to aid in the development of the agricultural experimental stations under an agreement with the Department of Agriculture of the United States and the Ministry of Agriculture of Bolivia.

Mr. McCaskill stated that most of BDC’s undertakings have proceeded at a much slower pace than contemplated. A major reason for this, he stated, has been the difficulty of obtaining machinery from the United States. As a result, progress on the Cochabamba–Santa Cruz highway has been slow but progress has been satisfactory in the last several months but even yet a considerable quantity of the machinery and equipment on order has not yet arrived.

In connection with the cost of the Cochabamba–Santa Cruz highway, Mr. McCaskill stated, that officials of the Export-Import Bank were not shocked when the Bolivian Ambassador in Washington together with the President and General Manager of the BDC laid before the bank an application for an additional credit to insure the completion of the road. As a result of increased materials and labor costs, the original estimate has been necessarily moved upward but in this connection the Public Roads Administration in Washington indicated that the unit costs to date on the highway were not out of line with similar costs in road construction in the United States and in other Latin American countries. The original estimate of twelve million dollars has now been moved up to between eighteen and twenty million dollars, although the Corporation expects that unit costs will be lowered as additional equipment arrives and that perhaps the ultimate cost may be kept below the new estimates.

Respectfully yours,

For the Ambassador:

JOHN A. E. ORLOSKI
Assistant Commercial Attaché

824.51/2-1947: Telegram

The Secretary of State to the Embassy in Bolivia

WASHINGTON, February 19, 1947—7 p. m.

96. Stambaugh from Martin. Board of Bank formally approved additional credit to BDC for YPFB program on Feb. 19. Following statement for simultaneous release Washington and La Paz has been

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* Ricardo Martinez Vargas.
* Guillermo Gutierrez.
* Lynn V. Stambaugh, Representative of the Export-Import Bank.
* William McChesney Martin, President and Chairman of the Board, Export-Import Bank.
agreed upon with Mariaca and will be released here on Feb 25 upon word from you.

"Wm. McC. Martin Jr. Chairman Board Directors Export-Import Bank today announced approval by Bank of increase $3 million in an existing credit to Bolivian Development Corporation for financing petroleum development program to be conducted by Yacimientos Petrolíferos Fiscales Bolivianos (the Bolivian government petroleum entity generally known as YPFB). New credit resulted from negotiations with Eximbank by Guillermo Gutierrez President Bolivian Development Corporation and Guillermo Mariaca General Manager YPFB.

Mr. Martin recalled that Eximbank authorized a credit $15,500,000 to BDC in Mar 1942. Of this amount $5,500,000 was allocated to petroleum development program and remainder to highway construction. Under terms this allocation Bank has to date advanced to Development Corporation $1 million for drilling operations in the Camiri oil fields and Corporation has in turn advanced this amount to YPFB to finance those operations. There have been no actual advances for construction costs and purchases in connection with pipeline and refinery since advances for these purposes were conditioned on reasonable assurance of a minimum stabilized production in Camiri oil fields, satisfactory plans and specifications and cost estimates, and satisfactory construction contracts with approved US engineering firms.

Bolivian and private funds equivalent to $5,650,000 have also been allocated to petroleum development program thus making together with increase $3 million in Eximbank credit a total of $14,150,000 for program as a whole. Funds to be supplied by Bank amounting now to $8,500,000 will be used to finance drilling program in Camiri fields, a part of cost of constructing pipeline from Camiri to Cochabamba, and construction of refinery at Cochabamba. Any additional funds required for completion of approved program are to be supplied from sources other than Bank and arrangements for provision of such funds have been made.

Petroleum development program in Bolivia which Bank is assisting in financing will result in production petroleum products required by Bolivian economy and is expected to produce substantial surplus revenues beginning in 1949. In order carry forward Cochabamba-Santa Cruz roadbuilding program to which Bank has already allocated $10,000,000 under the 1942 credit in favor of BDC it has been agreed that Bank funds advanced to YPFB through Bolivian Development Program will be repaid to Corporation from anticipated surplus revenues at rate to be determined by Bank but in any event not less than $3 million in each of years 1949 and 1950 and that these repayments will be dedicated by Corporation pursuant to its understanding with Bank to completion of highway program.

In announcing new credit to Bolivia for oil development Mr. Martin noted that YPFB has announced a policy subject to ratification by Bolivian Congress of opening oil resources in Chaco region to development by private capital."

[Martin]

MARSHALL
La Paz, May 20, 1947—6 p. m.

486. Export-Import Bank from Kinnear. In conference today between President, Vice President, Minister Economy, Ambassador Flack and myself, Bolivian Government officially requested a change in the petroleum program by reducing Cochabamba refinery to 3,000 barrel capacity and increasing Sucre refinery to 2,000 or 3,000 barrel capacity with reforming plant. Government will send an official application to Export-Import Bank along this line. I explained to President that present program had been approved by all concerned and present contracts between entities involved were drawn on this basis and that proposed change must be considered through regular channels by Board Directors Export-Import Bank and that inauguration petroleum program would thereby be delayed considerably. If revised petroleum program should be approved by Export-Import Bank, Bolivian Government offers to provide through Banco Central funds necessary to meet possible deficiencies in Cochabamba-Santa Cruz highway construction. I explained to the President I had no authority to discuss this matter and formal application therefore will be sent to Export-Import Bank. The proposed change is not favored by some officials YPFB. Have informed YPFB and Corporación that all consideration drafts of contract will naturally be suspended pending consideration by Export-Import Bank of new Bolivian Government proposal.

President reiterated that he wanted increase in Sucre capacity to balance distribution and avoid one-sided economic development in Bolivia adding that this also presented important political aspect for stability of government.

Leaving La Paz May 21 for Guayaquil, Ecuador. Letter follows reporting on Bolivian matters. Reference your telegram May 19, believe Guamote-Tambo highway contract obligates Jones to complete highway between the two towns. May be able offer comments after conference with Ecuadoran Government. [Kinnear.]

Flack

Edwin R. Kinnear, Representative of the Export-Import Bank.
Enrique Hertzog, Mamerto Urriolagoitia, German Costas, and Joseph Flack, respectively.
Not printed.
J. A. Jones Construction Company.
The Ambassador in Bolivia (Flack) to the Secretary of State

No. 1396  

_La Paz, May 28, 1947._

_Sir: As a result of the extended criticisms leveled against the Bolivian Development Corporation's various projects and the resulting Senate Investigation concerning BDC's activities in general, the need for restudying and revising the McGraw-Warren contract for construction of the Cochabamba-Santa Cruz highway was particularly pointed up and I have the honor to report that the representatives of the Export-Import Bank, of the Public Roads Administration, of Warren Brothers, of F. H. McGraw Company and of McGraw-Warren, who were requested to come to Bolivia to aid in the attempt to resolve the problems in which they were concerned, have arrived in La Paz, participated in a series of meetings with the Corporation, and have left the country convinced that the basis for general agreement regarding the various differences has been established._

_It was recommended that a new contract be drawn up containing the following points:_

1. Fixed overall fee of $33,000 per kilometer.
2. Total cost under the contract to be 13.9 million dollars including engineering, construction, purchasing costs and contractor's fees.
3. A penalty is provided if the contractor's actual costs exceed by five percent the fixed fee. The penalty is to be 25% of the cost above the tolerance but not greater than one-third of the contractor's fee.
4. All engineering work and all purchases are to be made by the contractor.
5. The purchase fee will be a flat $1,500 per month instead of the former 3% commission.
6. The engineering fee will be $700,000.
7. A bonus will be paid the contractor if total costs are held 5% below the fixed amount.
8. BDC will assign an auditor to keep it informed of actual monthly costs.
9. If from audits it is apparent that the contractor cannot comply with the above terms, the contract can be cancelled.
10. The contract will be submitted for Export-Import Bank approval.
11. Through incorporation in the new contract of Public Roads Administration (PRA) specifications for the highway and periodic Board inspections the Corporation can be assured that there will be no sacrifice in quality.

The Corporation had decided to go ahead with its discussions of the contract with the contractors in the face of the Senate investigation of
BDC and the Chamber of Deputies investigation specifically of the highway contract. It was generally felt that in view of the fact that the President had appointed a new Board and had placed his confidence in that Board, that, therefore, the recommendations of the Commission, when made known, would be submitted for the Corporation’s consideration, but that a specific directive would not be issued binding the Corporation to do certain things which would necessitate the rehashing of its agreement with the contractor. On Sunday, May 25th, the Committee’s preliminary report appeared in the press and summarized the details of the investigation that it had made. A copy of this report as it appeared in the press is attached herewith.\textsuperscript{40} In its conclusion the report states that work up to the present time on the Cochabamba–Santa Cruz highway had been performed on a basis of a “project” rather than a contract which could be abandoned, if necessary, or modified on the basis of experience; that in drawing up a new contract the Corporation bear in mind its experience with the other contracting work on the highway, at much lower prices, which had already been done; and that the Corporation ought to calculate the excess costs so far under the contract, considering the other construction on the road, for the purpose of accurately gauging remaining costs and their financing.

The Corporation, however, had no intention of waiting for Congressional action to come to it. It therefore requested a meeting with the Chamber of Deputies Commission investigating the McGraw-Warren contract, and in the session with that Commission, yesterday, announced what had been its conviction in the whole problem and that it had recommended the signing of a new contract. The Chamber of Deputies Commission, which had announced the results of its investigation yesterday, a press clipping of which is attached, said that since the Senate Investigating Commission as well as its own had practically denounced the highway contract, such action, in its estimation, had practically the significance of law, and that the contract ought to be rescinded. The President of BDC then informed the Commission that the opinion of the Corporation was contrary to its views in the matter, stating that “we cannot go against our convictions,” and adding “I await the arrival of the President of the Republic to resolve this problem.”

The President of BDC then went on to point out the reasons which guided the Corporation to take the decision it has taken. A copy of a press clipping from \textit{Ultima Hora} of May 27, concerning the meeting of the Corporation and the Chamber of Deputies Committee is attached.\textsuperscript{40}

\textsuperscript{40} Not reprinted.
It would appear that the disadvantages of rescinding the highway contract outweigh the advantages, particularly in view of the proposed changes. It is therefore believed that General Bilbao, President of BDC, will be able to point this up to the President of the Republic and obtain his approval for continuing the work with McGraw-Warren under a new contract embodying the above modifications.

Respectfully yours,

For the Ambassador:

JOHN A. E. ORLOSKI
Commercial Attaché

811.516 Export-Import Bank/5-2047: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, May 29, 1947—3 p. m.

313. Eximbank on May 21 gave Bolivian Emb and BDC representative for transmission Corp and Bolivian Govt for review drafts of (1) amendment to Eximbank Corp credit agreement increasing credit $3 million and (2) letter allocating $8.5 million to petroleum program and establishing terms and conditions thereof. Additional $3 million credit and allocation to petroleum program is as indicated in allocation letter based entirely on petroleum program as presented to Eximbank Dec 1946. Bank disturbed by situation reported urtel 486 May 20 and agrees that Kinnear’s statement that proposed changes in petroleum program would require complete reexamination program by Bank. This would involve considerable delay and uncertainty re outcome.

Kinnear letter May 13 from La Paz 41 informs Eximbank that YPFB Board proposes change YPFB by-laws shifting authority from manager to Board and to employ large number political appointees. If YPFB Board still plans these actions Bank would like you in whatever manner you judge best indicate emphatically to Bolivian Govt that Bank seriously objects to these steps and that they would impair Eximbank confidence in YPFB ability to conduct petroleum program. Please point out that at instance of Eximbank loan agreement between Corp and YPFB provided that manager YPFB must have full authority.

For your information and communication to Bolivian Govt at your discretion after consultation with Mariaca Eximbank fully supports position taken by Mariaca and Bank confidence in YPFB based on ability and authority Mariaca as manager. Bank desires be informed developments this matter earliest.

MARSHALL

41 Not printed.
CONFIDENTIAL US URGENT

LA PAZ, June 18, 1947—noon.

580. During past week pressure from Sucre politicians for change in petroleum program was intensified. Consequently I reiterated to Foreign Minister 42 Exim Bank’s views as furnished in Dept’s 313 of May 29. (Refer mytel 553 of June 10).43 In this connection I also had friendly discussion yesterday morning with President Hertzog, who promised that matter would be immediately resolved. Mariaca informed me this morning that at subsequent meeting with Fomento,44 YPFB officials and Minister of Economy, President stated that original programs approved would be adhered to and ordered that documents in this connection be prepared promptest possible. This appears to settle whole question.

However, to satisfy Sucre’s aspirations, Bolivian Government may later seek separately to add to its facilities.

Dept’s 313 has been most useful since it enabled me to continue discussions without requesting additional instructions.

Repeated to Lima for Sundt.45

FLACK

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CONFIDENTIAL US URGENT

LA PAZ, July 18, 1947—7 p. m.

678. Situation with regard to highway and McGraw-Warren contract has changed little since my 642, July 7.46

On July 15, I handed Foreign Minister two copies Exim Bank’s memorandum to Bolivian Ambassador, Washington, of June 30, which he had translated and presented to Cabinet yesterday. In conversation today with Guachalla, he said government had abandoned insistence on unit price but would seek to retain services PRA in connection with plans. He is optimistic that agreement will be reached with McGraw-Warren.

However, financial difficulties corporation caused by nonpayment by Bolivian Government of its obligations to corporation amounting to $3,125,000 have complicated situation and produced published letter from president BDC to Minister Economy reiterating his previous

42 Luis Fernando Guachalla.
43 Not printed.
44 Corporación Boliviana de Fomento.
45 Olaf F. Sundt, Petroleum Attaché assigned to Santiago, Lima, and La Paz.
statement to Hertzog and setting forth whole situation while calling
upon the government to pay amount due lacking which corporation's
activities will have to terminate August 1. Although Minister Fi-
nance 46 is openly opposed payment this amount and is publicly rec-
ommending termination of Cochabamba–Santa Cruz highway work,
Minister Economy told me today he strongly favors continuation of
work as does Foreign Minister Guachalla.

Guachalla at Foreign Office this afternoon referred to oral state-
ments here by Kinnear and others that Exim Bank would favorably
consider financing highway work from exhaustion BDC funds to
time when petroleum program may produce funds for highway ter-
mination. Guachalla asked me to ascertain for him from Exim Bank
whether more concrete assurance in principle than the Kinnear state-
ment might be secured now from Exim Bank that upon previous in-
auguration payment government's present obligations to BDC and
satisfactory amended contract with McGraw–Warren, Exim Bank
would take care of financing in the gap expected to arise in May, 1948,
even with payment to BDC of government's debt.

I consider this most critical situation for corporation and related
highway construction and I recommend most strongly that Exim
Bank send me most specific statement possible about financing high-
way completion which I may convey to Foreign Minister for Bolivian
Government on question above set forth. Guachalla and Costas share
my view of helpfulness such step now.

Embassy informed by BDC that Holloway and Durso 47 may arrive
shortly to complete negotiations re McGraw–Warren contract. Con-
sequently I request urgent reply re Exim Bank's position.

FLACK

S11516 Export-Import Bank/7-1847: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, July 25, 1947—8 p. m.

433. For Flack from Eximbank. Reurtel 678, July 18 Bolivian Gov-
ernment payment $3,125,000 to Corporation is commitment contingent
to credit agreement which was confirmed during negotiations for new
petroleum program. Eximbank cannot understand why this commit-
ment has not been fulfilled particularly because when Gutierrez was in
Washington negotiating for new petroleum program and discussion of
highway credit assurances were repeated that Bolivian Government

46 José Alcides Molina.
47 Francis K. Holloway, Assistant to the President of Warren Brothers, and
Albert Durso, Vice President of F. H. McGraw Company.
would comply with this obligation. Refer your despatch No. 570, Nov 12, 1946, Page 2.

Please reiterate to Minister Guachalla following: (1) Eximbank has informed Bolivian Amb here and Kinnear informed Corporation Board and Bolivian Govt officials there that Bank is interested in completion highway in shortest possible time and at reasonable cost and that Bank will consider application for funds to bridge gap between possible exhaustion Eximbank and Bolivian funds and beginning repayments by YPFB under Petroleum program; (2) Eximbank would not entertain such application until such time as funds now available including Bolivian Government’s agreed contribution $3,125,000 near exhaustion and additional requirements if any are known; (3) it will of course also be necessary for Corporation to arrange satisfactory contract for effective and earliest possible completion engineering and construction highway; (4) Amendatory credit agreement must also be signed, but as yet Bank has not received pertinent documents, the delay of which is postponing start petroleum program and availability YPFB repayments to corporation for use on highway; (5) a flat commitment by Bank for additional funds does not appear to be necessary at this time. [Eximbank.]

MARSHALL

811.516 Export-Import Bank/8-547

Memorandum by Mr. James Espy of the Division of North and West Coast Affairs to the Assistant Secretary of State for Political Affairs (Armour)

REstricted

[WASHINGTON], August 5, 1947.

The purpose of the call on you this morning by the Bolivian Ambassador, Señor Don Ricardo Martinez Vargas, is to bring up the subject of a request by the Bolivian Government, through a note received by our Ambassador at La Paz dated April 28, 1947, for a loan of $30,000,000 and the services of an American engineer for the construction of a railway that would run from La Paz over the Andean cordillera down into the eastern lowlands of Bolivia. It is estimated that the construction would take about ten years, and the Bolivian Government is prepared to pay 3½% interest on the loan, with amortization at 5% per annum.

The reasons presented why the Bolivian Government is so anxious to obtain the loan from the United States Government are (1) the need of the railway to connect the consuming centers of the altiplano with the cattle and agricultural areas of eastern Bolivia; (2) the

49 Not printed.
Bolivian Government does not consider it prudent that neighboring countries collaborate in executing the project, since its construction under such conditions would mean the participation of these countries in the exploitation of Bolivia's agricultural and cattle wealth and Bolivia desires to exploit solely for its own account; (3) the railway is considered by Bolivia as a national aspiration.

With the knowledge and approval of the Export-Import Bank, the note in question has not, up till now, been referred officially to the Bank for its views. In June past Ambassador Martinez Vargas was informed orally that it was still under study and that we were seeking more information. The reason for this action was that difficulties have been experienced with the Bolivian Government in arranging for satisfactory execution of the construction work on the Cochabamba–Santa Cruz highway, which is being financed by the Bank. It was felt that this problem should be resolved first of all; but at the same time, there were also considerations of the international relations of Bolivia, involving its neighboring countries, such as Argentina and Brazil. You may recall that a comprehensive economic treaty was signed between Argentina and Bolivia last March, but it has not thus far been ratified by either country.

Observations on the economic angles to the present application for a loan may be set forth as follows:

(a) There is a good deal of justification for the railway’s eventually being constructed.

(b) However, there is much doubt whether it is an economically sound project because of its high cost and of the difficult terrain through which it will have to be constructed.

(c) The highway, which is already well under way, should be much more economical to complete; and after the highway has opened up the area, a railway could follow.

(d) Most important of all, Bolivia has not carried out satisfactory arrangements for the completion of the Cochabamba–Santa Cruz highway to be financed by the Export-Import Bank. This artery of communication is much more important to the whole country of Bolivia for the integration of the nation’s economy than the La Paz–Beni railway, which latter is primarily of interest to La Paz.

824.154/8–1147: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL US URGENT LA PAZ, August 11, 1947—11 a. m.

729. For Exim Bank. Deptel 441, August 1.\(^50\) In brief informal conversation at airport this morning Minister of Economy Costas, who

\(^{50}\) Not printed.
will also act as Minister for Foreign Affairs during Guachalla’s absence, latter inquired whether Exim Bank would insist upon McGraw–Warren completing work Cochabamba–Santa Cruz highway. I told Minister my opinion was Exim Bank had at no time insisted upon McGraw–Warren but at same time bank felt that this firm had gained experience and with appropriate guarantees should be able to complete the highway. He said there is very strong congressional opposition to McGraw–Warren. However, I told the Minister I would make specific inquiry and inform him bank’s views as soon as possible. He intimated that the govt intended to make its payment to the corporation, details of which I shall obtain from him in forthcoming formal conversation.

FLACK

824.154/8–1347: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED US URGENT LA PAZ, August 13, 1947—4 p. m.

737. Cabinet yesterday resolved basically problems of BDC highway contract, Minister Costas informed me last night. Govt to fulfill obligation 3.1 million commitment and authorize renegotiation contract cost plus basis. Minister said further discussion in Cabinet required establish working detail which will be accomplished tomorrow. Indications are that McGraw–Warren contract will be continued.

FLACK

824.154/8–1147: Telegram

The Acting Secretary of State to the Embassy in Bolivia

CONFIDENTIAL WASHINGTON, August 19, 1947—3 p. m.

475. For Flack from Eximbank. Urtsels 726 and 729. Bank believes it timely to reaffirm its position regarding highway. Bank at no time has insisted upon McGraw–Warren in preference to other United States contractors, but feels changing contractors at present stage of highway job and without full justification may well cause confusion, delay and additional cost. Bank felt decision of Corporation Board on revised contract would give McGraw–Warren necessary controls and at same time hold contractor to rigid progress schedule and cost estimate, and would provide for inspection by P.R.A. If under revised contract McGraw–Warren proves incapable a change might then be

* Not printed.
justified. Eximbank feels immediate action should be taken by Government and Corporation Board to avoid further costly delay in carrying highway to completion. Request you consult President Hertzog to determine Government’s immediate course of action. Following confidential. Bank feels possibly any further financing under credit should be suspended until these matters are settled. Advise if in your opinion such action would tend to hasten a solution. [Eximbank.]

LOVETT

811.516 Export-Import Bank/8-2147: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL  US URGENT   LA PAZ, August 21, 1947—6 p. m.

755. For Export-Import Bank. Deptels’ 474 82 and 475, August 18 and 19. Mourning yesterday for deceased Deputy with closure offices prevented seeing President until today. Statements made to me by President today confirmed Bolivian Ambassador’s statements your 474 with addition of consideration noted my 745, August 15 82 represent inability Bolivia to cover dollars 2 million Central Bank guaranteed.

I today reiterated to President Hertzog Bank’s position as stated your 475 and left with him memorandum in Spanish. He agreed with all of the Bank’s views and said that in spite of all that had been said in Congress the Govt had agreed in principle to continue with McGraw—Warren and make the payment of $1,125,000 and that the Central Bank would guarantee the additional $2,000,000 previously mentioned. He added that to confirm this he would call a Cabinet meeting tomorrow which would resolve officially the government’s viewpoint after which I will again cable.

President stressed Bolivia’s very difficult foreign exchange situation and the necessity of the government to obtain dollars 2 million loan or other sources guaranteed by Central Bank to cover this amount, and asked our and Export-Import Bank’s assistance. In view of my knowledge very difficult Bolivian foreign exchange position, I recommend most strongly Dept and Export-Import Bank most favorable consideration this appeal by President Hertzog.

In view of President’s full agreement with Export-Import Bank viewpoints, and his cordially, I feel that it would be most unwise and paralyzing to use suspension of other credits to attempt to hasten solution already decided in principle and will be officially resolved tomorrow.

In delivering to Foreign Minister Export-Import Bank’s previous

82 Not printed.
expression hopes [for?] solution [of?] matter prior to signature of petroleum program credit, I stressed to Foreign Minister that this was in no sense a threat but merely the frank view of the Export-Import Bank on an important urgent business matter.

FLACK

§11.516 Export-Import Bank:8-2247 : Telegram

The Acting Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, August 22, 1947—5 p. m.

480. For Flack from Eximbank. Amendatory credit agreement covering petroleum program signed today following assurances from Bolivian Amb that Bol Govt had advised it will promptly meet its obligations to Corporación and satisfactorily resolve highway contract with McGraw–Warren. Advance for starting petroleum program will be made soon. Eximbank confirmed to Bol Amb that Bank now ready to consider application from Corporación for interim credit to meet deficiency highway funds under terms as follows. 1, the application for interim credit not to be in excess of four and one-half million dollars. 2, term of interim credit not to exceed five years. 3, that Bol Govt make available two million dollars now obligated or its equivalent in local currency in monthly installments satisfactory to the Bank and during life of interim credit. 4, repayment of interim credit by Corporación to be made out of repayments by Y.P.F.B. for petroleum loan. 5, that highway engineering and construction be prosecuted vigorously under revised contract satisfactory to Bank. Airmail letter follows. Bank appreciates your cooperation and timely cables. Please advise when Government makes payment one million one hundred twenty-five thousand to Corporación for highway and final agreement highway contract. [Eximbank.]

LOVEITT

§24.51/8-2147 : Airgram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, September 12, 1947.

A–217. Your despatch no. 1320, May 7, 1947. Referring to Foreign Office note of April 28, 1947 requesting opinion this government on extending $30 million credit and technical assistance in the La Paz–Beni Railway construction project the following is for your information and use at your discretion in replying to the note.

In the absence of a formal application accompanied by complete

52 Not printed.
technical details, the Eximbank has no comment, since it is the Bank's policy not to give preliminary or informal indications or opinions that it will give favorable consideration to loan applications.

The Department does not desire to encourage the filing of an application with the Eximbank, and does not now look with favor upon US public financing of this project because: (1) since organization of World Bank which has the function of long-range development financing, Eximbank applications are generally confined to exporter's credits or to the financing of purchases in U.S. incident to projects which may be considered of short- or medium-term nature; (2) there does not appear to be real economic justification commensurate with the expense involved; and (3) the U.S. Railway Mission (headed by James A. Dehlsen, 1942–46) recommended against its construction.

However, should Bolivia find ways and means to go ahead with this project and then realize a need of technical assistance, this government will give consideration to such requests as Bolivia may make respecting such needs.

MARSHALL

811.516 Export-Import Bank/11–2047: Airgram

The Chargé in Bolivia (Galbraith) to the Secretary of State

LA PAZ, November 20, 1947.


As previously reported, no real progress has been made as a result of conversations held so far, and the Bolivian Development Corporation in the first part of last week stated that it was not overly sanguine that a satisfactory arrangement could be reached. Developments came to a head on Friday, November 14, when the Corporate Directorate informed the Embassy that it had practically reached its limits and saw no possibilities other than complete cancellation of the present arrangements with McGraw–Warren Corporation. The same afternoon, however, the atmosphere improved slightly as the representatives took the stand that rather than terminate conversations, they would carry the BDC counter-views direct to their home office and would return shortly with specific instructions which would then demonstrate either definite acceptance or rejection of the Corporation's desired objectives.

The President of the Corporation, General Bilbao, told the press on November 15, that one of the new demands of the contractors was an increase of their fee from $280,000 to double that amount. He stated that under no conditions could the Corporation accede to such a request
and further indicated that unless 99 percent of the Corporation's 
counter-proposal to the contractors was accepted by the contractors, 
there could be no contract.

It is now apparent that the Corporation will not concede anything 
beyond its last proposal to the contractors, and its views in this respect 
appear to have the backing of the entire country. In his regular weekly 
interview, the President stated to the Press on November 18 that 
conversations with the contractors and the Corporation had reached an 
impasse, but it was not possible to state categorically that the contract 
would not be renegotiated, in view of the return of the contractors' 
representatives to the United States to discuss the possibility of accept-
ing the conditions laid down by the Corporation. That the government 
no longer feared the spectre of a no-contract was evidenced by the 
President's further statements in which he said that in the event the 
contractors refuse to accede to the terms of the Corporation, which 
already have been conciliated, the government must find another 
American enterprise or even a national company suitable to the Export-
Import Bank to conclude the project. He added that it would be 
interesting should Bolivian engineers and technicians have the oppor-
tunity of demonstrating their capacity and training in this field by 
bringing the program to a successful conclusion.

Today's press announced the resignation of the Corporation's Vice-
President, Roger D. Barneville. This resignation has been confirmed 
by the Corporation and the Corporation indicates that it was submitted 
because of the personal desire of Barneville to return to his previous 
undertaking involving construction programs under the Argentine-
Bolivian Mixed Commission. Corporation spokesmen added that the 
resignation was not in any way connected with, or in any way intended 
to influence, present negotiations with McGraw-Warren Corporation.

Meanwhile, work on the highway continues and the next step in 
conversations will be developed upon the return of Messrs. Holloway 
and Williamson,54 who are expected again from the United States 
within the next few days.

Galbraith

811.516 Export-Import Bank/12-1647; Telegram

The Chargé in Bolivia (Galbraith) to the Secretary of State

CONFIDENTIAL

La Paz, December 16, 1947—7 p. m.

982. For Export-Import Bank from Kinnear and Holbrook.55 At 
interview with President this afternoon he expressed opinion that

55 Robert G. Holbrook, Representative of the Export-Import Bank.
cancellation McGraw-Warren contract by BDC despite agreement described ourtel 977, December 13 was result misunderstanding which he regretted. To replace McGraw-Warren president proposed formation a Bolivian corporation to be composed both Bolivian and American technicians at same time accepting any controls bank might wish exercise. We did not comment on this but do not agree.

YPFB decree although signed in form which caused concern expressed ourtel 978 is, on President's categorical promise over objection Minister Economy, to be replaced by decree which avoids political interference confirming present by-laws and management. President reaffirmed promise to Stambaugh to keep political interference out of both BDC and YPFB.

President requested we remain until something worked out. We agreed this saying we would ask another interview as soon as information received viewpoints bank and we had opportunity effect necessary consultations. Consequently reply ourtel 976 urgently needed.

Minister Economy asked whether bank objects to removing two BDC members from board YPFB. President thought this would be desirable since it would represent a saving but said it is a point on which he will not insist. We replied this should be discussed next interview.

Since these are two of four members YPFB board supporting manager Mariaca our opinion is bank must disapprove this proposal.

Considering dangers illustrated by proposal in paragraph immediately preceding we strongly recommend Bank and State Department despite existing contrary policy consider advisability in case Bolivia reverting to participation American members board directors BDC and YPFB. We request authority discuss this proposal with President. [Kinnear and Holbrook.]

GALBRAITH

S24.154/12–1947

The Chargé in Bolivia (Galbraith) to the Secretary of State

[Excerpts]

RESTRICTED

La Paz, December 19, 1947.

No. 1959

Sir: With further reference to this Embassy's various despatches concerning the construction of the Cochabamba–Santa Cruz highway, I have the honor to now report that on December 12 President of the

*Not printed.*
Bolivian Development Corporation, Bernardino Bilbao Rioja, notified the McGraw–Warren Company that the BDC was exercising its right to cancel the contract between the two parties upon 90 days notice, and was hereby issuing that notice. A copy of the resolution issued by the Corporation in this connection is attached herewith.

In the preamble to the resolution it is stated that the Bolivian Development Corporation has satisfied all of the obligations agreed upon with McGraw–Warren Company, but that the contractor has not lived up to the stipulations of the contract signed July 16, 1945. The resolution further states that the contract is being rescinded for the following reasons: (1) because of reported violations by the contractor of the stipulations agreed on; (2) because the average cost per kilometer has exceeded the calculated cost in a very appreciable proportion; (3) because the time which the contractor has taken so far for the performance of work completed is excessive and progress is slow and absolutely unsatisfactory; and (4) the rate of progress of the company would not permit the termination of the highway within the 3½ years period stipulated in the contract.

The action of President Bilbao, therefore, on December 12, was surprising only because of the Government’s previous promise to withhold definitive action as above outlined. Construed by the Ex-Im Bank representatives here as a breach of the understanding between them and the Corporation, these representatives promptly protested the failure of the Corporation to consult with them.

When President Hertzog was queried on this point, he stated that he regretted the hasty action on the part of the Government and attributed it to a misunderstanding. The views on this development of Corporation Director, René Ballivian, however, are to the effect that the Government learned from supposedly trustworthy sources that the contractor had decided to issue, within the following 24 hours, a notice on the part of McGraw–Warren Company requesting a cancellation of the contract, supposedly because of ineffectual cooperation which the contractor was receiving in Bolivia. Ballivian indicated that such a measure on the part of the contractor, in view of the general opinion and criticism of the McGraw–Warren Company, would be most embarrassing to the Bolivian Government and lead uninformed people to believe that the major lack of performance was in reality attributable to the Government rather than to the contractor.

Respectfully yours,

For the Chargé d’Affaires ad interim:

JOHN A. E. ORLOSKI
Commercial Attaché
The Chargé in Bolivia (Galbraith) to the Secretary of State

CONFIDENTIAL

LA PAZ, December 22, 1947—6 p.m.

991. For Martin from Kinnear and Holbrook. Urteil 627, December 19.88

1. In our opinion present disintegration BDC organization including weak and incomplete directorate and impossible Bolivian manager Knaudt, BDC Cochabamba office, makes complete reorganization BDC sine qua non solution highway problem. Problem law of 1947 making it possible government to interfere with Mariaca management YPFB and to turn both BDC and YPFB into political footballs must be settled at same time. Also BDC informs us changes in by-laws are contemplated and that BDC in dire financial straits since $2,000,000 Banco Central fund now authorized is only sufficient meet present BDC obligations including $248,000 interest to Exim Bank on December 31. Galbraith and Orloski agree with us that determination all Bank’s views and conditions it desires to impose in order to resolve foregoing and other basic problems must precede discussion highway problem. Also we told President Hertzog that we would cover problem as a whole and feel Bank should proceed that basis.

2. In view foregoing and difficulties inherent attempts explain adequately by cable to Exim Bank our position here, our opinions and our reasons, we request authorization to advise President Bolivia, Exim Bank has ordered us return Washington for consultation and that Bank thereafter will advise Bolivian Government of decisions reached. The only apparent alternative would be for the Bank to reach decision on and instruct us regarding following points which we believe must be resolved before discussing any of Bank’s views with the President:

(a) Modification law September 20, 1947 as condition any substantial increase loan CBF in order remove grave doubts as to future subjugation CBF and YPFB political pressure and interference.

(b) Appointment Exim Bank nominees to directorates CBF and YPFB (see recommendation our cable 982).

(c) Requirement Bolivian Government undertake that no laws or decrees or changes articles incorporation thereof directly or indirectly affecting CBF-YPFB will be promulgated and no changes or re-terminations key Bolivian or US CBF-YPFB personnel will be effected or continued without consultation with and acquiescence of Exim Bank.

(d) Appointment Exim Bank resident special representative; and

(e) Cancellation SAODC well-drilling contract with YPFB. This procedure presumably would require consultation with State and would entail considerable delay. Since such delay would not only be

88 Not printed.
embarrassing for us but would weaken Bank’s position we strongly urge our recall. 69

3. We reiterate our conviction any expression Exim Bank views to Bolivia now or in foreseeable future must cover whole problem. [Kinnear and Holbrook]

GALBRAITH

824.154/12-3147: Airgram

The Chargé in Bolivia (Galbraith) to the Secretary of State

RESTRICTED

LA PAZ, December 31, 1947.

A-407. Vice Consul Dorr, Cochabamba, telephoned Embassy yesterday stating that Bolivian Development Corporation there had obtained a legal order prohibiting Mr. Durso to leave Cochabamba and, secondly, ordering him within a two weeks’ period beginning December 22nd to render complete accounts. According Dorr, Durso stated he has actually seen this order, but that he has been informed orally by Knaudt (Cochabamba superintendent for Corporation) that the order has been amended to read Republic of Bolivia rather than City of Cochabamba.

Durso informed Dorr that 2 weeks would be sufficient time solely for the preparation of an inventory, and that the rendition of complete accounts would take approximately 5 months. Dorr added that, if the order as presently standing is carried to its logical conclusion, Durso will be jailed upon the expiration of the 2 weeks. Durso said that the legal order places him in an impossible situation and that if it is not changed, he will resign as legal representative of McGraw–Warren Company, thereby leaving no legal representative against whom the order could be made operative. Durso further informed Dorr that it is not and never has been his intention to abandon Bolivia until he has arranged McGraw–Warren affairs, but that he cannot do this with the above-mentioned 2 weeks’ period.

Embassy, also yesterday, discussed matter informally with General Bilbao in La Paz, who stated that the above information was not in accordance with the facts. The General stated (1) that it was the Minister of Government who issued an order that the McGraw–Warren representative be prevented from leaving Bolivia until full accounts are rendered to the Corporation, inasmuch as a definite winding up with McGraw–Warren is desired as soon as possible and the Corporation is of the opinion that the legal provisions of the contract have

69 In telegram 628, December 24, 2 p. m., to the Embassy in Bolivia, the acquiescence of the Export-Import Bank in the position here taken by its representatives was indicated (811.516 Export-Import Bank/12-2247).
not been lived up to by McGraw-Warren and that therefore such action is necessary; (2) that the 2 weeks' period mentioned above refers solely to the submission of inventory data and that this period was fixed because Durso stated that inventory could be completed in 2 weeks if five Americans and one Bolivian were put back on the Corporation's payroll to do this job. The General stated that authorization to hire the additional workers had been granted but for only a 2 weeks' period. The General added that, if the inventory is not completed in 2 weeks, an extension for the individuals hired should be requested; and (3) the General categorically stated that the jailing of Durso is not contemplated in any event and that it is recognized that the completion of the accounting records could not be made in such a short time. The General further stated that no time limit has been made to Durso either for the preparation of the inventory or for the completion of the accounting records, and that such a move was never intended.

The action on the part of the Bolivian Government in taking Ministry-level steps in preventing the departure of the McGraw-Warren representative appears to be extreme, in that it could be accomplished merely through refusal of an exit visa, and points up the strained relations between the BDC and the McGraw-Warren Company brought to a head by the rescission of the highway contract. General Bilbao declared that the McGraw-Warren Company is under obligation to present an inventory of machinery and equipment and to submit proper accounting records of its activities as soon as possible so that the future of the program could be planned without delay. He added that if the McGraw-Warren Company chooses to send to Bolivia any other representative, fully empowered to act for it, to complete the windup of its activities, the Government would not insist on Durso remaining after the arrival of such official but that it would insist on some representative remaining here until the windup is completed.

Please inform Eximbank.

GALBRAITH

NEGOTIATIONS FOR AN AIR TRANSPORT AGREEMENT BETWEEN THE UNITED STATES AND BOLIVIA

711.2427/1-3047: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

La Paz, January 30, 1947—3 p. m.

99. Concerning proposed bilateral air transport agreement Captain Pol, Director of Civil Aeronautics in Ministry of Defense, states that Ministry determined to amend operations contract between Panagra
and Bolivian Government signed in May 1943 and not scheduled to terminate before 1967, before signing bilateral agreement with Article 8 included as proposed in United States draft. As operations contract contains no clause providing for its termination or amendment before date of expiration Captain Pol stated that Government's plan for amendment is to be as follows:

1. The Government will issue a decree directing Ministry of Defense to effect desired modifications in Panagra contract;
2. Ministry of Defense armed with the decree will approach Panagra and attempt to work out new text for contract incorporating desired modifications;
3. If agreement is reached new contract will be concluded; but if Panagra cannot find basis for agreement with government the latter will issue another decree stating that present contract is terminated due to impossibility of carrying out previous decree calling for its modification. Then Bolivia will agree to sign agreement with Article 8 intact. Pol stated desirability of issuing the first decree before Panagra informed so that latter's officials will not have time to use their influence with government Ministers to prevent its issuance. Embassy desires views of Department in matter and instructions in light of this new situation, especially if informal views of Pol are embodied in government's views soon expected through Foreign Office.

FLACK

711.2427/2-147: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

L A P A Z , February 1, 1947—10 a.m.

106. ReEmbltel 101, January 31. Jess B. Bennett, special representative Braniff Airways in La Paz to conclude operations contract with Bolivian Govt, attempting to put pressure on Embassy regarding revision Panagra's 1943 operations contract. He points out Panagra not obligated by present contract to share airport facilities in La Paz and other points with other airlines so until this is revised Braniff contract to be concluded with gov't is virtually worthless, as Panagra can deny use of its facilities. He points to fact that Panagra guaranteed cabotage privileges until contract expiration in 1967 and that contract provides for controlled frequencies—both facts he asserts are in direct violation international principles subscribed to by US. He states our Government should be ashamed to sign bilateral agreement permitting con-

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60 This article stipulated that existing rights and concessions granted to airlines would continue in force.
61 Not printed.
tinuance of a contract embodying those violations. He is convinced Bolivian Government will not sign bilateral agreement with Article 8 intact before revision Panagra contract. He told Embassy it is its responsibility to help Braniff, an airline certificated by US Government, to obtain satisfactory contract for operation thru Bolivia which can be effected only by proper revision of Panagra contract. He states his complete agreement with Captain Pol and other Ministry Defense authorities on necessity of this revision and thinks Embassy should share his point of view and should agitate strongly with Dept for instructions to support contract revision before government expected to sign agreement with Article 8 intact. Suggest urgent consultation with Braniff in US as Bennett clearly attempting to force issue to head and putting Embassy into position which may become difficult unless it can receive further clarifying instructions on these issues. Therefore request such views and instructions as may help to clarify this situation.

FLACK

711.2427/2-147: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, February 10, 1947—noon.

77. Dept concerned lest activities Pol and Bennett reported urtels 99 Jan 30, 101 Jan 31 62 and 106 Feb 1 result in Bolivian Govt taking action to deprive Panagra its legal rights under 1943 contract. Campbell, Vice Pres Panagra, has informed Dept his Co prepared make agreements with any certificated US carrier operating over its certificated routes for use of Panagra facilities on reasonable basis subject availability such facilities and services after Panagra needs met. He states Braniff has not sought any arrangement with Panagra for use facilities in Bolivia. No approach to Panagra has been made by Bolivian Govt re modification 1943 contract. However, Panagra has already obtained approval Bolivian Govt elimination service to Uyuni and contemplates approaching Bolivian Govt next few days looking to elimination services over Santa Cruz—Concepción—San Ignacio—San José sector and over Cochabamba—Sucre—Valle Grande—Santa Cruz sector, thus eliminating service to Sucre, Valle Grande, Concepción, San Ignacio and San José. Panagra expects obtain compensation from Bolivia or LAB for its investments at these points. Dept has advised Campbell such action should be taken soon and believes if taken prior to bilateral would improve situation from both Panagra and Dept

62 Telegram 101 not printed.
point of view. You should make clear to Bolivian Govt Dept desires Article 8 left in agreement and US could not be a party to action such as Pol suggested. You should also make clear to Bennett while Dept recognizes his right to his opinion US position, it cannot tolerate any action by him, particularly representations to Bolivian officials, which impedes carrying out Govt's objectives. Dept's approval given to Braniff for Bennett proceeding to Bolivia based on understanding Bennett's activities would be subject advice and direction of Embassy. Fact that contract grants Panagra cabotage rights not inconsistent US Govt position which recognizes right each state to deal with cabotage as it sees fit. Restrictions on frequencies mentioned by Bennett do not appear real to Dept in view full reading of contract which permits modifications by Panagra upon notice to Bolivian Govt. Braniff has departed US on survey tour but Dept will not hesitate requesting him recall Bennett if latter unwilling conform Embassy's directions. Advise Dept urgently any developments.

MARSHALL

724.3527/2-1247: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

RESTRICTED

LA PAZ, February 12, 1947—5 p. m.

137. Argentine Embassy has submitted for consideration of Bolivian Government proposed Argentine–Bolivian bilateral air transport agreement. Captain Pol, Director Civil Aeronautics Ministry Defense, informed Embassy that text of agreement generally similar to that of proposed US–Bolivia agreement except that there is a provision for control of frequencies. Embassy will attempt to secure copy of agreement's text from Foreign Office for forwarding to Department.

Repeated Buenos Aires.

Flack

724.3527/2-1247: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, February 18, 1947—7 p. m.

92. Embtel 137 Feb 10. Presentation Argentine draft makes desirable expeditious conclusion Air Transport Agreement. Dept anxious lest Argentine restrictive principles be accepted in view effect not only on Bolivia negotiations but on US-Argentine, US-Chilean and others where conflicting views being examined. Dept's position re Art 8 un-

*Thomas E. Braniff, head of Braniff International Airways.
changed, and that Art essential. Request Emb use all efforts expedite conclusion of agreement.

Art 6 should be revised to read as follows: "Each contracting party reserves the right to withhold or revoke a certificate or permit of an airline designated by the other party in the event it is not satisfied that substantial ownership and effective control of such airline are vested in nationals of the other contracting party or in case of failure, etc."

Amendment is reversion to original draft submitted and follows Chicago standard form 64 and is definitely preferred by Dept. Negotiations should not be sacrificed to obtain new Art 6, but Dept should be informed if it appears impossible obtain this wording. Dept feels since Bolivia does not plan operate air services now objection unlikely. Keep Dept currently advised status Bolivian–Argentine negotiations.

MARSHALL

711.2427/12-346: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL          WASHINGTON, February 28, 1947—7 p. m.
US URGENT

113. Following rewording US route bilateral air transport agreement desired in view new Braniff operating contract Bolivia. Emb will note this combination two prior routes generally supplies greater flexibility than old description. Change follows:

"The United States of America and/or the Canal Zone to La Paz, Oruro, Cochabamba, Sucre, Valle Grande, Santa Cruz, Concepción, San Ignacio, San José, Robore, Puerto Suarez, Uyuni and beyond Bolivia."

Greater latitude in points beyond Bolivia desired because possible delay obtaining rights Arg and Chile and Uruguay may be actually terminal of line. Dept believes Pol's statement (Embdes 675 Dec 3, 1946 65) that only three traffic points would be granted not conclusive, Panagra representatives presently negotiating sale various airports and facilities in Bolivia. CAB's action Uyuni route is only one year's suspension and points indicated are still generally desired. Dept will advise further developments and concessions on points which might be made but would appreciate Embs views as to what traffic points,

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64 Type of air transport agreement formulated from the agreements reached in the Chicago Conference on International Civil Aviation of November–December, 1944. It provided for the exchange of air rights between two countries to be exercised by designated airlines, for equality of treatment with respect to airport charges, customs and inspection fees, for mutual recognition of rules and laws relating to entry, immigration, passports, licenses of personnel, etc.

65 Not printed.
if any, should be given up. Activity Arg negotiators elsewhere South America has been generally unfavorable to pending negotiations. Therefore urge continued pressure as Emb sees proper to obtain agreement at earliest possible date.

MARSHALL

711.2427/4-2847: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

La Paz, April 28, 1947—5 p. m.

406. Late today Foreign Minister Urriolagoitia told me at Foreign Office that as result of meeting with officials of Ministry Defense, including Minister and officials handling civil aviation, with President on Saturday it was decided that Article 8 proposed bilateral air agreement is after all unacceptable because in their opinion it violates Bolivia's sovereignty by freezing existing contract with Panagra. They feel that if Article 8 is retained they would be committing themselves to us as a govt not to modify Panagra's contract for its duration. There is no article in Panagra's contract providing for procedure of modification.

Furthermore, Foreign Minister said, with reference to section 1 of annex that Bolivia could only grant three stopping points for international traffic, that is La Paz, Cochabamba, Santa Cruz since they consider they could not grant such rights at airports not at present equipped for this traffic. For bargaining purposes we think we could renounce Concepción, San Ignacio, San José and Valle Grande not of value for international service.

Minister said Bolivian counterdraft incorporating above-mentioned changes would be in my hands tomorrow when I will telegraph any other minor changes suggested and transmit text by air.

I told Minister that in event my Govt was adamant in regard to retention of Article 8 I hoped that Bolivia might later present a modified version of that article acceptable to it and that with regard to the three international points of call I would inform my govt and obtain its early views. He intimated that with present Bolivian modifications agreement might be signed at once.

On basis of oral info obtained by Embassy it appears that Captain Pol, Chief Civil Aeronautics Ministry Defense is endeavoring bring about modification of Panagra contract because he feels that we are so interested in signing bilateral agreement that we would exert pressure on Panagra to agree to revising conflict [contract] with Bolivia.

66 Enrique Hertzog.
This has been constantly contradicted by all of us in conversation with Bolivian officials and his conclusions are accordingly erroneous. Embassy also understands that Bolivian pressure to modify Panagra contract might lead to President bringing this question to Bolivian Supreme Court.

Repeated Buenos Aires for Bell.

FLACK

810.79611 PAA/6-1047

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, June 10, 1947.

No. 1429

Sir: I have the honor to refer to the Embassy’s despatch no. 1195 of April 9, 1947,67 concerning difficulties between Panagra and the Ministry of Defense in the Bolivian Government over the 1943 operations contract between those two parties, and to report further on this subject. As reported in the above-mentioned despatch, the Minister of Defense at the time, Mr. Nestor Guillén, decided to allow Panagra to suspend its Uyuni diagonal route to Buenos Aires for one month (April 4–May 4) and to continue its service of increased frequencies to Arequipa and Puerto Suárez for the same period, with the understanding that in the meanwhile Panagra and the Bolivian Government would commence discussions with a view to the modification of Panagra’s contract.

On April 18, Mr. Ernesto Araníbar, Manager of Grace & Company in Bolivia, which acts as Panagra’s agent in this country, directed a letter to the Ministry of Defense stating that in Panagra’s opinion no violation of the contract had been committed by that company when it increased its frequencies to Arequipa and to Puerto Suarez in eastern Bolivia, Panagra being at liberty under the contract to modify its frequencies as it feels traffic requirements so merit upon prior notification to the Bolivian Government. The letter also pointed out that as Panagra had decided not to suspend the diagonal route—this removed the Bolivian Government’s objection on that point, and therefore, in Panagra’s opinion, everything was in correct order as far as the contract was concerned and there would be no need for further discussions. No answer to this letter has as yet been received from the Ministry of Defense, nor have any further efforts been made on the part of the latter to institute negotiations with Panagra for the modification of its contract, as had been indicated by former Minister Guil-

67 Not printed.
lén on April 2. This is no doubt due in part to the absence of Captain Germán Pol at the ICAO Convention in Montreal and to the assumption of office by a new Minister of Defense, Eduardo Montes y Montes.

It is Panagra’s present policy in connection with its contract to continue the status quo and to do nothing towards the contract’s modification, at least for as long a time as negotiations for the United States–Bolivia Air Transport Agreement continue. This has been made clear to the Embassy in discussions with Mr. Douglas Campbell and Mr. Thomas Kirkland, Vice Presidents of Panagra, and with Mr. Aranibar. Panagra does not wish consideration of its contract tied in with negotiations over the bilateral agreement through deliberate efforts on the part of the Bolivian Government, and it feels that its position will be considerably strengthened and that the air will be cleared when the bilateral agreement is signed first with the inclusion of an article providing for the continuance of existing contracts. Mr. Aranibar has on a number of occasions shown his keen interest in a prompt conclusion in the signing of the bilateral agreement, with the inclusion of such an article as mentioned above. The Embassy has furthermore received the impression from discussions with these officials that Panagra does not desire to modify its contract anyway, with the possible exception of clarifying certain terms to the mutual understanding of both parties.

It might be mentioned, finally, that there are indications that the anti-Panagra attitude of Captain Pol is losing influence in the Bolivian Government, and that such influential elements as the Foreign Office and General Felipe Rivera, Commander in Chief of the Bolivian Armed Forces, are dissatisfied with Pol and will aid in the establishment of a situation more favorable to Panagra’s interests and to the obtaining of a prompt and favorable conclusion of the bilateral agreement. Minister Montes’ opinions in this matter are not yet known.

Respectfully yours,

For the Ambassador:  
John A. E. Orloski  
Commercial Attaché

810.79611 PAA/7-2547: Telegram  
The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL  
WASHINGTON, July 25, 1947—8 p. m.

434. Campbell of Panagra departed for South America July 24. Will arrive Bolivia about Aug 1 and will keep self in contact with Emb reEmbml 607 June 25.89 Panagra position is present contract is

89 Not printed.
satisfactory and no occasion to make new one. However, horse-
trading between Panagra and Bolivian Govt may result in exchang-
ing elimination Uyuni for disposal certain cabotage points, Dept
believes. Pol sent Dept unofficially copy proposed new contract
Panagra–Bolivia. Proposal would eliminate cabotage entirely after
3 years and has other objectionable features. Dept position is that
present contract is binding and only mutually satisfactory accord
between parties thereto can amend same. Campbell claims to have
evidence conclusively proving no breach of contract by Panagra. Pol’s
communication did not contain evidence Panagra acts of bad faith
reDept’s memo of conversation June 10 70 as promised, and Dept is
replying personally unofficially to Pol stating its regret at failure of
Pol to keep commitment and denying existence of basis for US Govt
intervening in regard to new contract. Dept believes Emb should
continue attitude re bilateral that same is not necessary at this time
as contract rights are satisfactory and US not interested in any bi-
lateral except on US terms including standard Art 8.

Dept requests you delicately determine whether Montes and Hert-
zog support Pol’s position, without creating impression in their minds
that Pol is not looked on with favor by US. Please keep Dept advised.

MARSHALL

810.79611 PAA/7–2847: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

La Paz, July 28, 1947—6 p. m.

698. ReDeptel 434, July 25. Have been in constant close touch with
Aranibar, Panagra’s representative. We both feel sentiment of govern-
ment is changing concerning contract and conclusion bilateral air
agreement.

General Riviera, commander-in-chief armed forces wrote Jorge
Zalles, New York, July 15, 1947, stating that Captain Pol, who at-
tended aeronautical congress in Canada, had no other orders than for
that congress and at no time should have offered comment on Panagra’s
services in Bolivia. As previously reported to Department, Foreign
Office deeply resented Pol’s activities in Washington. Discussed bi-
lateral with Foreign Minister today. He informed me he wished to
study matter further and would call me perhaps by the end of the week
for further discussion. I stressed our view incorporation of Article 8
in eventual agreement and our opinion that proposed bilateral and
Panagra contract entirely separate and that any change in the Panagra

70 Not printed.
contract should be solely by mutual agreement without any intervention by US Government.

Aranibar feels it undesirable for Campbell to arrive until question of bilateral has been decided pro or con, and will accordingly regulate Campbell’s plans.

FLACK

S10.79611 PAA/9-947

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

La Paz, September 9, 1947.
No. 1704

SIR: I have the honor to refer to the Embassy’s despatch No. 1666 of August 28, 1947, and to other communications between the Embassy and the Department concerning difficulties over the Panagra contract with the Bolivian Government, and in this connection to forward the Embassy’s translation of a letter to Panagra from the Minister of Defense, Eduardo Montes, authorizing Panagra to suspend for a period of 90 days its flight along the “diagonal” route La Paz–Oruro–Uyuni–Salta. Mr. Ernesto Aranibar, manager of Grace and Company which represents Panagra in Bolivia, confidentially gave me a copy of the original letter in Spanish.

It is the Embassy’s understanding that despite previous indications to the contrary, Capt. Germán Pol, Director of Civil Aeronautics in the Ministry of Defense, has maintained strong influence with, as well as the support of Minister Montes and of President Hertzog himself in connection with matters of Bolivian civil aviation and aviation policy. Captain Pol’s policy in connection with Panagra’s operation contract has evidently received approval from his superiors in the Bolivian Government. That policy is to force an issue in the dispute over Panagra’s contract in order to cause the cancellation or modification thereof. Apparently the Ministry of Defense will insist after the termination of the 90-day period referred to in Minister Montes’s letter that Panagra reduce the frequency of several of its routes and reinstate the Uyuni diagonal route, in accordance with that Ministry’s interpretation of the wording of the Panagra contract. If Panagra should be willing to amend the contract to clarify the wording of the clauses whose interpretation is in dispute, the Ministry would use that opportunity to demand revision of other important clauses such as those affecting Panagra’s sabotage rights and governmental subsidy. If Panagra should decline to agree to modification of the contract and should continue to follow its own interpretation of the contract by not

7 Not printed.
8 See Embassy despatch No. 1195 of April 9, 1947 and No. 1429 of June 10, 1947, concerning this subject. [Footnote in the original; despatch 1195, not printed.]
reducing its frequencies and by not reinstating the Uyuni route, the Ministry of Defense would carry the matter to the Bolivian Supreme Court claiming violation of the contract by Panagra and perhaps demanding cancellation of the same. Mr. Douglas Campbell, Vice-president of Panagra, who has recently been visiting La Paz, informed me prior to his departure on September 6 for New York that he would not be opposed to such a course, but would study it further.

There is also indication that the Government desires to take over Panagra’s airport installations and facilities in the near future to be operated by a government controlled airport administration company for the use of all airlines. In this connection, another desirable amendment in the Panagra contract from the Ministry of Defense point of view would be the inclusion of a stipulation to the effect that the Government may take over these facilities from Panagra at any time it so desires, rather than at the contract’s termination in 1967, as is presently provided for. Bolivian officials are careful to point out that the matter of Panagra’s facilities will be dealt with within the frame of the law, and Panagra would be rendered due compensation should the transfer occur. However, it appears doubtful that the Bolivian Government has the financial resources or the technicians with which to be able to take over Panagra’s facilities in the near future.

Mr. Aranibar and Mr. Douglas Campbell have kept the Embassy closely informed on the status of the situation and on their viewpoint. They have indicated that it will be Panagra’s policy to resist any moves for the modification of the contract, to accept the change authorized for the 90-day period by Minister Montes, thus suspending the Uyuni flight and continuing with present frequencies, but at the end of that time to continue without further change, hoping that the natural inertia of events and that hesitation on the part of the Bolivian Government to take opposing action will serve to allow Panagra to continue more or less permanently its service as during the 90-day period. If the Ministry of Defense continues to press the issue, however, Mr. Aranibar informed the Embassy that he would prefer to have the whole matter brought before the Supreme Court, feeling that there was a good possibility that the Court would support Panagra’s point of view and the Panagra interpretation of the contract. Concerning modification of the contract itself, Mr. Aranibar stated that it was undesirable to encourage or cooperate with such a step, as among other reasons, it would establish a bad precedent by which each new political regime in Bolivia would feel justified in seeking further changes in the contract according to its own point of view, which would destroy the sense of the contract’s legality and permanency, and would cause the present difficulties to be endured all over again in the future.
Panagra officials have informed the Embassy that the Uyuni diagonal flight will be discontinued in the near future and that in its place direct service along the route La Paz–Arica–Antofagasta will be instituted, with passengers for Buenos Aires continuing there via Santiago, although later on an Antofagasta–Salta–Buenos Aires flight may be commenced. The new route represents a slight departure from the route authorized in the Minister's letter for the 90-day period, inasmuch as Oruro is omitted, although Panagra will continue to serve the latter point on its flight to Santa Cruz and eastern Bolivia.

Respectfully yours,

JOSEPH FLACK

711.2427/11-647

The Chargé in Bolivia (Galbraith) to the Secretary of State

CONFIDENTIAL

La Paz, November 6, 1947.

No. 1847

Sir: I have the honor to refer to recent communications between the Embassy and the Department concerning the proposed United States–Bolivian Bilateral Air Transport Agreement . . .

The Embassy would like to review for the information of the Department the confused course of the negotiations connected with the Bilateral which has taken place during the past month. On Monday, September 29th, Mr. Alvarado, Bolivian Subsecretary for Foreign Affairs, informed the Ambassador that his Government was prepared to sign our version of the Bilateral intact with the exception of the change of one word in Article 8. The Embassy received prompt telegraphic approval from the Department for this change, and it seemed on October 2nd that the Agreement could be and would be signed in La Paz early the following week. On October 2, the Ambassador forwarded to the Foreign Ministry his full powers to conclude the Agreement. However, on Friday, October 3, Mr. Alvarado informed two officers of the Embassy that the Bolivian Government desired to introduce a further change in the text of the Annex of the Agreement reducing the number of airports in Bolivia for international traffic from 12 to 6, which information was communicated to the Department by the Embassy’s telegram No. 858, of October 3.²² Mr. Alvarado reiterated at that point his desire that the Agreement be signed before the Ambassador's departure from La Paz, then scheduled for October 14, and expressed his confidence that if the Embassy received prompt approval from Washington for the desired reduction in traffic points, the Agreement could be signed by October 8 or 9th.

²² Not printed.
The reason why the Embassy had not been notified previously of this important change in the Agreement as desired by the Bolivian Government was apparently that the cabinet ministers in determining the Bolivian viewpoint during a meeting on September 27, had considered only the main part of the Agreement, but not the so-called technical points of the Annex (including the airports specified) as it was felt that the position on these latter points was the proper responsibility of Captain Germán Pol, Chief of Civil Aeronautics in the Ministry of Defense, who happened to be unavoidably absent from that meeting. It was apparently after Mr. Alvarado had informed the Ambassador on September 29 about his Government’s acceptance of our version of the Bilateral, that Captain Pol entered the scene to remind Mr. Alvarado that the “technical” viewpoint of the Bolivian Government as had been previously brought out, was that a reduction was necessary in the 12 airports specified in the United States proposal. Mr. Alvarado then agreed to this viewpoint, and informed the Embassy accordingly on October 3, as related above.

Then, on October 6th, an official of the Foreign Office notified an officer of the Embassy that he, Mr. Alvarado, and others were at the moment going over our Spanish text of the Bilateral, and that the presence of the Embassy officer was desired so that the Bolivian officials might ascertain our point of view on some changes that they were introducing into the above-mentioned Spanish text. What happened in that meeting is described in the enclosed memorandum

preparing by the officer concerned. It seemed apparent that this meeting represented the first occasion on which the necessary responsible officials in the Bolivian Government were going over our proposed text for the Bilateral in a careful and coordinative fashion. As a result of the meeting, the Embassy was presented on the following day with a revised text in Spanish representing the Bolivian proposed version of the Bilateral. Although the Foreign Office maintained that (except for the matter of the traffic points) this text was in general different from ours only in the matter of grammar and ways of expression, the Embassy detected a number of points where, in its opinion, there was a clear difference in meaning and in substance. Subsequent meetings were held between an officer of the Embassy and officials of the Foreign Office in an attempt to reconcile these differences between ours and their versions of the Spanish text, or, more important, between the meaning of our English text and of their Spanish text, as a result of which the Foreign Office agreed to make several changes in their Spanish text so as to bring it into closer harmony with ours.

On October 9, the Embassy received the Department’s telegram

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83 Not printed.
No. 540 of the same date, stating the Department's unwillingness to conclude the Agreement unless all twelve traffic points were included. The Ambassador informed Mr. Alvarado of this development on the next day, stating that although an impasse had apparently been reached at this late date, he would be glad to take up personally this matter of the traffic points with the Department while he was in Washington, with a view to effecting, if possible, a conciliation of the Bolivian and United States viewpoints. Mr. Alvarado agreed with this procedure, and stated that he was confident that such a conciliation could be attained and that the Agreement could be concluded upon the Ambassador's return to Bolivia early in 1948.

The Embassy has the impression that as the Bolivian Government has already given in in our favor on most of the points of difference in the text of the Bilateral, that Government now more or less feels it a point of national honor and pride to stand up for its desired reduction in traffic points, so that on one point at least it may effect a concession in its behalf on the part of the United States Government.

The Embassy would therefore appreciate receiving from the Department its final position on the texts of the Bilateral Agreement as submitted herewith, including what specific changes, if any, must be introduced before the United States Government is willing to sign the Agreement. It is believed that after the Ambassador, who is now en route to the United States, has had a chance to discuss personally with the Department the remaining differences between the Bolivian and United States texts, the Department will be able to state a final position which will lead promptly either to the signing of the Agreement or to the definite termination of negotiations. If the present Bolivian counterdraft meets with the Department's approval, it was the Ambassador's recommendation that full powers be telegraphed to the Chief of the Mission enabling him to sign the Agreement.

Respectfully yours,

WILLARD GALBRAITH

711.2427/12-447

The Chargé in Bolivia (Galbraith) to the Secretary of State

CONFIDENTIAL

LA PAZ, December 4, 1947.
No. 1916

Sir: I have the honor to refer to the Embassy's despatch no. 1847 of November 6, 1947, which forwarded to the Department the text of the United States-Bolivian Bilateral Air Transport Agreement as pro-

^4 Not printed.
posed by the Bolivian Government, and to enclose a copy in Spanish, along with the Embassy's translation thereof, of a confidential Memorandum dated November 28, 1947,²⁵ which the Bolivian Ministry for Foreign Affairs sent to the Embassy explaining the position of the Bolivian Government with regard to the points for international air traffic in Bolivia designated in the Annex of the Bilateral Agreement.

This Memorandum comes as the result of conversations between Ambassador Flack and Bolivian Sub-secretary Alvarado, and of a letter that the former sent to Mr. Alvarado on October 30, 1947, before his departure from Bolivia, expressing the opinion that a memorandum prepared by the Foreign Office concerning the airport traffic points referred to above would be of considerable benefit to him when he took the matter up with the appropriate authorities of the United States Government in Washington with a view to arriving at a fuller understanding of the viewpoints of the respective Governments. The matter of the number of traffic points designated in the Annex of the Bilateral Air Agreement remains the one outstanding point of difference between the texts for the Agreement as proposed by the United States and Bolivian Governments respectively.

It will be noted that the reason stated in the enclosed Foreign Office Memorandum for Bolivia's desire to reduce the twelve Bolivian traffic points as proposed by the United States to six, lies first of all in the need for protecting the national airline, Lloyd Aereo Boliviano, from the competition of foreign airlines. Furthermore, the memorandum points out, the reduction is necessary because Bolivia has only a very limited number of airports possessing the facilities and organization capable of handling regular international air traffic. It is stated that it would have been best to limit the airports designated in the Bilateral Agreement to three, i.e. La Paz, Cochabamba, and Santa Cruz, which alone have adequate facilities for handling international traffic, but that the Bolivian Government, desiring to offer further proof of its deference and cordiality towards the United States Government, has agreed to concede the six airports specified in its draft of the Bilateral Agreement, which the Embassy forwarded by the despatch of November 6 previously referred to, these airports being La Paz, Oruro, Cochabamba, Sucre, Santa Cruz and Roboré.

With regard to the position assumed up to the present by the Department in this matter, namely that the 12 airports must be included in the Bilateral Agreement so as to protect the monetary value of the installations that Panagra presently possesses at those airports, the Embassy may point out that Panagra's interests at those airports are protected by its operations contract with the Bolivian

²⁵ Not printed.
Government, and that Panagra officials in La Paz themselves do not see the necessity for including all 12 points in the Bilateral. International airlines of the United States would probably be interested only in handling traffic at La Paz, Cochabamba, Santa Cruz and possibly Oruro. The concern expressed by the Department that Captain Pol, with his anti-Panagra attitude, would force the price down on Panagra's installations at airports not mentioned in the Bilateral Agreement would appear to be dispelled, at least in part, by the fact that Captain Pol is no longer connected with Civil Aeronautics in Bolivia and that he appears to have lost out in his obstructionist policy connected with Panagra and the Bilateral Agreement.

It is, therefore, respectfully requested that the enclosed Memorandum of the Bolivian Foreign Ministry be referred to Ambassador Flack and to the appropriate officials of the Department for the use it may have in the final deliberations in Washington over the possibility of concluding the Bilateral Air Agreement.

Respectfully yours,

WILLARD GALBRAITH

[ Negotiations continued intermittently in 1948. Bolivia withdrew its opposition to Article 8, and the United States reduced its requirement of 12 traffic points to 6. The agreement was signed September 29, 1948, and is considered to have gone into effect on November 4, 1948.]

CONTINUING EFFORTS TO ELIMINATE AXIS ECONOMIC INTERESTS IN BOLIVIA 76

740.24112A/10-947

The Ambassador in Bolivia (Flack) to the Bolivian Minister for Foreign Affairs and Worship (Etho) 77

REstricted

No. 444

La Paz, October 8, 1947.

EXCELLENcy: I have the honor, under instructions of my Government, to invite Your Excellency's kind attention to the reported plan of the Bolivian Government which would lift altogether the restrictions imposed on the nine spearhead firms which were included in the Proclaimed List of Certain Blocked Nationals.

I have informed my Government of this proposed action and in

76 For documentation on the persistence of Axis interests in 1946, see Foreign Relations, 1946, vol. xi, pp. 404 ff.
77 Copy transmitted to the Department in despatch 1787, October 9, from La Paz, not printed.
reply. I have been instructed to convey to Your Excellency's Government my Government's open disappointment in this proposed measure which it feels ignores the activities of these firms during the recent war.

Furthermore, it is the view of my Government that the present Bolivian Government is bound by the obligations undertaken by Bolivia's acceptance of the Chapultepec Resolutions on enemy property. Bolivia has in the past itself invoked the Resolutions adopted there in notes addressed to other American Governments in the protection of its own interests.

As Your Excellency will recall, members of this Embassy have been collaborating with officials of the Bolivian Government for a number of years in an attempt to resolve the Replacement Program. Following the Bolivian revolution of July 21, 1946, the new Bolivian Government was again approached under instructions of the Department of State with the hope that it would be possible to institute an effective Replacement Program to be applied against firms and persons whose actions during the recent World War were prejudicial to the United Nations' cause. At that time the Embassy was again assured that the Bolivian Government would implement its various international obligations on this matter. After a further series of discussions between representatives of this Embassy, the Foreign Office, and the Minister of National Economy, a satisfactory program was agreed upon; namely that the Bolivian Government for economic reasons should lift her restrictions imposed on all Axis firms with the exception of the following nine:

Juan Elsner y Cia. (Velasco y Cia.)
Ferretería Findel
Kyllman, Bauer y Cia. (Gumucio y Cia.)
Quidde y Cia.
Gustavo Schomann y Cia.
Sickinger y Cia.
Schweitzer y Cia.
Zeller, Mozer y Cia.
Fábrica de Conservas de Jorge Stege

It was further agreed that definite action would be taken regarding these remaining nine firms in order to eliminate the influences whose activities had been detrimental to the interests of the United Nations.

Upon the publication of the regulatory resolution of the Economic Defense Board to be applied to the decree of February 12, 1947, which lifted the restrictions on Axis firms in general, it was noted that the

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78 For texts of resolutions, see Pan American Union, Final Act of the Inter-American Conference on Problems of War and Peace (Washington, 1945); for documentation on the Conference, see Foreign Relations, 1945, vol. ix, pp. 1 ff.
resolution had been modified in a way which emasculated it by providing no time limit within which the above listed nine firms should present their cases to the Bolivian Economic Defense Board. This omission was pointed out to Dr. Luís Fernando Guachalla, then Minister for Foreign Affairs, and Mr. Germán Costas, then Minister of Economy. These officials of the Bolivian Government agreed in principle that the Minister of Economy would advise the Embassy of the action recommended by the Economic Defense Board in each case concerning the nine spearhead firms and that, if the action to be taken by the Economic Defense Board was satisfactory to this Embassy, a supplementary decree concerning them would be published. According to the Embassy's present information, the Economic Defense Board apparently has never formally met to consider the claims of these firms, nor has this Embassy received from the Bolivian Government any recommendations of the Economic Defense Board concerning their petitions. The proposal to publish a decree categorically stating that the nine firms be cleared of all charges against them thus comes as a complete surprise and a marked disappointment to the United States Government.

The position of the United States Government, in brief, is that the Bolivian Government undertook certain obligations regarding Axis dominated firms and persons within its borders. The requirements envisaged by the United States Government concerning the elimination of these Axis influences are known in a general way. The specific details of the elimination of such influences is, of course, a matter for the Bolivian Government to determine, bearing in mind its international obligations. However, in the eyes of the United States Government, the nine firms above named are dominated and controlled by influences which opposed the Allied cause during the recent war.

The United States is particularly interested in Juan Elsner y Cia., Kyllman, Bauer y Cia., and Zeller, Mozer y Cia., since these three firms are partially owned from Germany. The United States regards Enrique Elsner, Guillermo Bauer, and Germán Mozer, German nationals resident in Germany, as beneficial part-owners of the three firms. It is presumed that no matter what action the Bolivian Government may take concerning the other firms, these enemy interests will be eliminated even though they may now be held nominally by Bolivian nationals in trust for these German owners.

In conclusion I should like to point out to Your Excellency that the policy of the United States and the other members of the United Nations, despite the termination of the war and the legal abolishment of the Proclaimed List of Certain Blocked Nationals, is to continue to view firms and individuals such as the above named nine with apprehension, unless Axis influences have been removed.
My Government has asked me to request that Your Excellency be so kind as to furnish me with copies of the documents presented by these nine firms to the Economic Defense Board in order that they may be available for the records of the Department of State and of the Embassy.

Please accept [etc.]

JOSEPH FLACK

740.24112A/11-1447

The Chargé in Bolivia (Galbraith) to the Secretary of State

RESTRICTED

No. 1854

LA PAZ, November 14, 1947.

SIR: I have the honor to refer to this Embassy’s despatch no. 1787, of October 9, 1947, entitled “Transmitting Copy of Embassy’s no. 444 of October 8, 1947, Seeking Bolivian Compliance with Replacement Program”, and to report on developments since that date in so far as the Replacement Program is concerned.

An acknowledgement of this Embassy’s note no. 444 was received on October 14, under date of October 11. However, this merely stated that the Minister of Economy was being informed of the views of the United States government.

On Thursday, November 6, the Chargé d’Affaires and the reporting officer were asked to call on Dr. Julio Alvarado, Sub-Secretary for Foreign Affairs. He wished to ask specifically if the Blue Book 79 had any bearing on Bolivia’s international obligations concerning a Replacement Program. He was informed that it did not, but that Bolivia had undertaken definite obligations, not only at Chapultepec, but also at the Washington Conference in 1942 80 and the Rio de Janeiro Conference in 1943 [1942]. 81 He then stated that the Cabinet was to consider the matter that afternoon and that he was attempting to gather together all possible information on the subject. An interesting sidelight was his request that the Embassy let him know the date upon which the Resolution of the Economic Defense Board, dated March 3, 1947, was published in the local press, since his office was unable to find

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79 Department of State, Consultation Among the American Republics With Respect to the Argentine Situation (Washington, 1946). For documentation on its issuance, see Foreign Relations, 1946, vol. xl, pp. 182 ff.
it. He was later notified that publication occurred on March 28, in *La Razon*.

Unofficial information obtained from a member of the Foreign Office indicated that, although the Cabinet session that day did discuss the problem of a Replacement Program, no definite action was taken. The entire matter was referred to the Economic Defense Board for study. This, of course, has been done repeatedly in the past. It is doubted that any concrete action will be taken by the Economic Defense Board since representatives and friends of the spearhead firms to be considered reportedly have much influence with the Board’s members. In this connection, it might be noted that many local businessmen believe that President Hertzog depends almost entirely upon his brother, Carlos Hertzog, for economic and commercial information upon which to base decisions in these fields. Carlos Hertzog is the manager of the firm Terminal, successor of C. F. Gundlach & Cia., and was included on the Proclaimed List of Certain Blocked Nationals. Although he and his firm were removed from the list early this year, largely for political considerations, it is safe to assume that he would hesitate to furnish the President with advice contrary to the interests of his long-time friends, the influences in the spearhead firms to which this Embassy objects.

As was noted in despatch no. 1787, the Embassy has discussed the Replacement Program with the British Embassy and has worked together with it, although the United States has obviously borne the major burden in the matter. A copy of note no. 444 was supplied the British Ambassador.82 The British Commercial Secretary83 informed the reporting officer, on November 6, that instructions had been received from London to submit a note supporting this Embassy’s note no. 444. He was advised that the Cabinet was to discuss the entire problem that very afternoon and he therefore agreed to telephone the Sub-Secretary for Foreign Affairs to notify him of the intention of the British Embassy to transmit a strong note on the subject. A copy of the British note, dated November 7, was supplied to this Embassy and is transmitted herewith84 (see enclosure). This note closely follows the tenor of this Embassy’s note no. 444 and, in several instances, seems to have been copied verbatim.

On November 12, the Commercial Attaché and the reporting officer called on the Minister of National Economy85 in order to orient him regarding the views of the United States. He was supplied with a brief history of the negotiations which have been undertaken from

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82 Thomas Ifor Rees.
83 F. B. Hutchinson.
84 Not printed.
85 Raul Laguna Lozada.
time to time and was informed that it is our sincere desire that Bolivia carry out some type of program which would not whitewash those who acted contrary to the interests of the United Nations during the recent war. He stated that he had been absent from the meeting of the Cabinet which considered the question, but that he intended to call a session of the Economic Defense Board in the near future to settle the matter. He promised to keep the Embassy informed of developments.

The Embassy is not overly optimistic that the Bolivian government will take effective steps against the spearhead firms in question, but feels that it must continue to press the matter in order to prevent a blanket clearance of Axis elements within the country.

Respectfully yours, 

For the Chargé d’Affaires, ad interim: 

JOHN A. E. ORLOSKI 
Commercial Attaché

740.24112A/12-347

The Chargé in Bolivia (Galbraith) to the Secretary of State 

RESTRICTED  

LA PAZ, December 3, 1947.  

No. 1909

Sir: I have the honor to refer to this Embassy’s despatch No. 1787 of October 9, 1947 with which was transmitted a copy of Embassy’s note No. 444 of October 8, 1947 \(^{55}\) to the Bolivian Foreign Office concerning the United States position regarding the Replacement Program and referring to a project of the Bolivian Government under which all present restrictions applicable to Axis firms and individuals would be completely eliminated. The Bolivian Government has finally replied to the Embassy’s note and a copy and translation of its reply dated November 9, but not received until November 28, are attached herewith.\(^{56}\)

The Bolivian Foreign Office, while apparently resenting the project basis of the Embassy’s action, has nevertheless replied in a vein which would indicate that far from the situation developing into one of complete pessimism, there is now a definite hope that some tangible program satisfactory to the Government of the United States may be brought about. It is believed that the situation has been aided by the submission of the British Embassy’s note in the matter of November 14, 1947, a copy of which was transmitted with despatch No. 1854 of November 14, 1947, because according to unofficial comment prior to the receipt of the Bolivian Government’s reply, the official attitude

\(^{55}\) See footnote 77, p. 378.\(^{56}\) Not printed.
of the Government, influenced by pressure tactics of the spearhead firms, was that the war was over and the cases against the Axis interests were generally unpopular. On the other hand the Embassy has taken advantage of every opportunity to point out clearly to the Foreign Office and the Minister of National Economy our Government's position with regard to this program.

In view of the Bolivian Government's new official statements contained in the present note under reference, the Embassy intends to follow up these new developments by a formal meeting with the Minister of Economy, who is Chairman of the Board of Economic Defense, as soon as the atmosphere has cooled, in order to obtain the issuance of a corrected Resolution and a definitive windup of this problem.

Respectfully yours,

For the Chargé d'Affaires ad interim:

JOHN A. E. ORLOSKI
Commercial Attaché

EFFORTS TO LIQUIDATE THE LEND-LEASE ACCOUNT WITH BOLIVIA

824.24/2-2647: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, February 26, 1947—7 p.m.

103. Dept handed Bol Amb\(^{67}\) note requesting payment Bol Lend-Lease account totaling $925,000, copy of which follows air mail.\(^{68}\) Recalling unfulfilled assurances of former administration that installment payments would begin March 1946 (Embdesp 2006, Dec 20, 1945 \(^{69}\)), Amb was informed that while Dept earnestly desired obtain settlement of Lend-Lease accounts, matter had not been pressed recently in desire not to create difficulties Junta Govt following July revolution. For this reason we have delayed inviting his personal attention to matter until now.

Amb stated he would cable his Govt urging that, if possible, some payment be effected before March 10; and that in any case matter be given priority consideration after inauguration new administration. He expressed grave doubts, however, that Bol financial and foreign exchange position would permit early favorable action.

Unless you perceive objections, please follow up informally with FonMin stating your Govt would appreciate being informed what Bol Govt may have in mind respect settlement this account.

MARSHALL

\(^{67}\) Ricardo Martinez Vargas.

\(^{68}\) Not printed.
Memorandum of Conversation, by the Assistant Chief of the Division of North and West Coast Affairs (Espy)


Participants: Ambassador Don Ricardo Martinez Vargas
Mr. Ellis O. Briggs, Director Office of ARA
Mr. James Espy, NWC
Mr. Raul Diez de Medina, Minister Counselor, Bolivian Emb.

During their meeting this afternoon, Mr. Briggs, Director of ARA, handed to the Bolivian Ambassador a copy of Mr. Espy’s memorandum dated June 5, 1947,\(^8\) Subject—Embassy residence, La Paz.

Mr. Briggs stated that in offering to accept a part of the payment of the Lend-Lease account in bolivianos, we had in mind using some of the funds for the purchase of the Embassy residence at La Paz and possibly of other government properties in Bolivia. Mr. Briggs stressed that we were immediately concerned in keeping a “roof over our Ambassador’s head.”

Ambassador Vargas commented that this had been the first time that he had learned that we might be willing to receive part of the Bolivian Lend-Lease indebtedness in bolivianos. He said he thought this was a very interesting proposal. The Ambassador then informed Mr. Briggs that he would immediately telegraph his Government informing it of the substance of the memorandum and requesting that most prompt action be taken.

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124.241/6–1347: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL

WASHINGTON, June 23, 1947—7 p. m.

356. Urtel 565, June 13.\(^9\) Dept has no knowledge basis belief lend-lease obligation would be reduced or cancelled. Possibly some confusion arose because of fact payment requested of Bolivia is only 18% of full value. Please make clear that Dept. expects payment in dollars or Bolivianos of full equivalent of dollar indebtedness of approximately $900,000.

MARSHALL

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\(8\) Not printed.
The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL     US URGENT

623. Just received Foreign Office note 530 today’s date stating regarding Bolivian lend-lease amounting to $925,000, Bolivian Government accepts renegotiation on general understanding that equivalent of approximately $600,000 US currency will be used in Bolivian equivalent. In my memo No. 256 of March 31 headed [handed?] to Foreign Minister, no mention was made of amount to be used in bolivianos but I said orally at the time that it would probably eventually be equivalent to about $600,000.

In renegotiation conversations which will take place in Washington, we need the following immediately: $40,000 requested by owner Ernst in US currency, the equivalent of $45,000 at the approximate rate of 60 or 2,700,000 bolivianos to complete payment on residence, option for which expires July 31.

Other eventual dollar needs if Cusicanqui and adjacent lots on Avenida Aree not pressing at present are purchased are:

(a) Cusicanqui property $60,000;
(b) Adjoining lots (Banks Urioste, etc.) $40,000;
(c) Lot and house owned by Keenan $20,000.

Total dollar needs this heading $120,000.

Other estimated eventual Boliviano needs: Construction on Cusicanqui and adjacent property (figures in million bolivianos):

(a) Residence 6
(b) Chancery 6
(c) Additional secretary’s residence 1
(d) Staff house for women 2.5
(e) Acquisition of land and construction Consulate Cochabamba 2

Total these needs 17,500,000 bolivianos
Total equivalent this amount at official rate is approximately $415,000.

This with amounts above rescinded would roughly total slightly over $600,000.

If lend-lease renegotiations are not promptly concluded enabling taking up option on residence, I recommend most strongly that Embassy be authorized to pay purchase price of $85,000 in full by draft

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92 Not printed.
93 Luis Fernando Guachalla.
94 Hugo Ernst Rivera, owner of the property housing the American Embassy.
95 Property of Hector Cusicanqui, possible site for American Embassy.
at once, leaving question of reimbursement to lend-lease fund to emerge from forthcoming negotiations, which I think will extend several weeks before final conclusions are approved by both Governments.

FLACK

124.24/7-247: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL Washington, July 2, 1947—6 p. m.

389. Urteil 623 June 30. No dollars available for acquisition properties in Bolivia. Necessary all payments be made in bolivianos under renegotiated Lend-Lease agreement for property and improvements. Further instructions follow authorizing Emb submit Depts recommendation for amendment to Lend-Lease agreement.\textsuperscript{66}

Because of present conditions necessary obtain from Ernst lowest terms payment he will accept in bolivianos for sale present residence. If Ernst prefers not receive payment from Bolivian Govt suggest he agree payment be made in bolivianos in La Paz by a bank. Emb to authorize payment out of account in which Bolivian Govt has deposited bolivianos. Report.

MARSHALL

824.51/7-1747: Telegram

The Secretary of State to the Embassy in Bolivia

CONFIDENTIAL US URGENT Washington, July 18, 1947—8 p. m.

420. Re urteil 675 July 17 and Deptel 408 July 11.\textsuperscript{67} Total\textsuperscript{68} payment schedule is as follows:

(a) US Govt will require payment in July 1947 of bolivianos equivalent to $150,000.

(b) For subsequent payments or deliveries US presents following schedule:

(I) Property or bolivianos at option United States Govt equivalent to $150,000 on or before each of following dates: Jan. 1, 1948, July 1, 1948 and Jan. 1, 1949.

(II) Dollars, property, or bolivianos, at option United States Govt equivalent to $100,000 on or before each of following dates: July 1, 1949, Jan. 1, 1950 and July 1, 1950.

\textsuperscript{66} For text of the agreement, signed December 6, 1941, see Foreign Relations, 1941, vol. vi, p. 423.

\textsuperscript{67} Neither printed.

\textsuperscript{68} Lend-Lease.
(III) Dollars, property, or bolivianos, at option United States Govt., equivalent to $25,000 on or before Jan. 1, 1951.

MARSHALL

124.24/7-2547: Telegram

The Secretary of State to the Embassy in Bolivia


431. Urteil 686 July 23.** Emb authorized acquire Ernst residence property free and clear all encumbrance at cost up to 5,500,000 bolivianos. Payment Ernst be made by Bolivian Govt through bank against delivery good and sufficient deed in fee simple. See Depcirinstr Sept 20, 1945** for procedure. Bolivian Govt to receive credit for dollar equivalent of payment against its obligations to US under lend-lease.

MARSHALL

824.24/9-3047: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL LA PAZ, September 30, 1947—5 p. m.

853. Sub-Secretary*¹ informed me today Supreme Decree now in preparation which he read will authorize conclusion renegotiation Lend-Lease Agreement and enable payment first installment next week without Congressional action. However, he stated that under Bolivian law decree must recite values involved and therefore will mention publicly amount Bolivia received and amount of $916,000 now due thereunder.

Since mention these amounts inevitable I told him no objection perceived.

FLACK

824.24/10-347: Telegram

The Acting Secretary of State to the Embassy in Bolivia

CONFIDENTIAL US URGENT WASHINGTON, October 3, 1947—4 p. m.

532. Publication amount Bolivia received and amount payment due may give rise to ill feeling and seriously jeopardize collection of sums due from other American republics since percentages differ with var-

** Not printed.
¹ Julio Alvarado.
ious agreements and especially since renegotiation of agreement also would be fully known. No other agreement has been renegotiated and few renegotiations are contemplated.

Dept does not understand why publicly announced decree necessary to make payment originally specified in Strictly Confidential agreement. Please explain fully as possible. Suggest communicate Dept objection to publication to Bolivians and explore possibility keeping terms confidential. Would it not be legally feasible for Bol Govt to publicly announce, if necessary, only that an installment payment was being made on lend-lease account, permitting terms of lend-lease negotiation to remain confidential?

LOVETT

824.24/10-647 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL

LA PAZ, October 6, 1947—2 p. m.

863. Renegotiation Lend-Lease has been rather delicate, but Subsecretary told me today enabling decree was signed by President and Cabinet October 3. He will make early appointment for meeting with Finance Minister, Guachalla, to determine essential details of initial payment into bank here.

Subsecretary assured me on Saturday and today (Deptel 532, October 3) Bolivian Government will meet our wishes avoidance publicity specific figures re amount received by Bolivia and amount due, limiting itself in official announcement to statement like “a payment was made to United States on Lend-Lease obligations”. He said Cabinet and some senators had necessarily been informed, but they would regard matter as officially confidential.

FLACK

124.24/10-1347 : Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL US URGENT

LA PAZ, October 13, 1947—noon.

877. In conversation with Minister Finance Guachalla October 10 in presence of Subsecretary and Galbraith he promised proceed with initial payments under supreme resolution authorizing Lend-Lease payment. He promised initial payment this week of 2,500,000 bolivianos and balance of equivalent of 150,000 during October or early

2 Carlos Guachalla.

3 Presumably dollars.

264-330-72—26
November. In view stringent Bolivian financial situation I accepted this as practical matter leaving question payment dates subsequent installments for future determination.

In view impending Bolivian payment I again discussed contract with Ernst. He is willing accept total price 5,738,500. This includes increase of bolivianos 288,500 based on today's free market rate 70 as against 64.70 calculated when matter first discussed (reDeptel 506 September 17').

In order to conclude this matter as Department urged, I told Ernst I felt we could accept this and request Department's promptest cable confirmation, also authorization to use my discretion in minor matters.

Ernst will deliver to us property deed on payment first installment under agreement of sale we are drafting.

FLACK

S24.51/10-3147: Telegram

The Ambassador in Bolivia (Flack) to the Secretary of State

CONFIDENTIAL US URGENT LA PAZ, October 31, 1947—8 p. m.

922. For Espy Assistant Chief NWC. See my US Urgent telegram No. 921 today.5 On basis previous authorizations I proceeded point where Bolivian Government made initial payment 2,500,000 bolivianos with promise additional equivalent $150,000 during month November. On basis my negotiations Ernst had agreed deliver deed on payment initial 2,500,000 bolivianos. We now in receipt Department's telegram 566 and Department's airgram 2426 requesting application this late date of complicated procedure entirely unsuited conditions and situation Bolivia which will have adverse effect on residence purchase unless it can be waived as requested in my telegram cited. Please do everything possible enable Embassy treat with this matter as contemplated section 3 Department's telegram 408, July 115 and as envisaged my negotiations to date. Am departing November 4 but Galbraith fully informed.7

FLACK

5 Not printed.
6 Neither printed.
7 Telegram 957, November 28, 7 p. m., from the Chargé (Galbraith), indicated that Bolivia made another payment of 3,800,000 bolivianos, making a total of 6,300,000 at the Bretton Woods exchange rate of 42. The terms of the purchase of the Ernst property were also indicated. In telegram 609, December 9, 2 p. m. to La Paz, the Department indicated its approval (124.241/11-2847).