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MEMORANDUM FOR MR. DULLES

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Mr. C. D. Jackson has forwarded to you a letter from Mr. Lawrence Smith, President of Panocean Company, Inc. which in turn encloses a letter from W. W. Stevens, Vice President of the same company. In addition, there is a copy of Jackson's reply to Mr. Smith.

Mr. Smith in his letter points out that Panocean is a small company operating, among other places, in Guatemala. He states that they are having difficulties there. These difficulties are not with the government but are of the Company's own making and the result of the fear in the U.S. Government and U.S. public of the Guatemalan Communist Government. He states that they have operated lumber mills for a year and a half in that country and have had no difficulties with the government, but are unable to re-finance with U.S. capital because of the fear in this country of communism in Guatemala. He states that U.S. policy is doing nothing to straighten out the mess in Guatemala.

Mr. Stevens in his letter brings out the same points stating that most of the difficulty stems from outmoded contracts with United Fruit Company and International Railways of Central America. These contracts give distinct advantage to the companies at the expense of the government and people. The Communists have seized on this to further the cause of communism. He believes there is a need for a more reasonable understanding of the problem by the U.S. Government in handling the delicate situation of the United Fruit Company.

C. D. Jackson notes in his memorandum to you that ^{RWE} ~~he~~ simply confirms to him "the necessity for our getting some smart and effective work done." After you have seen this I will forward it to DD/P.

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THE WHITE HOUSE
WASHINGTON

August 3, 1953

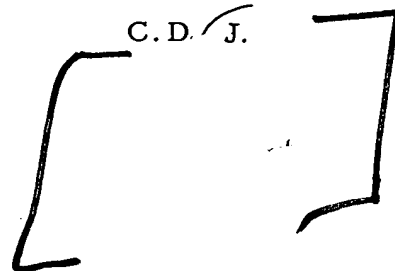
Memo for Mr. Allen Dulles

From: C. D. Jackson

Please note the attached which I am sure you will find interesting. To me it simply ^{com}firms the necessity for our getting some smart and effective work done.

Attachments

C. D. J.



THE WHITE HOUSE
WASHINGTON

August 3, 1953

Dear Mr. Smith:

I am most grateful to you for writing me as you did on July 29, and might add that your letter arrived at the precise moment when we ourselves were discussing the same situation, so it received an intensive reading not only by me but by some of my associates also.

You will understand that I am not able to comment in detail on the matter you discussed. I can say, however, that I think your points are well taken. The whole situation in that country is not being overlooked and I am hopeful that within a reasonable time the situation can be improved. In any event, we are not idle.

Again my thanks for your confidence in writing me as you did. Incidentally, I was pleased that you thought well of the report of the Bill Jackson Committee. It is still a tendency of most people to consider psychological warfare as a separate entity, whereas actually it is nothing more than the element which should be injected into every word and action of this Government to help create an uniform and sense-making presentation.

Kind regards and I hope you will not hesitate to give me the benefit of your comments at any time.

Sincerely yours,

C. D. Jackson

Mr. Lawrence M. C. Smith
President
Panocean Company, Inc.
1707 Benjamin Franklin Parkway
Philadelphia 3, Pennsylvania

bc--Mr. Allen Dulles (with original)

Export - Import Affiliate
Panocean Company, Inc.
512 Western Savings Fund Building
Philadelphia, Pa.

Cable Addresses

Panocean, Washington, D. C.
Panocean, Philadelphia

PANOCEAN COMPANY

1303 Wisconsin Ave., N. W.

WASHINGTON 7, D. C.

July 21, 1953.

Mr. L. M. C. Smith,
Wolfneck Farm,
Freeport, Maine.

Dear Mr. Smith:

In connection with your recent request for an appraisal of the situation in Guatemala and the problems involved in trying to refinance our lumber operations down there, I am giving you the following summary of my experience of long years in Latin American countries and attempts in this country to raise finances for these projects.

Due to local management problems involved in our original set-up in Guatemala, not connected with the Government, we found the company needs refinancing as well as new management. In an effort to arrange the refinancing, we have contacted eight financially responsible persons or groups, and while we found them interested in the operation and our objectives of bettering the living standards in the backward countries, as well as having a reasonable profit motive for our operations, they were frightened off by the news on Guatemala.

There are a number of American companies that have been working in Guatemala for many years with little or no trouble. They work under the laws of the country, pay taxes, and do all of the things that the local people do down there. However, the two companies mentioned in report of the International Bank for Reconstruction and Development in their report of July, 1951, on Guatemala, appear to be the source of friction and fuel for the Communist flame. The Bank reports:

"It is the view of the Mission that if a few obvious adjustments can be made, both in the general attitude toward foreign investment and in some positive aspects governing it, the way might be paved for a successful revision of the legal status governing activities of the United Fruit Company and the International Railways of Central America in Guatemala.

"The basic philosophy of the present contract with the International Railways of Central America, concluded in 1923 and running until the year 2009, does not appear to be fundamentally different from that of the first concession granted by the administration of General Barrios as early as 1877. The original contract was concluded in 1901 with the United Fruit Company. These dates by themselves illustrate the outmoded character of these agreements.

There is need to approach their revision in a fair and open-minded manner, rather than in a legalistic way, since no solution can be found if each party stands firmly on what it considers to be its own rights.

"It is apparent that, even at present, both the foreign companies

and the Government find it in their own interests to maintain working economic relations. Once these relations are put on a firm and mutually satisfactory basis by the revision of the contracts, an extremely important cause of friction between Guatemala, private foreign investors, and perhaps some sectors of public opinion in other countries may well be eliminated."

Somewhat similiar remarks are made about the contract with the Electric Company of Guatemala, the other major enterprise involved in the present difficulties.

Now you may ask me why it is important to discuss these contracts in connection with our own operations. Well the answer is simple. We need to go ahead with our operations down there and we can not obtain financial assistance as long as articles such as those published by Edward Tomlinson in the Washington Daily News and other newspapers throughout the country are continued. (See on example which appeared in yesterday's News.) They obviously will be continued unless our Government takes a firm stand and leads our U. S. firms out of situations which are forerunners of mistakes like the Anglo-Iranian Oil Company fiasco in Iran.

There is much development that can take place in Central and South America, and which would provide much needed markets for U. S. products, as well as provide some additional trade for our Allies. However, without this development, which private enterprise should undertake, on a much faster scale than is now possible under present policies, the area is ripe for continued revolutions, changes of ideologies, etc., as experience of over 300 years in Latin America has not developed a better world there for the mass of people, and they are looking for something, without knowing just what. Any promise of a change appears logical to them, as Democracy, as it has been practiced down there until now, has been a series of revolutions, killings, and the same people reaping the benefits all of the time. The vast majority of the people are still in a form of peonage that is most shocking.

We of Panocan are attempting in our small way to improve conditions down there, and to interest others in developing Latin America, but frankly, I believe, that in view of the possible inroads that Communism might make in Guatemala that all of us should put all of our possible forces to licking them in that country, before they can get strong enough to be a major problem. It can be done. It will require a more reasonable understanding of the problem than is now apparent on the part of the U. S. Government in handling the delicate situation of the United Fruit Company, which is the fuel needed and used by Communism to build up their strength.

Just a word about this situation that is irritating to them down there as well as to us. The Fruit Company controls the railroad and the ocean shipping rates. The tariffs for bananas are at less than cost. The tariffs on other commodities are unreasonably high on both inland and ocean freight. In view of this situation the general public has been inflamed by the Communists and others into requesting a revision of the contract with the Fruit Company so that the Government can exercise some control over the tariffs, which they are prohibited from doing under existing contracts.

Mr. L. M. C. Smith.

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As has been pointed out by the Bank as long ago as July, 1951, this situation may be irritating other countries into taking actions against foreign investments to avoid similiar situations arising. We have found in a number of countries where we have operated that if an industry enters such countries with a cooperative attitude and leads the way in this cooperation, they seldom find any trouble from the people or the Government. We have found the Government of Guatemala helpful in our operations down there, as we operated under local laws entirely, without any special concessions, and suggested to them various improvements that would be helpful to us as well as to them such as fire control measures, forest protection measures, and in general an improvement of working conditions. We developed a cheap low-cost house (2 rooms for \$300.) and the Government took a sample for display at all of Province fairs. Any industry can do the same thing.

There is some Communism in Guatemala. The leaders are Moscow trained. However, they have espoused the popular causes such as that of the Fruit Company. They have been given more importance than they rate in the U. S. press, which has increased their influence in Guatemala as a power to be reckoned with.

A build up of industry in Latin America will provide for raising the living standards of the people, will permit more ownership of homes and property, and this one thing alone would stabilize those Governments down there. This program would have to be a fast moving one rather than the slow approach now being used in Latin America. The whole situation in Guatemala could be cleared up in short order and a precedent established in this situation which would win many friends for the U. S. as well as be in keeping with the President's program and objective in sending his brother down there.

At the present time our various interested parties have indicated that they do not wish to undertake any steps until they see a clearer picture in Guatemala. We have to do something to get this cleared up. If you have any suggestions to whom I might talk in the U. S. Government I think that we can find a sympathetic ear in the Guatemalan Government. I was just informed this morning that the Guatemalans would welcome an invitation to sit down and discuss this problem and try to work it out.

Sincerely yours,

W. W. Stevens,
Vice President.

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PANOCEAN COMPANY Inc.

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PHILADELPHIA 7, PA.

Export-Import Affiliate

PANOCEAN COMPANY

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Cable Address:

Panocean; Philadelphia

July 29, 1953

The Honorable C. D. Jackson
Special Assistant to the President
The White House
Washington, D. C.

Dear Mr. Jackson:

I am taking the liberty of writing to you about the situation in Guatemala for several reasons. First, you are widely credited with having inspired a great deal of President Eisenhower's speech of April 16th which I, as a Democrat, found refreshing. Then your name has been in my memory for many years from my old close friend, Freddie Baily, who was at Princeton with you, I believe, and who has long since passed away. Finally, I read summaries of your recent committee report, on which another friend, Barklie Henry, served, and it seemed to me again that you were going down the right road.

Our Company, Panocean, is a small company which has been operating since the war in various countries, including Persia and Central America. We had the first offshore shipment under ECA, from Salvador to France. I became interested in foreign development because of my experience during the war abroad, in Africa and Europe, not only because I think it can be profitable but also because we want to work out the techniques of economic development in under-developped areas through private investment. In Guatemala, where we have operated Lumber mills for the last year and a half, we have not met, in the reorganization and refinancing of that company, any difficulties with the Guatemalan government but, rather, the climate of opinion in the United States primarily has prevented our proceeding.

Recognizing that there is communism in Guatemala, one must also recognize that this fear may have been stimulated and exaggerated for other reasons. The net result is that instead of trying to overcome communism in Guatemala by helping that country economically, we are building it up by our attacks. It is all part of the Central American picture in an area in which we have been operating for the past six or seven years. I hope that you might be able to contribute to the solution of this situation.

For your information, I am enclosing a memorandum dated July 21, 1953, which was written by my associate. In bringing this to your attention I realize that we may be taking steps which are commercially unwise because of the antagonisms we may incur. We are not unfriendly toward any company or group, as any problems we have had have been of our own making and not those of outsiders. The fact remains, however, that conditions in Guatemala are in a mess and that the present U. S. policy seems to me to be helping/-

The Honorable C. D. Jackson
The White House
Washington, D. C.

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July 29, 1953

to continue that mess.

If we can be of any assistance in this matter, we would welcome the opportunity to discuss it further.

Sincerely yours,


Lawrence M. C. Smith
President

LMCS/f

1707 Benjamin Franklin Parkway
Philadelphia 3, Pennsylvania

Latin America Alarms Investors

By EDWARD TOMLINSON

There is a new wave of pessimism over the future of \$6,000,000,000 worth of United States investments in Latin America.

The policy of confiscation without compensation, laid down by the General Assembly of the United Nations in December, 1952, has now been put to the test. Guatemala has told Washington it won't even discuss the recent expropriation of American-owned lands there "because it (expropriation) is in accordance with a UN resolution which recognizes the right of all nations to nationalize natural resources."

The State Department had asked President Jacobo Arbenz for a realistic payment for 233,973 acres of nationalized United Fruit Co. land. The Guatemalans offered payment in 25-year Agrarian Reform Law bonds, "at the value the company had declared them for tax assessment purposes." The company insists this was an old valuation and that in 1948 the government itself requested a new valuation which it disregards.

But investors are not so much alarmed over the method and amount Guatemala has offered the fruit company. Chief concern is that after expropriation Guatemala refuses even to discuss the subject and takes refuge in the UN. If this becomes a precedent, any country arbitrarily can take foreign properties without regard to owner's rights.

Tho there was publicity about it at the time, most, including officials here, apparently had forgotten or did not know the circumstances. But they are all now digging up the record.

First draft of the resolution was introduced by Sen. Angel Maria Cusano, an extreme nationalist dele-



JOHN MOORS CABOT



PRESIDENT ARBANZ

gate of Uruguay, a member of the government opposition. But representatives of other Latin American countries that have indulged in the confiscation were its most uncompromising champions, along with the Near Eastern, South Asian and Soviet blocs.

The delegate of Mexico, which took over American oil companies and land holdings years ago, was an eloquent spokesman for it. Argentina was for it. Even Brazil backed it. Peru, Costa Rica, Ecuador and Cuba were among the few southern nations to speak a good word on our side.

In the end, all the 20 republics either voted for it, or abstained from voting. The five which abstained were Cuba, Haiti, Nicaragua, Peru and Venezuela. More significant, it was the first time our neighbors broke solidarity with us

and voted with the Russian and Asiatic nations.

Gloom over the Guatemalan incident arises because it comes when the Eisenhower Administration is trying to rebuild confidence and respect in South America. The President's brother, Milton, is completing a fact-finding and good-will tour in South America. Assistant Secretary of State John Moors Cabot and others have been urging more private U. S. investment in Latin America to help boost production and sagging economies.

Most informed observers feel that until somebody effectively champions the abolition of this resolution, it always will be a threat to U. S. private enterprise. Furthermore, as long as it remains in force U. S. firms will remember which countries sponsored and supported it.