

CIA HISTORICAL REVIEW PROGRAM  
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AIR

[ ] 1586

10 JUL 1956

[ ]  
Chief, WHD

The Springfield Problem

REFERENCES: (a) [ ] 513, 20 May 1956  
(b) [ ] 491, 30 May 1956  
(c) DIR 19837, 6 July 1956

ACTION REQUIRED: Send comments.

1. Headquarters has studied reference (b) with appreciation and sympathy, and comments below on some of the points raised. The purposes of this dispatch are set forth, all in one document for convenient future reference, (a) the information currently available at Headquarters on the main points of the problem, (b) recent actions taken by Headquarters, and (c) current thinking as to the best course of action.
2. As regards information available, Headquarters has carefully combed the entire file, particularly with an eye to possibly conflicting figures and statements in connection with the sums allegedly claimed by various parties at various dates. On July 5 there were received from Kramer, Marx, Greenlee and Backus photostat copies of the entire file which had been turned over to them by the Guatemalan government. This file has not yet been fully examined; the bulk of it consists of technical insurance documents, --receipts, etc. It includes a breakdown of the British claims, discussed below, which may prove helpful. Any new light shed by this file will be passed on to the Station.
3. As regards recent action, on 28 June 1956, in New York, Mr. Greenlee conferred with Dr. Julio Asensio Wunderlich, Minister-Counselor at the Guatemalan Embassy, and, after a second conference alone with a KIBARK legal officer, approved a draft reply to the British note of 7 March 1956, along lines previously agreed by Greenlee and Headquarters representatives at a

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meeting in ZEMTAL on June 20. As Station was advised in reference (c), Wunderlich departed for Guatemala o/a June 29 to personally handle the reply to the note, following which he planned to return to ZEMTAL, apparently o/a July 6. (Incidentally, Greenlee regards Wunderlich as "a very able lawyer", well versed in Latin American, Spanish and international law.)

4. The brief draft reply acknowledges the British note of 7 March 1956 "together with a document containing the alleged detail of losses and damages" and states that "this Government.. has been told by its legal advisors that there seems to be no such liability on the part of the Government of Guatemala". It concludes:

"Without, therefore, recognizing any obligation on the part of the Government of Guatemala on the sinking of the Springfield, this Government would contemplate conferring with the individual private owners /sic; underwriters have, of course, taken over the owners' claims by subrogation of rights/ who are said to have suffered the damage to further consider the case that they presented through the good services of Her Majesty's Government.

"Therefore, you may inform the private parties that this Government would gladly hold conversations with them and, if it should prove difficult for them to do so in this city where they may not have representatives, it could also be arranged through our Embassy in the United States of America where, I am sure, the interested parties do have such representatives."

5. The object of the draft reply was to imply that the British Government had acted prematurely in adopting its subjects' claims --the note of March 7 constituted a formal adoption-- and to get the Government out of the picture, bringing the discussion down again to a lawyers' level, where Greenlee might have an opportunity to smell out the lowest figure for which the claimants might settle.

6. As regards whether or not the British Government has in fact acted prematurely, Dr. Wunderlich says the legal issue is complex and debatable. The Constitution debars aliens from claiming indemnification for damages to property caused by "turbulent parties", but theoretically the British private claimants could invoke a certain "administrative resolution", followed if necessary by successive appeals to a minister, to a three-man Court of Administrative Contention, and to the Supreme Court. Since they have not invoked these remedies it is arguable that the Government had acted prematurely. Should they invoke them, Dr. Wunderlich estimates the process might consume as much as 15 months. At that point some sort of ex gratia settlement for a greatly reduced figure might be made, rather than that Britain should drag Guatemala into the World Court. Guatemala accepted World Court jurisdiction

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by joining the U.S.; she has overseas credits which could be attached; and he believes she would lose, since European jurists take a dim view of Central American revolutionaries, even though they are "democratic" revolutionaries. (Incidentally, he remarked briefly that World Court proceedings might turn an unwelcome spotlight on the background of the case).

7. The American claims. On 14 October 1974 KIBARK was informed by a high official of one of the large American insurance companies which participated in insurance of the cargo that, regarding the cargo, "A 'Statement of Closing of Claims' dated August 1974 showed the total loss to be \$1,592,000." This amount, principal firms participated in the over-riding coverage and they re-insured with 75 other firms. A few days later the same source reported that the cargo owners had accepted \$1,230,986 in full settlement. Headquarters recently received from Bremer, Marx a photostat of a statement titled "American Claim" prepared by a Guatemalan official, evidently around February 1975, which says:

"On the 2nd of February of the present year the firm of Bighan, Engler, Jones & Houston of the City of Washington, D. C., with its offices in New York at 99 John Street... notified our undersender in Washington, including photostatic copies, the following claims paid for merchandise which was being transported on the Springfield.....  
Total.....\$1,704,674.19."

This claim is broken down under nine sub-headings. Some of the firms listed are apparently British. Since that fact may have some bearing on the vexed questions as to (a) the validity of an alleged claim for some 962 bales of Salvadoran raw cotton allegedly insured by British underwriters, and (b) as to whether or not this Salvadoran cotton claim was later transferred in some way to American underwriters and therefore should be deducted from any British total and subsumed under the American total figure of \$1,704,674, the breakdown as given in the Guatemalan's "American Claim" paper --it will be checked as soon as time permits against the firms mentioned in paragraph 2, above-- is repeated, omitting cents:

- 1. Union Marine & General Insurance Co., Ltd..... \$180,520  
Insurance Company, Ltd. 3,304  
1,579  
2,804
- 2. Insurance Company of North America..... 1,045  
127,879
- 3. The Home Insurance Company..... 4,892

4. Boston Insurance

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4. Boston Insurance Company.....	632,762
5. Providence Washington Insurance Co.....	488,700
6. Maritime Insurance Co., Ltd.....	26,822
7. The Hanover Fire Insurance Co.....	211,101
8. The London Assurance (sic).....	64,736
9. Consolidated Claim of the Automobile Ins. Co., Federal Ins. Co., The Home Ins. Co., British and Foreign Marine Ins. Co.....	8,454

\$1,704,674

Pending further checking, Headquarters is accepting \$1,704,674 as the correct figure for the total of claims paid by the American underwriters of the cargo.

8. In October 1954 Headquarters was authoritatively informed that a very high official of one of the American companies, which had participated in the insurance to an amount in excess of \$100,000, had referred to his company's share as "more chicken-feed". Headquarters places great emphasis upon this fact. Tying in with it is the very significant and happy fact that nothing whatever has been heard from the American claimants since February 1955. They have taken no steps to press their claim. It seems entirely possible that the explanation for this is (a) that the 75 "re-insurance" companies mentioned above each participated for an utterly trivial sum, and (b) that each of even the three largest participants regards its share as relatively "chicken-feed", and (c) that in the normal course of their business such very large companies seldom really expect to recover large sums from small, revolution-torn Latin American republics, and do not feel it is worth making such effort to recover. If this is correct, it may prove that the American "claim" does not constitute any real problem, and/or that the claimants would be satisfied with a relatively nominal sum, -- something very much smaller than a pro rata share in any sum so large as \$900,000. Headquarters may try to get, through its contacts, a really expert, realistic estimate as to what American claimants may really expect to recover.

9. The British claims. In his note of 7 March 1956 the British Minister explained that the preparation of the British claim "has taken longer than was expected in view of the complexity of the details involved; but it is now complete." (The grand total is \$1,172,223.03). He stated that:

"On the 19th of January, 1955, the Acting Minister for Foreign Affairs, His Excellency Licenciado Domingo Golcota Villacorta, informed me, on behalf of His Excellency the President of the Republic, that the Guatemalan Government were prepared to offer the sum of 900,000 dollars in settlement of the outstanding claims in respect of the ss. Springford.....

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"I was subsequently instructed to enquire whether this offer was to cover only the United Kingdom claims or also that of the United States interests; and was later informed by the Acting Minister for Foreign Affairs that it was intended to cover all claims. The United Kingdom authorities have of course been in touch with the United States authorities in this question, which concerns both countries; and have learned that the United States claim is approximately one third greater than the United Kingdom claim.

"In informing me, on the 2nd of March, 1955, that the Guatemalan authorities had received the United States claim, His Excellency was good enough to explain that the legal advisers to the Guatemalan Government were working on the claim as a whole - that is, I understood, on the general claim of the United Kingdom (pending its presentation in detail) and on the specific claim of the United States interests concerned - and that he hoped to be able to let me know the final position very soon."

The Minister concludes with the hope that the submission of the full details of the British claim will "render possible its satisfactory settlement in the near future". It may be noted that the Minister does not anywhere state that any communication regarding \$900,000 was made to him in writing.

/10. The British "General Claim"

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10. The British "General Claim" is broken down as follows:

A. Capital loss . . . . .	3511,393.00
B. Loss of income . . . . .	296,130.68
C. Disbursements . . . . .	19,247.83
D. Cargo	215,261.52
Total . . . . .	4,172,233.03

Note: Supporting documentary evidence can be supplied in respect of all items if desired. The volume however is very large and for the present full documentation, which is attached, has been sent from the United Kingdom only in respect of that part of the claim relating to loss of cargo."

The above is followed by a "First Breakdown" and a "Second Breakdown", and by documentation re the 962 bales of Salvadoran raw cotton valued at \$215,261. In the interests of speed and brevity these breakdowns will not be given here; if desirable they will be sent in a later dispatch. Nonetheless, the highlights are as follows. "Hull and machinery" accounts for almost the whole "Capital Loss" figure. The main "Loss of Income" items are "Loss of time charter hire, \$1,525" and "Loss of trading, 20 months, \$200,000." The main "Disbursements" items are "Repatriation expenses, \$11,745"; "salvage expenses, 3,146 pounds"; "crew's lost effects, wages, leave pay and unemployment indemnity, 5,267 pounds."

11. Headquarters is intensely interested in any evidence tending to show that the British claim is too high. The British inquiry (see paragraph 9) regarding \$900,000" in 1955 suggests that they may well have been surprised when such a large figure was mentioned; and yet the Hindster is now supporting, at least pro forma, the claim for \$1,172,233. It is noted that according to INMTEL 654 of 14 June 55 (paraphrased in OSAT 933) the British Foreign Office itself considered the British claim for \$1.3 million an "inflated figure and doubts \$200,000 proper item unless it can be established cargo was British owned". Again, INMTEL 333 of 4 June 1956 reported: "...Embassy understands British Government substantially reduced original claim and is prepared agree to further reductions." Headquarters will greatly appreciate any light Station can shed on INMTEL 333. By whom was Embassy informed and what figures were mentioned? It is noted that Station cabled on 20 May 1956 ( [ ] 513): "do understand Lion & prepared to settle for \$400,000".

12. Considerable doubt has been cast by an official of a large American insurance company on the claim for \$215,261 for Salvadoran

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cotton; one of the firms involved has a bad reputation. While assuring temperately that the claim may be valid, Headquarters will continue to investigate its validity and to examine the possibility that there may be some sort of overlap with the \$1,750,000 claim of the American underwriters, as mentioned in paragraph 7 above.

13. Regarding the ship, it is known definitely that it was insured for only 170,000 pounds or \$1,750,000. Guatemala could strongly press the points: if the ship was really worth \$611,000, why did not the owners insure it for that, as they could so easily have done? (Headquarters has been informed that ship values fluctuate considerably from year to year and that British owners are often negligent in updating their insurances; why should Guatemala pay the penalty for British negligence?) Another great weakness in the British case is the fact that the Springfield chose to make its nose into San Jose eight days after a civil war had started to rage, and when its owners must have known that any vessel would be suspect, since the Alfonso, subject of a world-wide furor, had actually carried arms.

14. Headquarters attaches the greatest importance to the question: "What British parties have suffered what real hurt for which they might reasonably expect reimbursement, in all the circumstances?" Here it may be asked: if an American company regards a sum in six figures as "more chickenfeed", why should not Lloyd's, an even larger concern, regard \$475,000 as relatively chickenfeed? Also, the shipowners received a check for \$475,000 which means that their actual capital loss on their own activities not more than \$611,000 less \$475,000, or \$135,000, -- and they suffered even that loss only through their own negligence.

15. Headquarters also wonders whether the large claim of \$250,000 for "loss of income" and any of the other British claims may not be padding, supported by the British Minister more pro forma than in earnest. Any light [ ] can shed on this will be greatly appreciated, and Headquarters will attempt to obtain a really expert opinion as to what claims can reasonably and realistically expect to recover in such cases.

16. It is Headquarters understanding that, on the authority of DIR 2122h (13 Oct 54) SKINNER made a firm oral promise to ROBERTS of \$900,000 with which to negotiate. As to precisely how the Guatemalans mentioned \$900,000 to the British, the evidence thus far seen is somewhat conflicting. As noted in paragraph 9, the British Minister says he was "informed" that the Guatemalans "were prepared to offer the sum of 900,000 dollars in settlement". CHAT 34h of 19 Oct 54 gives the

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Station's "accurate digest" of a communication made "orally" to the British by the Foreign Minister: "...Guatemalan Government cannot accept claim in entirety and in amount demanded. Government is however favorably disposed toward reaching an agreement for just and reasonable sum..." A chronology prepared hastily by a KUBARK lawyer during examination of the file at Krammer, Marx includes the item: "19 January 1955. Guat Acting Foreign Minister notified British Ambassador (prepared to offer maximum total settlement \$900,000)". Headquarters has not yet been able to locate this item in the file. The paper "American Claim" prepared by some Guatemalan official sometime in 1955 says:

"...5. As an act of goodwill an offer was made to the British Minister by the Ministry of Foreign Affairs without accepting responsibilities. It was a favorable offer of \$900,000. The British Minister inquired if said sum was solely for the British claim and that question has not been replied to yet, but this offer was to cover the total of the claims."

Headquarters will continue to investigate this very important point, and will appreciate any light [ ] can shed on it. Sr. Greenlee states that the Guatemalans have never mentioned \$900,000 to the British in writing.

17. It is Headquarters' hope that it may prove possible to reduce the \$900,000 figure to a very much lower one. SKIDNER might ask to be relieved of his promise, pointing out to ROBERT that the figure appears to be a much higher one than the combined claimants should reasonably expect to receive, and that it would pose serious financial and political problems for him in any case. ROBERT in turn could truthfully tell the British that the \$900,000 figure was tossed off by him orally as a gesture of good will, at a hectic time when he was far too preoccupied to study the problem. He would recite all the relevant arguments mentioned in this dispatch, --e.g. paragraph 13, etc. etc.-- and would plead his serious political and financial problems. He would then offer -- at a suitable moment, depending upon what British reaction follows the Guatemalan reply to the British Note of 7 March 1955 -- an ex gratia settlement for the lowest possible figure. The [ ] comments upon this possible course of action are invited.

18. If the British do accept an ex gratia settlement for a low figure, there may still be a further slight complication. Namely, if the Guatemalan Government are stuck with the position that they should deal with all claimants' net losses, as suggested in the British Minister's third paragraph quoted in paragraph 9, and if it is correct that the American claimants might well be content with zero reimbursement for their "chicken-feed" losses, whereas the British shipowner having suffered

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real hurt not (through their own negligence) covered by insurance, then it may be subterfuge to effect some payment to the British while paying the Americans nothing. But this complication can perhaps be dealt with when and if it arises.

19. Headquarters agrees that the funding of [ ] to ESKHOUT would be "an extremely difficult if not an impossible operation" [ ] (1586). It is suggested that, after the figure has been scaled down to a very much lower one, ESKHOUT could raise the sum by a bond issue, as suggested in paragraph 5, c of [ ] (1586), but an entirely overt bond issue. A National Lottery has also been suggested as a fund-raising mechanism. SKINNER would attempt to reduce any sum that must be funded to ESKHOUT to the lowest possible figure, or better seek to be relieved of the obligation entirely, -- on the grounds that it is best politically for ESKHOUT vis-a-vis his own public and the British that the whole matter be handled in an overt, "grasp-the-nettle" manner as possible, and that an attempt at covert funding of any substantial sum would court the risk of exposing his relationship with SKINNER; and on any other grounds that [ ] ingenuitly may devise. This, incidentally, is the Division's thinking. It has not been cleared with higher British authority. It seems to us to be a realistic course of action; not only do we want to save money, but we also want to settle the case in a way that would appear likely. The \$700,000 figure appears to us unlikely and, moreover, we have divined no way of funding this covertly through the Guatemalan Government, to say nothing of the very real problem that the Guatemalan Congress would present. A lower figure, while not entirely eliminating the last problem, would in all respects be more desirable, provided such a settlement can be achieved without disagreeable and unwanted publicity.

20. In summary, the goal which it is suggested might be aimed at is: an ex gratia settlement for a greatly reduced figure, the sum to be raised by an overt bond issue or lottery. It is felt that, once that stage has been reached, ESKHOUT, with skillful aid from FREAPARE, might even reap political benefit from the whole affair, or at the least break even. To the British he could stress that their very negligent shipowner will be very lucky to get whatever a bond issue or lottery may raise. For local consumption he could play a judicious combination of these, as suggested in [ ] (1586); he has been firm and skillful in funding off for so long claims by big foreign companies, which once totalled as high as \$3 million; at the same time he has been magnanimous, and has maintained Guatemala's reputation among the family of nations by volunteering a very modest ex gratia settlement.

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21. [ ] is invited to fill in by cable any gaps it detects in Headquarters' knowledge of the important facts, and to comment on any aspect of the problem. If the Field believes that our present line of action is feasible and desirable, Headquarters will seek to obtain higher AIRMEX authority to proceed along these lines. Thereafter a meeting with [ ] will be necessary to learn whether he is agreeable and whether he has any further helpful ideas. Because of the activity on the part of the British Government, it is Headquarters opinion that we should put ourselves in a position as soon as possible to discuss this matter with Castillo. Therefore, your reply and comments should be expedited. We have not taken up these thoughts with COMCIB because they are not yet definitive and because this is primarily a AIRMEX matter. However, if you feel that you would want to discuss the contents of this dispatch with the local COMCIB Chief, feel free to do so, at the same time insuring that all comments addressed to it be through AIRMEX communications only.

J. C. KING

BY

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AC/WED [ ]

9 July 1956

Distribution:

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