

CIA HISTORICAL REVIEW PROGRAM
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FORM NO. 44 REPLACES FORM 35-31
1 FEB 53 WHICH MAY BE USED

ABSTRACT FILE SLIP (18)

VIA: AIR
(SPECIFY AIR OR SEA POUCH)

DISPATCH NO. HGG-A-2881

~~SECRET~~
CLASSIFICATION

DATE MAY 30 1956

TO : Chief, WH

FROM : C

SUBJECT: GENERAL— Operational

SPECIFIC— DIR 13573

REF : C 1513, 19 May 1956

1. In accordance with subject, the drafting officer will attempt to spell out more clearly the suggestion put forth in paragraph six of reference. Before doing so, however, he would like to expound on general subject of reference.

2. As Headquarters knows, C has been confronted with subject problem for almost two years. It has required much effort through the medium of SKIMMER to force any action at all on ESGHOST's part re settlement of the claim. His reluctance to move most probably derives from two facts:

- a. He realizes that any payment ex-gratia or otherwise made to PBPRIME or Identity interests will be counterproductive to his political interests, and
- b. He probably feels that he is not obligated to make any payment because the old constitution gave him legal grounds for refusing to entertain negotiations with any of the interested parties. He is sufficiently astute, politically, to realize that this position, though it would not enhance his prestige internationally, would prevent his political opponents from crying another example of puppet-hood or subservience to PBPRIME.

3. In accordance with the agreed position of Headquarters and C and in full cognisance of PBSUCCESS and the incidents leading up to the claim, C succeeded in getting ESGHOST to recognize the fact that a claim existed. C also succeeded in getting ESGHOST to make representations to the interested parties that he would consider an ex-gratia settlement, since he was desirous of preserving Guatemala's position in the "community of nations".

4. Persuading ESGHOST to take the aforementioned actions, however, represents about one-half of the problem, and in fact the least difficult phase of the whole affair. The real issue is to introduce SKIMMER funds into the Guatemalan coffers in a secure, covert manner to defray the cost of the claim, and ensure

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that they actually get there. This is an extremely difficult if not an impossible operation because of the strict limitations placed upon the handling of funds by the new constitution. Money must be accounted for, and in the case of the reference claim, it must be budgeted for and passed by the Guatemalan Congress before it can be paid. Since payment of this claim will at best be an unpopular issue, it will be scrutinized with the greatest care, not only by the Congress but by ESGHOST's opposition, which is not inconsiderable. Therefore, anything connected with the negotiation and/or payment which appears the least irregular, will immediately become suspect, and be attacked vigorously if the slightest excuse for an attack exists.

5. Recognizing the foregoing as a "fact of life", C J has applied its best collective effort, in conjunction with ESFEUD, to finding a secure solution to the "fund introduction" problem. To date, no good or perhaps even satisfactory solution has been arrived at. At various times we have considered the following alternatives:

- a. Covert payment of a flat amount to ESGHOST, i.e., the amount of the claim, with the understanding that ESGHOST would, over a period of time, introduce the money into the Guatemalan economy through his confidential funds, which are quite sizable. This method was rejected by ESFEUD because he is afraid that ESGHOST would hold the money apart and most probably in another country, as an escape fund should things become unpleasant for him in Guatemala. In other words, ESFEUD feels that ESGHOST would be more inclined to remove himself from the country if he had a sizable amount of money waiting for him. This is a point worth considering. It is also within the realm of possibility that ESGHOST would hold the money apart in any event, to use at some future date. Perhaps Headquarters would not find this completely objectionable, in view of the terrific problem involved in introducing funds.
- b. ESFEUD raised, and C J considered with him, the possibility and/or feasibility of manipulating grant aid in such a manner that ESGHOST would receive in additional aid, the amount of the claim. This, of course, would not be a SKIMMER operation. Furthermore, it would not be an operation that the Guatemalan public would be aware of. It would of necessity have to be limited to ESGHOST and probably ESFEUD. This idea was examined thoroughly by ESEEDITOR and the C J and they collectively persuaded ESFEUD that the idea was too dangerous and difficult to undertake.
- c. The idea of SKIMMER subsidizing a Guatemalan bond issue in approximately the amount of the claim, was considered. Periodically, South American countries float long-term debenture bonds through the principal PBPRIME brokerage houses. The bond issue theoretically could relate directly to the claim or it could be a part of ESGHOST's effort to raise funds for increased electrical power. This idea presents many problems, however, some of which are the creation of straw men or fictitious buyers, payment of bond interest, which would be a continuing expense to the Guatemalan Government, and the eventual retirement of the bonds which would be at a time when ESGHOST would most probably not be on the political scene. Because of these difficulties, the idea was rejected.

6. In addition to the many organic flaws, the foregoing schemes all contain the same basic fault. They do not provide a means whereby ESGHOST can negate the political impact of paying up big-vested interests. The Guatemalan public would never know that it was not their own money that was actually used to make the payment. The undersigned has almost reached the opinion, however, that nothing can be done about this in any event. The goal for which to strive is a solution which would have the least negative political impact.

7. As indicated above, all of the schemes, a through c, were rejected for one reason or another. A member of the Station, Edward D. KNAPMAN, suggested the scheme cited in paragraph six of reference. In the Chief of Station's view, although not ideal, the plan had more merit than any idea conceived to date by all concerned with the problem. The underlying premise of the plan is this. There appears to be no ideal solution to the problem and we have not at this point decided to turn "X" dollars over to ESGHOST, hoping it is handled properly. Therefore, a scheme is needed which will:

- a. Provide ESGHOST with the price of the claim in negotiable currency or equal value, even though the people would never know it, and
- b. lessen the impact of the payment because it will in a sense divert attention to the payment, and
- c. will present no administrative problem of many years duration.

ESGHOST has already requested from Douglas J. FREAPANE informally, SKIMMER's views on how he can incorporate SKIMMER funds securely when the payment is made. As of this writing, SKIMMER had no answer for him other than to suggest an alternate scheme. Since he is undoubtedly concerned about the political repercussions of payment of the claim, he should be interested in a scheme which would tend to enhance his position in the public eye. As Headquarters knows, his popularity has slipped during the last year, and a good "shot in the arm" would not be out of order. If a suitable philanthropic foundation, PBPRIME or otherwise, would announce its intention to donate to Guatemala a school, library, or some other suitable gift, in recognition of the splendid work that ESGHOST did in throwing Communism out of Guatemala and his striving to achieve a middle-of-the-road government in the aftermath, this could have a salutary effect on the Guatemalan public if properly publicized. The announcement of the gift, however, would have to precede payment of the claim by a considerable amount of time to avoid connection with it. For the same reason, the amount of the claim and the net value of the gift would have to differ somewhat. Implementation of this plan, however, would depend upon the practicability or feasibility of Headquarters arranging an anonymous donation through a cleared contact in a suitable philanthropic group or foundation. It may well be that this represents as great an impasse as the problem of introducing funds into the Guatemalan treasury in a secure and satisfactory manner.

8. It should be clearly understood by Headquarters that we do not consider the foregoing plan a good or perhaps even acceptable one. Headquarters is in a much better position to determine its true practicability since it involves Headquarters support. Additionally, many more specialists are available to Headquarters for consultation. We merely state that we tend to regard this as the lesser of many evils, unless it is decided to merely make a payment to ESGHOST

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and hope he handles it properly. It may well be that Headquarters will find more merit in one of the schemes mentioned in paragraph 5 above. If so, we would be happy to explore it more thoroughly in an exchange of dispatches or cables. We have by no means given up on this problem. This dispatch, however, represents the best of our thinking to date for what it is worth. We will advise promptly as further ideas emerge. Meanwhile, we would greatly appreciate any ideas or schemes that Headquarters may have. It may well be that our thinking is along the wrong lines, and an exchange of views could quickly clarify the situation, and at least permit us to arrive at an acceptable compromise solution. As stated in reference, there is no question in Chief of Station's mind that this is one of the most difficult, if not the most difficult, problem that has faced the Station during his tenure. It is a problem that should be resolved in the not-too-distant future.

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29 May 1956

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