MEMORANDUM OF OBSERVATIONS
MADE BY THE MINISTER OF STATE, DR. CORTINA,
ON DECEMBER 25, 1940,
ON DELIVERING TO ME A MEMORANDUM OF COUNTER-PROPOSALS,
DATED DECEMBER 24, 1940,
WITH RESPECT TO THE LOAN, ECONOMIC ASSISTANCE, AND
COOPERATION BEING SOUGHT BY THE CUBAN GOVERNMENT.

Note: This memorandum is intended for
the use of the Secretary of State
and the Undersecretary of State
and only for such restricted
number of officials of the
Department to whose knowledge
they may wish it to come.

Coincident with the resignation of the Cuban
Ambassador at Washington Dr. Martínez Fraga, Dr. Cortina
began a series of conversations with me with respect to
the loan which the Cuban Government is seeking in
Washington. I made it clear to him at the outset, as
I had in previous conversations before the resignation
of the Ambassador, that I had no instructions or authority
from my Government which permitted me in any way to nego-
tiate with respect to the loan and the economic assistance
being sought by the Cuban Government. I informed him that,
while I had copies of memoranda of some of the conversa-
tions which members of the Cuban Delegation had had with
officials of the Department of State and of other Depart-
ments of our Government, I had no precise and adequate
knowledge of the nature or the progress of the negotia-
tions and conversations. The Minister of State said
that nevertheless he wished to discuss some of these
matters with me as it would help him to clarify his own
views and those of the Cuban Government. I said that
under these circumstances, I would be very glad to
answer his call at any time and to hear any observations
he had.
he had to make, but that I might not be in a position to be very helpful.

The Minister stated that the Cuban Government and he were dissatisfied with the progress of the negotiations. He realized that the Cuban Government had made a bad start. The law authorizing the loan had been hurriedly proposed by the Government and passed by the Congress on the Government's insistence as the life of the Congress was about to end and it was felt that it would be more difficult to secure authorizing legislation from the new Congress. Besides, there was this urgency in the matter as the Cuban Government needed financial and economic assistance imperatively. There was the further unfortunate circumstance that the Cuban Government had been led to understand that a loan from our Government could be had for the asking in practically any amount. I made it clear at this point that, in this connection, there could have been no misapprehension in connection with this matter from what I had said at any time to the Cuban Government, and the Minister said that he and the Cuban Government realized this and appreciated the frank and helpful attitude which I had constantly taken. He was referring, he said, to misleading information received from Cuban sources and not from American sources.

He said that the Cuban delegates had received a sympathetic and understanding reception from all the officers of the Department of State and from all the officers of other Departments of our Government with whom they had contact. The members of the Delegation had been clear and categorical in their assurances to the Cuban
Cuban Government of the understanding and sympathetic attitude of our Government. The trouble was that a wrong start had been made, and that he was convinced that the conversations would have to begin on another basis. The Cuban Government wished to use the precious material and information which the Cuban delegates had secured in Washington, but the Cuban Government wished to get away from the previous negotiations which, in his opinion, had been conducted on too technical a basis and had not taken into account the broad considerations of policy which he felt were involved.

The negotiations would have to take place as between gentlemen who had confidence in each other and on the basis that there was no question of mutual fulfillment of obligations.

He referred to a memorandum which had been handed to the Cuban Delegation but which, so far as the Cuban Government was concerned, they were considering as not having been received by the Government or intended for it, but merely a memorandum for the information of the Delegation. This memorandum with its timetable was a quite unacceptable basis and he said that the conversation which Undersecretary Welles had with the Delegation had cleared up this matter with entire satisfaction.

On the basis, therefore, of the conversation which the Undersecretary had had with the Delegation, which he termed as most satisfactory and understanding, the Cuban Government and he had been giving consideration to a new basis of approach. He had been studying the question of counter-proposals and now had the authority of the President and the Cabinet to hand me a memorandum for my Government which he hoped would form an adequate basis.
basis for more rapid progress. He then handed me the memorandum already transmitted to the Department, dated December 24, 1940.

He said that my Government would note that in this memorandum there was no mention of treaty negotiations, reorganization of the Treasury and of the Customs, nor of reduction in the budget, as he felt that these matters should be dealt with, and could be dealt with, satisfactorily between our two Governments and with mutual satisfaction. He was trying to bring the matter to our Government on a broad basis on which there could be ready agreement. He wished to present the matter in such a way that there could be rapid agreement in principle and that the details be worked out between the two Governments. So far as a Treaty of Residence, etc., was concerned, there should be no difficulty whatever in working out details and he was prepared to begin conversations with respect to such a treaty immediately.

With respect to a revision of the Trade Agreement, he considered this essential but this too should not be too difficult. He did consider that the present Trade Agreement was working out too strongly to the advantage of the United States largely as a result of conditions in the rest of the world. Cuba had lost her export markets to Europe and this, in the matter of sugar and tobacco, was most serious. What imports Cuba secured from Europe were now almost entirely cut off and were coming from the United States. This involved a considerable loss in revenue to the Cuban Government for these imports from Europe had paid a much higher rate of duty than that imposed under the reciprocal Trade Agreement on the same imports from the United States. He was in favor of a broad
broad treaty which would be practically equivalent to a treaty of military alliance and which would correctly interpret what he considered to be the close, essential and inescapable relationships with the United States.

He emphasized that the Cuban Government was prepared to enter immediately into treaty negotiations and to carry them forward rapidly.

With respect to reorganization of the Treasury and of the Customs and of certain administrations of the Cuban Government, the Cuban Government was in accord that these should be carried through, and was determined that they should be carried through. Just as treaty negotiations could not be made a condition of a loan, so these reorganization measures could not be directly tied up with, or made a part of, a loan arrangement. No Cuban Government which agreed to such an arrangement and to such a tieup could hope to live. The Cuban Government was prepared to go ahead with the reorganization of the Treasury. It was prepared to proceed with the reorganization of the Customs. There were practices in both administrations which had to be corrected to the advantage of public morale and the public revenue. I could give the most categoric assurances to my Government that the appropriate measures would be taken, but that my Government must leave this to the Cuban authorities. It would not be feasible nor practicable to have such reorganization carried through by joint committees of the Cuban and American Governments. This did not exclude the cooperation with the Cuban authorities of American experts in the matter.

With respect to the budget, he indicated that it would be reduced, but that inevitably the Cuban budget for the next year would have to be larger than that for the
for the current year. There were provisions in the Constitution which would have to be carried through, such as increases in the salaries of teachers, etc., which involved a considerable new burden. Items in the present budget would be materially reduced, but he must tell me that the budget as a whole would be larger. This was inescapable under the Constitution. The Government was now studying the reductions in the budget and the Minister of the Treasury had received specific and categoric instructions to give this matter immediate attention and to submit his report shortly. The new Congress would meet in January and the new budget would be presented to it as soon as possible. In the meantime, the present budget would be continued for the first three months of 1941. The Government was studying new taxes which would assist in meeting the additional charges in the budget and he believed that they would be able to meet the budgetary situation unless there were a drastic reduction in the revenues of the Government. For this purpose the economic cooperation of our Government was important in order to maintain as nearly as possible at existing levels the present economic situation in Cuba.

With specific reference to the memorandum of counter-proposals, he said that this had been kept in the broadest language and terms possible in order that the two Governments might not become lost in technical details. He knew that our Government was interested in the maintenance of the political and economic situation in Cuba which was so important from every point of view, particularly at this time. The Cuban Government wished to be in a position to cooperate
cooperate in these times to the fullest degree possible with our Government in all matters of inter-American policy and of defense. In order to assure this cooperation it was necessary to endeavor to maintain a stable situation in Cuba, or no Cuban Government would be adequately able to cooperate in such a program.

In the counter-proposals, therefore, the Cuban Government was for the present confining itself specifically to the question of credits for agriculture and for public works as these were the points on which our Government could reach, most easily and most rapidly, agreement with the Cuban Government. There was, of course, also the question of sugar which he had already taken up with us in a separate memorandum and which was the most immediate and pressing problem.

With respect to cooperation in agriculture, the Cuban Government had noted in the memorandum the sum of $10,000,000 as this was the sum which had been mentioned by the Import-Export Bank. What was needed imperatively was agreement by our Government to the opening of a credit to the Cuban Government of $10,000,000 for this purpose. The projects themselves would be determined by agreement between the representatives of the Cuban Government and of the Import-Export Bank. No project under this credit would be undertaken without the agreement of the joint experts. Once a project had been agreed upon and a specific sum allocated to it under the general credit, payment for the work would be made only on accounts approved by the representative of the Import-Export Bank. This procedure would assure that only sound projects would be undertaken and would eliminate any project which might be offered by purely selfish individuals or interests. The honest carrying through of a project, in which the Cuban Government
was interested as was our own, would be assured by payments being made only on approval by the representative of the Import-Export Bank.

With respect to the proposals for public works mentioned in the counter-proposals, the procedure would be the same as in the case of agricultural projects.

Useful projects would be carefully studied and determined by joint action of the Cuban Government and the representative of the Import-Export Bank, and payment be made on the same basis. The Cuban Government had not placed any amount in the memorandum which it desired for public works. It realized that it was the borrower and our Government the lender. The Cuban Government could not presume to fix the amount. There was unlimited possibility for useful public works in Cuba. The Cuban Government was leaving it to our Government as to the amount which we would agree to open in the form of a credit to Cuba for public works. I gathered that he was thinking in terms of $20,000,000.

The Minister said that if the two Governments could reach agreement without delay on the opening of such credits for agricultural assistance and public works it would, in addition to action on sugar, solve the immediate problems of the Cuban Government, and it would give the Government the prestige which it needed in order to carry through the various reforms already mentioned and which it desired to carry through. He emphasized the necessity for the Cuban Government having adequate prestige. He said that it was a new Government which had to establish itself and its position with the people. Heretofore the Cuban Government had to place its confidence
confidence in the support of the Army. They had now entered a period of Constitutional Government. The Government had very difficult tasks to perform. The administrative reforms in which they and we were interested, while essential, were difficult to carry through but in order to carry them through there was necessary a Government with adequate prestige. This prestige could only come through such assistance and support which our Government gave it. Our Government had been making loans to others of the American Republics and these seemed to be carried through after relatively short negotiations. The Cuban people did not understand this, and this situation did not increase the prestige of the Government, but rather the contrary. It was absolutely essential for the Government to broaden the support which it received from the people and to lessen the support from the Army which should become the instrument it should be in a democratic system.

Just the other day President Batista had asked four or five of the leading Colonels in the Army to a private conference. He had told them that the graft in the Army must stop. He had told them that they must be content with the fat which they had. The budget of the Army would have to be reduced and the processes through which officers had been enriching themselves at the expense of the Treasury and the public revenue would have to stop. President Batista knew that he could count on the support of Colonel Pedraza and some of the Colonels. Others would be more unwilling and difficult. This was one of the reasons why it was important that the Government increase its prestige so that it would be in a position to carry through action against individuals.
The Minister of State emphasized the definite decision of the Government to carry through these administrative reforms. He mentioned specifically the provisions of the new Constitution with regard to the Court of Accounts established therein. This would be set up shortly. At the head of it would be put the present Minister of the Treasury who was formerly a member of the Supreme Court and of whose personal honesty there was no question. This Court of Accounts under the Constitution was independent of the President and the administrative officials of the Government. It was like our General Accounting Office in many respects. Once this system was set up it would be a powerful instrument in preventing losses to the public revenue and dishonest practices now so prevalent. He reiterated that the Treasury clean-up would be made. He particularly emphasized that in the Customs and in the Army there would have to be a thorough clean-up.

The Minister kept emphasizing the necessity for the Government's securing the necessary prestige and popular position in order to carry through these measures. He said that President Batista was a very intelligent man. He desired to be a great President of Cuba. This was now his great ambition, and he realized, to carry through that desire, the closest cooperation with us was necessary and that that involved honest administration. He indicated in indirect terms that President Batista was a really well-off man and was not interested himself in securing any personal profit out of his position. He emphasized that there was a situation in Cuba which the Governments of Cuba and
and of the United States, as its best friend, must know how to use. It would be a source of great regret and a disaster if this opportunity were not used by both Governments. The fact that Batista wished to be a great President and was willing to cooperate must be capitalized to the advantage of both countries. There were those in the Government, like himself, who were anxious to help the President in this task. It was a most difficult one for the Government had so little prestige and he and his associates needed to have their hands strengthened before the public and with the President. The President saw this assistance going to some of the other American Republics and he could feel prestige and his power to do things lessened. It was, therefore, absolutely essential in the interest of both countries that the hand of the Government here be strengthened to carry through the task which they had to carry through. For this reason he had formulated his counter-proposals in such a way that he felt there should be ready agreement on the question of an agricultural credit and of a credit for public works. This action, together with action on sugar, would give the Government the prestige which it needed and put it in a position to carry through the administrative reforms which he realized were just as necessary as this financial and economic cooperation from us.

With respect to the organization of a central bank, he said that I would note, and my Government would note, that he was not making any specific proposal. He realized that the organization of such a central bank was a difficult and delicate matter. On the other hand, it was an essential and integral part in any
program of economic cooperation. Cuba simply had to have this central bank which would also have the opportunity of making agricultural credits. He was merely raising the question in the memorandum so as to bring it forward for immediate and active discussion. The establishment of such a bank would involve Cuban legislation. It was no use endeavoring to formulate such legislation until appropriate conversations had taken place between our two Governments. The assistance of our Government in the establishment of the bank was needed and without that assistance it could not be carried through. Any program for assistance in agricultural development and public works would in the long run be sterile of its best results if such a bank were not established. The views of our Government, therefore, would have to be taken into account by the Cuban Government and, as soon as agreements had been reached in principle, that legislation could be drawn up. The Cuban Government wanted to be in a position to approach the Cuban Congress and say "Here is a piece of legislation for the establishment of a bank" which met its views and ours. It was useless to try to approach it in any other way. While the foreign banks in Cuba had in a large measure acted more like provincial banks and had not fulfilled their function here as constructively as they could have, it was recognized that they had aided in the development of the country. I was familiar, he was sure, with the fact that the Constitution provided for a central bank and provided for the participation of foreign banks established in Cuba in the bank and in its administration. There was no desire on the part of the Cuban Government through
through the establishment of the central bank to interfere with the proper activities of the foreign banks in Cuba. On the other hand, the establishment of the bank should be to their advantage as it was to that of Cuba.

He expressed the hope that progress could be made without delay in discussing the establishment of such a bank so that the necessary legislative basis therefor could be provided by the Cuban Government in the establishment thereof assured.

The Minister said that in addition to the memorandum of December 24, 1940, he was preparing further memoranda, together with his associates, which he would shortly present to me for transmission to my Government. This would have to do with treaty negotiations, development of the cattle industry, etc. He emphasized again that so far as the reciprocal Trade Treaty was concerned, through no fault of either party, it had developed in a manner more advantageous to us than to Cuba, and in a degree that it could hardly be termed a "reciprocal trade treaty". We would wish to bear in mind, he was sure, that Cuba had lost practically her whole export trade with Europe. We would wish to keep in mind that the imports she formerly got from Europe were now coming from the United States and that they were paying less duty under the treaty so that there was a serious loss in revenue to the Cuban Treasury. I told the Minister that I would not fail to transmit the memorandum of counter-proposals to my Government immediately. In view of the general character of the memorandum, oral comment thereon to my Government was
was almost imperative for its understanding consideration by my Government. I had, therefore, during the course of our conversation reached the conclusion that I would suggest to my Government the desirability of my proceeding to Washington almost immediately to give certain background based on my conversations with him. The Minister said that he was deeply gratified that this suggestion came from me as he was hesitating to make the suggestion himself, but he considered it most important that I give this oral background in the Department. I told him that unless he heard from me further he could take it for granted that I was proceeding to Washington shortly. The Minister said that he was not feeling very well as he had over-taxed recently his not too strong health and he intended to leave the following morning for his finca and he planned not to return until after New Year's day. He indicated the manner in which I could get in touch with him in the meantime.

I told the Minister that I did not have to tell him of the sincere desire of my Government to be of assistance in a constructive way, but that he would bear in mind, I was sure, that there were limitations on what could be done and that these limitations bound us very definitely. We wished to help Cuba in a constructive way and we could not take any action which we were not reasonably sure would really be helpful. Any other attitude on our part would not be that of a good friend. I also called his attention to the fact that I quite understood his wishing to separate certain action of the Cuban Government in the way of administrative
administrative reforms from the actual credit operations. On the other hand, it was very important for us to know that the assistance which we would find ourselves able to give were really being used for constructive purposes and that certain practices, which he and I were well cognizant of, would cease or be materially reduced. I would see the Secretary of State and the Undersecretary and, perhaps, ranking members of other Departments of our Government while I was home. I would have to report honestly and fully. I would therefore be assuming a considerable responsibility in assuring my Government that certain steps would be taken by the Cuban Government. In view of the past record, which we had to keep in mind, could I give certain categoric assurances to the Secretary and the Undersecretary as to performance? He said that I could unhesitatingly state that the Cuban Government would renew Decree-Law 522 without substantial alteration; that it would take measures to prevent discriminatory action under existing decrees in the distribution of sugar quotas; that the budget would be materially reduced in certain items and that new taxes would be levied to meet the additional charges; that the reorganization in the Treasury and in the Customs would be carried through; that there would be a clean-up of dishonest officials, also in the Army. The Government had to be put into a position where it could do these things, but they would be done. He indicated that the nature of the program which he was proposing was such that it was one which involved mutual fulfillment of obligations and that it was on that basis that it had been prepared.

The Minister
The Minister insisted upon the confidential nature of the memorandum of December 24, 1940. He said that the nature of it would not be made public. The Cuban Government at this moment could not afford to have it known that it was undertaking to carry through what was equivalent to joint control of certain expenditures, even though they were expenditures of funds advanced by another Government. He, therefore, asked me to keep within as small a circle as possible this memorandum and the observations which he had made to me, particularly in the conversation now being reported. Once the Cuban Government had prestige, which this action by our Government would give it, it could proceed more definitely in these matters and would do so.

The Minister further called my attention to the fact that in the memorandum of December 24, 1940, no mention is made of the law of September 1940 authorizing the $50,000,000 loan. He said this had been done purposely as he realized that new legislation might be necessary. Whenever the Cuban Government knew of the legislation which would be necessary in order to implement any arrangements which we were prepared to make, the Cuban Government was prepared to call the Congress in special session, and he was sure there would be no difficulty in voting the necessary legislation. I remarked that this was most important as I saw the probability of special legislation being necessary to carry through any action on sugar, and probably in connection with the opening of credits for agricultural cooperation and a public works program.
In this connection, I may say that I saw President Batista at noon today and he indicated to me that while he had not planned to call the Congress into special session before January 15, 1941, he was prepared to call it into special session at any time it might be necessary in order to vote legislation essential to implement any arrangements with us. He would like, however, to have information as soon as possible as to what legislation was required so that it could be prepared before he called the Congress and avoid delays. The attitude of the President today showed that he was prepared to give his full cooperation in the way of essential legislation.

In closing our conversation being reported upon, Dr. Cortina stated that the appointment of Dr. Conchesa as the new Ambassador to Washington was indicative of the desire of the Cuban Government to enter into the fullest cooperation with us. Dr. Conchesa had the full confidence of the President and of the Cabinet. His appointment was a part of their program of fulfillment for he could be depended upon to faithfully transmit to his Government the attitude of our own, as well as to convey to our Government faithfully the attitude of the Cuban Government. As a further indication of a program of fulfillment which they were undertaking, he said it was the intention to appoint Dr. Amadeo López Castro as Minister of the Presidency. This would strengthen the hand of those who were trying to carry through an honest program and one of complete cooperation. I could say to my Government that this position of Minister of the Presidency was most important because of the
of the close relations it had with the President. I may add that President Batista confirmed to me today his intention of appointing Dr. Amadeo López Castro as Minister of the Presidency to succeed Dr. Conchesa. This would be, in my opinion, a very favorable development and one indicating a desire of the Cuban Government to follow a definite line of reorganization and fulfillment.

George S. Messersmith.