January 31, 1943.

Memorandum of Conversations on the Activities of the Board of Economic Warfare and Other Agencies of our Government in Mexico.

On my arrival in Washington about a week ago I discussed with Secretary Hull and Under Secretary Welles, briefly and in general terms, various aspects of the activities of the Board of Economic Warfare and other agencies of our Government in Mexico City in connection with our procurement and development program of strategic materials, and I expressed my concern with regard to the manner in which some of these activities were carried through by the Washington agencies and some of their representatives in the field. The matter I said was of sufficient reason for preoccupation so far as our relationships were concerned as well as the success of the programs themselves that I deemed it advisable that I discuss various phases of the problem with Vice President Wallace, high officials of the B.E.W., and of other procurement and development agencies. The Secretary and Under Secretary indicated that they believed it would be desirable for me to enter into such conversations in order to establish certain background information.

During the past week I called on Vice President Wallace and during the course of a long conversation I gave him full information concerning the working out of our procurement and development program in Mexico. It will be impossible to set forth all the details of this conversation which was very long but the following points were covered by me therein.

I said that under congressional statute and executive orders various agencies of our Government including the B.E.W. were charged with the procurement of certain
certain strategic materials essential for the war, and with the development of existing sources and new sources of such materials. This procurement and development program was of particular importance in view of the fact that so many sources of strategic materials needed in the war effort were no longer accessible to us. Of all the American republics Mexico was in many respects the most important to us already, and would be increasingly so, as a source of strategic materials. While we were able to secure certain metals and strategic materials from Chile, Bolivia and Ecuador by sea the quantities which we could transport were limited by shipping problems of various kinds. In other countries, we were carrying on procurement and development programs but in some cases unfortunately it was more a question of accumulating stockpiles and the question of transport on considerable and adequate scale was one which still had to be solved. Fortunately, in the case of Mexico the geographical continuity made it possible for us to transport strategic materials from there by rail. Sea transport from Mexico was practically out except for the transport of henequen from Yucatan where rail facilities from Yucatan connecting with the Mexican National Railways were not available. The Mexican National Railways system, however, with other lines, was entirely adequate to provide for the movement of strategic materials and for necessary supplies from the United States to Mexico. The fact that we had this means of transporting materials from Mexico to the United States was a great boon to us and while Mexico was already our principal supplier of strategic materials from the other American republics, the fact that this rail transport existed made it certain that she would increasingly become indispensable to us.

I said that it was, therefore, fundamental to consider Mexico as already and increasingly our principal source of strategic materials in the other American republics.

I outlined to the Vice President the program which we have undertaken in the collaboration with the Mexican Government for the rehabilitation of the Mexican National Railways in order to bring about conditions on those railways which will make possible during the course of the war the transportation of these strategic materials. I set forth to him the substance of the exchange of notes on this
this matter. I said that the transport of these strategic materials and making them available to our war industries which desperately need them was a matter of both Governments carrying through their obligations to the last detail in this exchange of notes. I expressed the opinion that so far as the Mexican Government was concerned it would do so and also the opinion that in our own agencies of the Government concerned there was adequate recognition of the problem and its importance to assure compliance by us. I said that our rail mission was functioning most effectively under its new head, Mr. Oliver Stevens, who was most competent. We had already found that the quantity of materials and equipment needed from the United States was much smaller than we originally anticipated when we entered into the exchange of notes and this, of course, was most important from our point of view as most of these materials were among the scarce materials in our country. I expressed the opinion that with the steps already undertaken there in progress, and with the faithful compliance of both Governments to the terms of the agreement, we would be able to move by rail both ways all the materials involved in our exchanges with Mexico and I saw no need for the application at this time of any restrictions on the movement of any kind of goods. The Vice President showed complete understanding of the importance of this strategic material and transport problem so far as Mexico is concerned and expressed his satisfaction that the prospect for being able to handle all this traffic was so good.

The Vice President then wished to discuss in some detail various aspects of our program for the procurement and development of strategic materials. So far as the procurement of minerals and metals is concerned I said that this program was the most important and was working out most satisfactorily. This was due to a number of factors including the wholehearted collaboration of the Mexican authorities and the fact that the mining industry was one of the most important, oldest and best established in Mexico in which responsible companies were operating. Another contributing factor to the early success of this program was the minerals and metals agreement which had been worked out by Dr. Bateman now the head of the Minerals and Metals Division, and at that time the representative of the Metals Reserve.
This agreement had been negotiated by Dr. Bateman early in 1942 under my general supervision. The minerals and metals program was progressing even more satisfactorily than we could have hoped and there was a good prospect of our getting 1,200,000 tons of strategic minerals and metals from Mexico in 1943 which represented a very considerable increase over 1942. This program was working so satisfactorily that I did not believe we need discuss it any further.

So far as fibers of all kinds are concerned, I said that Mexico had become our principal source since the Far Eastern sources were cut off. These fibers were important not only for strategic war purposes but also for our farming industry which was largely dependent now on Mexican fibers for binding twine, etcetera. This program, too, had been worked out quite satisfactorily through agreements entered into with the Mexican Government and the Mexican fiber industry through which all of the production of Mexico of these fibers was available to us with the exception of the minimum essential requirements for Mexico. In this program, too, we had been able to make quite satisfactory progress and bring it into order as the work was facilitated by the fact that in the fiber industry there were several well established associations of producers which made the making of agreements for purchase and development more easy and practicable. I said that I thought we could consider the fibers program as being in good shape and we were getting from Mexico all her surplus fiber which went very far to meet all of our needs from outside the country.

Some of our other procurement programs were not proceeding so satisfactorily and I said that this in my opinion was due to the fact that we had not from the Washington end approached these programs in the orderly and understanding manner which should have been employed. I said that naturally there was a great zeal on the part of all of us to do what was necessary in the war effort. A great many men of recognized competence in business and industry in the United States had been brought into various agencies of the Government and particularly into new and emergency agencies. These men were unquestionably competent for the most part but a very considerable number
had no knowledge of our international relationships and their importance nor of the conditions in the countries in which the materials were to be procured. There was a tendency on the part of the most well-meaning and competent men in certain agencies of the Government to consider such procurement and development programs in the same terms as if the procurement and development were taking place in our own country. Some of them did not realize that we were dealing in sovereign countries very jealous of their prerogatives and sovereignty and in each of which special conditions prevailed which had to be recognized and, therefore, dealt with in the proper spirit of understanding. I said that there was a tendency through this zeal to endeavor to carry through procurement and development activities as though we were acting in our own country and that, because of some of our methods, or rather the methods of some of our agencies and their representatives, a certain amount of harm had already been done to our relationships and prestige.

I said that it was fundamental that the heads of all procurement and development agencies make it clear to all of their people at home and those who may be stationed in the field, that in these procurement and development programs we are working in sovereign and independent countries whose rights and susceptibilities we must respect as otherwise we would be creating the impression that at a time when we are fighting the greatest war in the world history to maintain the sovereignty and self-respect of nations we would be indirectly through a program of this kind violating such sovereignty and self-respect.

The Vice President showed that he had full understanding of this phase of the matter.

I further said that, through our desire to secure the largest quantity of available strategic materials and to develop existing and new sources, some of the people in the various agencies were using methods which in the long run would produce the contrary results. As a concrete example I pointed out that, while the procurement and development program could be used for no other purpose except the procurement and development of such materials, there was an increasing
increasing impression in Mexico and from what I could learn in certain other American republics, that certain individuals in our Government were endeavoring to use the procurement and development program to achieve certain social ends. In this connection I mention specifically the labor clause which the B.E.W. was insisting be inserted in certain of its contracts made with governments and private firms, and which it was asking other agencies such as Defense Supplies, Metals Reserve and et cetera, to insert in its contracts. I said that these labor clauses which had been proposed for several contracts in Mexico were too far reaching and involved interference in the internal conditions of the country. I specifically referred to a contract which was recently intended to enter into with a mining company in Mexico and containing a clause which would have involved the obligation of the company to enter into a labor contract with a syndicate in the mine. I said that under the Mexican constitution and statutes every man was guaranteed the right to work where he pleased and to seek employment where he pleased and that an employer was by the constitution and law not permitted to exclude a worker because he was not a member of a syndicate. I had, therefore, insisted that the proposed labor clause be changed in order to bring it in line with existing Mexican law. It had been very difficult to convince the Board of Economic Warfare of this. I said that we had had more or less continuous difficulty with these proposed labor clauses and that I was undoubtedly considered by some in the B.E.W. as being arbitrary and reactionary. I wanted to make it clear that my attitude and that of the Embassy in Mexico City was that it was our understanding that our mandate in the agencies at home from the President and the Congress was to secure certain strategic materials and develop resources and that we had no mandate whatever, and could have none, to endeavor to establish certain social or labor standards in other countries through the operation of our procurement and development program and contracts thereunder.

I said that I was mentioning this in this detail as it was most important in view of the fact that persistence on our part in endeavoring to insert such clauses in the procurement contracts could only result in impairing the procurement and development of materials and in bringing about internal social disorder in countries which in some
some cases were not too stable and in impairing our relationships with the countries concerned which would consider such action on our part as a violation of their sovereignty and as an interference in their internal affairs. I said that so far as Mexico was concerned she had under her constitution and laws provided safeguards for labor and a social program which went very far and which was one of the most advanced of any country certainly in the Western Hemisphere. The Mexican Government had found that carrying through certain social provisions in its constitution and laws would result in the complete disruption of industry by placing burdens thereon which the immature and somewhat undeveloped economy of the country were not able to bear. Certain provisions of the constitution and laws, therefore, affecting the social structure were permitted to remain as it was not considered wise to tamper with the constitution and laws at a time like this but in order not to bring about disruption of Mexican industry individual companies were exempted from the full effect of the law with the understanding that they would proceed as rapidly in meeting its provisions as the industry and the general economy of the country permitted. I said that we had to recognize that Mexico was a country whose economy was still very unstable and that the Government was desperately struggling to strengthen its economy and to bring about internal unity and to raise the standard of living. This for Mexico was a difficult process and our procurement and development program properly carried through would do a great deal to help and was helping. I pointed out that, however, if we endeavor to carry through certain social objectives through our procurement and development program we would not only be alienating the Mexican Government which would consider that we would be interfering with its sovereignty and interfering in its internal affairs, but we would be injecting a strong element of unrest in an already sufficiently delicate economic situation and we could easily bring about economic unrest which would bring about disaffection, strikes and stoppage of production in industries which were vitally important for us in the war effort.

I said that it was my understanding that we had finally agreed upon a type of labor clause which could be used in contracts and I cited the labor clause used in...
in the Minas de Guerrero contract which reads as follows:

"Seller agrees to maintain such conditions of labor (including health, safety, housing, sanitation, hours of work, wages, child labor, unemployment and disability compensation) as will tend to maximize productive accomplishment in the operation of its mine, plant and facilities hereunder and to comply with all Mexican laws and procedures, conventions or agreements in force and effect between the Republic of Mexico and the United States."

I said that this was as far as we could go and that I thought under no circumstances should we endeavor in any contract to put a labor clause differing from the foregoing in any essential way.

I said that in all frankness I should bring to his attention the fact that after I had objected to the inclusion in a contract of a clause which would have obligated the mine concerned to enter into a contract for collective bargaining, et cetera, which in effect would have been exclusive it was my understanding that certain officials of the B.E.W. had secured legal opinions to the effect that the wording which they had in mind was not contrary to Mexican law, et cetera. I said to the Vice President that it was, as he knew, possible to get for a fee almost any legal opinion one wished when one knew where to go for it but that in a matter of this kind obviously the opinion of the Embassy should be controlling rather than that of legal opinion with regard to Mexican law and procedure sought by agencies in Washington from private sources. I said that I knew that the clause as proposed was objectionable to the Mexican Government and considered as an interference of its internal sovereignty and procedure and contrary to its constitution and laws and I had so said. This, it seemed to me, to be sufficient for any agency of our Government in Washington and the insistence of certain persons on the inclusion of such an unnecessary clause in the contract seemed to give at least some basis for the belief held in the Government and in other circles in Mexico and in some other countries that we were endeavoring
endeavoring to interfere in the internal affairs of these countries particularly in the social field. I called attention to the fact that in practice any employer of labor in Mexico is obliged to enter into a labor contract so that any provision in a contract to this end is utterly unnecessary.

The Vice President stated that he appreciated very much my statement in this respect and that the matter was new to him and that he wished me to discuss it in full with officials of the B.E.W. which I said I would be glad to do. I said that I was mentioning this to him particularly not only from the point of view of our relationships with these other countries but because the constant exchanges of correspondence and telegrams with regard to these labor contracts was utterly unnecessary expenditure of time and effort on the part of officials at home and abroad when we had so much to occupy us.

The Vice President then spoke of the rubber program which was of such primary importance. I told him that this program was in utter confusion and that I would be lacking in frankness if I did not make it clear that this confusion was due to certain situations in Washington rather than to any situation in the field. I said that it was of extreme importance that the facts be completely known and understood as in view of the importance of this rubber program and the difficulties involved therein there would be a lot of "buck passing" which could do no one any good but a lot of harm at home and abroad. I said that the major difficulty in the rubber program had been that the agencies at home had not been able to determine on definite and concrete policies but had occupied themselves with secondary aspects before settling the major aspects. I said that as a result there had not been adequate directives and that the whole problem was confused further by the overlapping of authority by the agencies concerned with the same problem.

I pointed out that for example there were all sorts of ideas and wild talk with regard to what could be got from Mexico in the way of rubber. Most of these plans were utterly unrealistic and because of this unrealistic approach it had been impossible to reach any basic...
realistic program and for months nothing had been accomplished. Much of this was due, of course, to overzealousness but some of it was also due to people trying to establish by talk an alibi for lack of progress. All this was dangerous not only because in the meantime what realistic program was possible was lagging but also because various hopes were being aroused and we could not have a realistic idea of what was available from other countries.

I said that we had a single procurement and development office in Mexico under one head. This was only the case because of my insistence that in Mexico we keep our organization as well coordinated as possible in order to keep it effective. I had resisted all attempts to have separate organizations of the different agencies and would have to continue to do so as any other course would be disruptive of our procurement and development program. I felt sure that if he got objective reports from those who know the facts he would find that our procurement and development set-up in Mexico was more effective and better coordinated than that in any other American republic and that it must at all costs be kept so. The man at the head of this program, Mr. Ransom, was the most effective, I believe, we could find for this purpose. He must be retained in this position and the structure of our organization there which provides for this unification in one office and one head of all of our procurement activities must be maintained. I said that the liaison between the procurement and development agency and the Embassy could not be better and closer and that the relations with the Mexican Government and industry were close and effective. The head of the procurement and development agency naturally operated under the Embassy's supervision. I said that I saw Mr. Ransom every morning and every afternoon in order to go over major matters in our procurement and development program and that I followed these very closely. I said that Mr. Ransom and the Economic Counselor and other officers of the Embassy were in close touch constantly during the day.

I emphasized to him that the contact between these agencies in Washington must be through the procurement office in Mexico City and the Embassy and that negotiations and conversations with the Mexican Government must
must be through the Embassy. I said the Mexican Government would not have it in any other way and it was the only proper way for us to do it and that, in view of his wide experience, he would appreciate how essential it was that all negotiations and conversations with other governments be through the Department of State here in Washington and through our Embassy in Mexico City or our missions in other capitals. Before entering into such negotiations and conversations the attitudes and points of view of our Government in a particular matter would, of course, be clarified by consultation among all concerned, but the actual arrangements and conversations could only be through the Department of State and the foreign government, and in foreign capitals through our missions. I said that there was an unfortunate tendency on the part of certain officials of our Government to try to avoid these steps and necessary channels and, while this might come from excessive zeal and lack of understanding, it was dangerous and would produce directly the contrary results we were all after. I said that I hoped definite steps would be undertaken in all agencies interested in procurement and development to see that, so far as the Washington procedure and that of their representatives in the field are concerned, it should follow this essentially necessary channel.

With respect to the rubber program I said that there were all sorts of misconceptions so far as Mexico was concerned. So far as Mexico was concerned we had a rubber agreement which it was generally conceded was as good as, if not the best, such agreement we had. It provided essentially that we give Mexico 4,500 tons of tree rubber a year (this was about two-thirds of what the Mexican industry had previously consumed). Of the fabricated products including tires made in the Mexican factories, out of these 4,500 tons, seventy percent would be for the internal needs of Mexico and she agreed to make no exports of fabricated products to other countries except the United States. The thirty percent of the fabricated products from the 4,500 tons would be at the disposal of the United States Government for its own use or for export to specific destinations in other countries under approval in each case of our Government. I said it was to be noted that this left Mexico with only about 3,000 tons of tree rubber for her industry which formerly had used about twice that
that amount. This involved in itself a reduction in internal consumption in Mexico of tires and other rubber products of fifty percent or over.

On the other hand, Mexico under this agreement obligated herself to export to the United States alone every pound of tree rubber, guayule or other latex produced in Mexico. It was, therefore, a very favorable agreement for us because it involved considerable sacrifices for Mexico and very real advantages for us.

I said that I think he should know the facts which had been so much distorted. The impression had been raised that we could during the war get great quantities of rubber from Mexico. I pointed out that so far as tree rubber in Mexico is concerned there were no cultivated tree rubber areas. The only tree rubber which exists in Mexico is wild tree rubber. Mexico had not been exporting in recent years any tree rubber. Her needs had been supplied from the Far East. She had produced during the last few years a maximum of 300 to 350 tons of wild tree rubber which had been absorbed by the local rubber manufacturing industry. There were some people in Washington and perhaps certain interested persons in Mexico who were talking in terms of our being able to get during 1943 and in following years as much as 6,000 tons of tree rubber a year by following an intensive collecting program. This was utterly fantastic and it was dangerous to have any illusions in this respect. There were others more conservative in Washington and in Mexico who talked in terms of 3,000 tons of wild tree rubber a year from Mexico. This, too, I thought was too optimistic and without adequate basis. In my opinion and in the opinion of those who viewed this matter realistically the most intensive program of collecting tree rubber in Mexico would not bring us more than 1,200 tons a year but I thought we might be able with a fair margin of safety to reckon on this amount. I said it was, therefore, very important to view this tree rubber situation realistically so far as Mexico is concerned and to base our plans for collecting, and contracts for collecting on this realistic basis, and not on such fantastic ideas as 6,000 tons. We know where
where these wild rubber trees are found. The areas were relatively restricted. A few companies charged with this collecting program could adequately cover these areas. It was useless to enter into contracts with all kinds of people who represent themselves as being able to do the job. It would have to be in a few hands which could adequately direct these activities in the known areas. That was the only way we had the hope of getting out these 1,200 tons.

So far as any program for developing tree rubber in Mexico was concerned I thought that this was fantastic and that we should discard it at once. Under the most unfavorable circumstances the war would be won before, and long before, any rubber trees now planted would come into bearing, and when they came into bearing we would be meeting our needs from synthetic rubber produced in this country and from tree rubber from other previously producing areas at much lower cost. Aside from the impracticability of promoting a program for cultivating tree rubber in Mexico from the point of view of the war effort, it was highly undesirable to talk about such a program because it would merely raise false hopes and expectations which we could not fulfill for the chances were that we would not buy a pound of such tree rubber six or seven years hence should cultivated trees come into bearing.

So far as guayule is concerned I said similarly there had been the wildest and most irresponsible talk. The fact that there was wild guayule in Mexico in considerable quantity, last year we had secured from Mexico about 8,000 tons of guayule. By the most extensive collection methods we could enter into we might be able to raise this development to 11,000 tons in 1943 and probably to 12,000 tons. The only thing we could do this year was to endeavor to collect all of the wild guayule and if we did that the maximum we would get was certainly 12,000 tons and it might be only 11,000. This, however, was most important for us for Mexico was perhaps our principal supplier of guayule which is essential in our processes for making synthetic rubber. I called attention to the fact that our processes of making synthetic rubber called for a mixture of the latex from guayule. Mexico, therefore, was making a real
real contribution by having given us last year 8,000 tons of guayule and our being able to get this year almost certainly 11,000 and probably 12,000 tons.

Obviously, there were already existing means of collecting guayule which were effective because we had got 8,000 tons last year. Obviously, to get the additional three or four thousand tons would require a special and organized effort on our part. On the other hand, however, some of our people in Washington seemed to talk about guayule as though we had to send an army to Mexico or to organize an army there to collect this guayule. I said that it was largely a collection problem which if we took up with responsible companies there should be no difficulty in carrying through.

There was similarly a lot of irresponsible talk about development programs of guayule. There were people who were talking about planting thousands of acres in Mexico of guayule. A guayule plant would take three years to mature to produce latex. By the time that the guayule now planted would come into bearing the war would with almost certainty be completed. We would not need this excess guayule then and we would not wish to buy it and if we did buy it it would be at heavy cost to our Treasury and taxpayers. The normal collections of guayule possible in Mexico from the wild guayule now existing was sufficient to a considerable degree for the mixing processes required in the synthetic rubber industry. While a certain restricted program carefully thought out for the development of guayule planting might be desirable in the long, as well as in our near range interest, such a program would have to be envisaged in my opinion on sounder lines and in more conservative lines than had been considered up to now.

The fact, however, was that the program with regard to guayule had not been properly formulated and adequately considered and because of this there had been a lot of talk, a lot of speculation and a lot of confusion, with no progress. It seemed to me that if the people who really knew something about this would get together in Washington from the agencies concerned a clearly defined and considered program could
could be arrived at and then the proper directives and the proper action undertaken. I, myself, was definitely of the opinion that while we had to concentrate on guayule collecting it was not the problem of the magnitude it had been reported, and that the guayule development program should be undertaken on a conservative scale keeping in mind the realistic conditions of our present and future needs. I emphasized again the undesirability, which he so well knew, of stimulating the development of a product for which the market was insecure or later non-existent.

I then referred to the cryptostegia program. I said that although no method had yet been developed by the technicians to extract the latex from the cryptostegia I felt sure that we could depend upon our technicians to develop such a method within the next six months and before any cryptostegia in quantity was available for processing. On the other hand, we had to consider that it took a year at least from planting for the cryptostegia vine to be able to produce latex. This plant had the advantage of maturing in a year to a degree to produce latex. I could, therefore, see a basis for proceeding with a development program for cryptostegia as it offered a possibility of providing rubber during the duration of the war. I said, however, in this program, too, our ideas were still vague and confused and we had not adequately formulated a program to be in a position to give directives and take action thereunder. I was too inexpert in these matters to have any definite opinion as to the degree to which we should develop a cryptostegia program in Mexico or elsewhere with advantage to the war effort but one thing was clear and that was that whatever we said should be done on the basis that it was purely a war program and that we would not be in any way planning to use cryptostegia latex after the war. We had to predicate so much of these programs on our synthetic program and on the degree to which we would use former sources of tree rubber after the war.

Because of this confusion I said that the B.E.W. and Rubber Reserve had been sending people to the field and Mexico on these rubber programs without adequate
adequate directives and this had only added to con-
fusion. There were those who undoubtedly thought I
was obstructive and reactionary because so far as
Mexico was concerned I was objecting to this indis-
criminate sending of people to the field. There
seemed to be the tendency on the part of certain
people to relieve their conscience and to believe they
were doing something on rubber when they sent people
abroad. I said the net result was confusion and
impeding progress rather than helping it. I tried to
be realistic about these things and keep in mind what
we were interested in was getting rubber and not in
merely making a show of doing something. I said that
we had to bear in mind the bad impression caused in
Mexico and in other countries by our sending there so
many people who talked about these things without any-
thing happening. Our prestige had already suffered
because of this sort of thing and we could not afford
that to happen big and strong as we were.

I said that I had been recommending for four
months, and the head of our procurement and develop-
ment office in Mexico, Mr. Ransom, had been recom-
manding for four months, that a competent person be sent
to Mexico to head our rubber program. Mr. Ranson had
a very big and important job for which he was eminent
and which he was doing very well. He needed the right
people, however, to head up these various programs
under him. Instead of doing this he was being sent
subsidiary personnel and there was not adequate
directive from Washington and no adequate direction
possible, therefore, in the field. I had finally in
desperation indicated that I would be ready to let our
Agricultural Attaché, Dr. Mallory, serve under
Mr. Ransom in the procurement and development office
as the head of the rubber and other agricultural develop-
ment program. I had discussed this with Mr. Poteat of
the B.E.W. in Mexico City some six weeks ago and I
gathered he was agreeable. Later I was informed from
Washington that Mr. Poteat had indicated that Dr. Mallory
could not be used for this purpose as he understood
he would have to remain on the Foreign Service payroll
of which service he was a member, and the man who headed
the program would have to be on the payroll of the
B.E.W. My observation that it did not seem to make any
difference whether a man was on the payroll of the B.E.W.
or the Foreign Service of the Department of State so far as his performance for our Government was concerned, seemed to carry no weight. It was my understanding now that the actual conduct of the rubber program was to be concentrated again in the Rubber Reserve, that that organization was prepared to and desirous of having Dr. Mallory head the rubber procurement and development program under Mr. Ransom and I said that at the request of the Rubber Reserve I had asked Dr. Mallory to come to Washington for a few days for consultation here before assuming these duties for Rubber Reserve under Mr. Ransom in Mexico. Concerning the qualifications of Dr. Mallory to head this program there was no doubt because of his nine years in Mexico as agricultural Attaché and his knowledge of the whole country. I also pointed out that he would be admirably suited to carry on all these negotiations and conversations with the Mexican Government because of the respect and confidence he enjoyed therein. In this connection, Mr. Wallace indicated that it was clear that the Rubber Reserve was again directly charged with major aspects of the rubber program and he agreed that Dr. Mallory would make a good man to head it up. He said, however, that he did not believe the B.F.W. would wish Dr. Mallory to head up the other agricultural procurement and development programs. He felt that the rubber end was important enough to occupy one man even of the capacities of Dr. Mallory. The Board, therefore, had selected a Dr. Crawford who is to head up the other agricultural procurement and development programs than rubber. I said that while I regretted this decision I would not object thereto. This means that there will be under Mr. Ransom one man to head up the metals and minerals program, one man to head up the rubber program and one man to head up the other agricultural products program. I said to Mr. Wallace that I was very happy that we had at least reached this point after so much difficulty and confusion of having what I hoped was three competent men to head up these programs under the able direction of Mr. Ransom in one office, and under the general supervision of the Embassy. There was no need of sending this subsidiary personnel on rubber until a well-formulated and sound rubber program had been decided upon for Mexico and Dr. Mallory assumed his responsibilities and then it could be determined what subsidiary personnel was needed.

I also
I also brought to the attention of the Vice President the practice of the B.E.W. and other agencies of the Government interested in procurement and development in making contracts in Washington with persons here or in Mexico on particular projects without the knowledge of our procurement office in Mexico or of the Embassy. While this was done in all good faith it very frequently happened that although the firms seemed responsible on the information available here there was much in the record concerning them and their activities and a careful inquiry would show that they were not in a position to carry through such a contract. There were many people in this country who were interested in such contracts merely to skim off the cream at the top, take out something from the Treasury, and they were not interested as to whether the contract was ever carried through. The very nature of these contracts were such that no adequate penalties for non-performance could be exacted in practice. Sometimes a firm was completely responsible in the United States but was working through, or planning to work through, firms in Mexico which were irresponsible and the American firm did not have adequate information concerning the Mexican firms with which it intended to work. I said that it was essential for the carrying through of our program that there be closer collaboration between these agencies in Washington and our procurement office in Mexico City and the Embassy there with respect to such contracts so that before a contract was entered into here or in the procurement office in Mexico City all the information available at both ends had been duly considered. I said that I considered it absolutely essential that such contracts not be entered into here or in Mexico City independently and without such consultation. Not only did the making of contracts under any other procedure run the grave risk of non-performance but it could cause us loss of prestige in Mexico where it was important that organisms of our Government deal only with responsible people. I called his attention to the large number of adventurers who for purely personal profit are representing themselves here and in Mexico as being able to carry through projects which they had no possibility of carrying through. One danger was that once such a contract had been entered into we placed certain dependence thereon for materials and in many cases we were bound to be disappointed and this dislocated our whole program for the particular article. I referred to this particularly
with respect to the mahogany program which had been
impeded because the agencies of our Government here
did not carry through a recommendation of the Embassy
and of our procurement office in Mexico that an over-
all contract with the Mexican Government was necessary
before we could make contracts with individuals. In
spite of this, however, no such arrangement with the
Mexican Government had been made and the result had
been the slamming on of an export embargo on hard woods
by the Mexican Government to protect its own interests.

We entered into a discussion of various other pro-
grams such as that for castor beans, garbanzos, etc.

The Vice President showed a very keen interest in
the foregoing observations and from time to time asked
some pointed questions to bring out a particular phase
of the matter. He showed very real understanding of
all the problems involved and I think was somewhat per-
turbed by some of the statements which I had made
particularly with respect to the labor clauses, the rub-
ber program, the indiscriminate making of contracts and
the sending of too many men from Washington to Mexico
and other parts of the field without adequate directives
and without programs being determined upon. He said that
he thought it would be very helpful if I were to have
a further talk with him at which would be present
Mr. Milo Perkins, Mr. Paul and others from the B.E.W.
I said that I would be very glad to do this and it was
arranged that we should meet the next day at 4:00 in
his office in the Capitol. He asked me to go into
these same matters very frankly and fully at that meet-
ing.

The next day I met with the Vice President and
high officials of the B.E.W. in the Vice President's
office in the Capitol. There were present Mr. Perkins,
Mr. Paul, Mr. Lazo, Mr. Gregory, Dr. Crawford and three
or four others whose names I do not recall. I made
first a preliminary statement of the general situation
in Mexico pointing out that although we had a very happy
situation from that which we could have expected to
have a year ago it was a delicate situation and one
which had to be carefully handled by the Mexican Gov-
ernment. There were many internal problems which the
Mexican Government had to consider and we had to bear
in mind that these problems existed and were just as much a source of preoccupation to the Mexican Government as some of our problems were at home. I said that our general program of procurement and development had been of aid in the economic situation in Mexico and undoubtedly could be of further aid but that much depended upon the way in which we carried through the program and that if not properly carried through it ran grave risks of disturbing the situation in Mexico in many respects.

I gave a rather full statement of the situation internally in Mexico and then proceeded with a discussion of the various questions raised during the conversation with the Vice President the day before. I covered practically all of the points raised in that conversation so that it is not necessary to repeat them here.

We then entered into a specific discussion of these items. The Vice President called particular attention to my remarks with regard to the indiscriminate sending of personnel to Mexico and other American countries. He said that he thoroughly understood how this could be disturbing to the Governments and industry of those countries and lead to wrong impressions and indicated that he thought no one should be sent unless the need had been definitely established and the purpose clearly defined.

There was some discussion by various of the officials of the B.E.W. of this aspect and it showed that there was very little comprehension on their part of this problem and that they had still further plans of sending increased personnel to Mexico and other countries. I emphasized that the Embassy in the interests of our relationships would not be able to agree to such persons coming unless the need therefor had been established here and in Mexico. I said that we could not solve our problem of procurement merely by sending men and it was my observation that some people seemed to be trying to solve the problem and the pressures upon them merely by sending men and then forgetting the matter even though they themselves had no definite idea as to what was to be accomplished and what the particular men were to do.
The Vice President spoke with regard to the entering into of contracts which I had mentioned and said that he thought my observations were well founded and should be carefully considered and indicated definitely that he thought contracts should not be entered into until they had been explored at both ends.

He made special reference to the mahogany program and Mr. Gregory who is charged with the mahogany program in B.E.W. said that he was about to leave for Mexico to endeavor through the Embassy and Mr. Ransom to negotiate an overall agreement with the Mexican Government. He did not offer any adequate explanation as to why it had taken four months to reach this decision. I pointed out that such an overall agreement was necessary in order that the Mexican Government could determine the number of cutting contracts to be issued and the districts in which they were to be issued. The Mexican Government had indicated that it was quite willing to collaborate in this mahogany program but that it could no more issue cutting permits indiscriminately than we could here. It was a question of our indicating our maximum needs for 1943 so that agreement thereon could be reached and the Mexican Government could then make its program for cutting permits, et cetera. I also said that the overall contract would have to provide for the fixing of the maximum taxes which could be placed by the states of Mexico and the Federal Government of Mexico on mahogany and as otherwise there would be confusion in this. I pointed out that the sixteen contracts which Mr. Gregory said had been entered into with American firms for procurement of lumber in Mexico would undoubtedly be a source of headaches and the fact that these contracts had been entered into before the overall agreement was made with the Mexican Government would make the negotiation of the overall agreement much more difficult. I said that no American firm and no Mexican firm could contract for mahogany at a fixed price without such an overall agreement because without the overall agreement there was no way in which anyone could determine what the taxes of the Federal and state governments on mahogany would be. I said that this program for mahogany was very important from the point of view of the Navy and other phases of the war effort but in not one of these agencies had this procurement of mahogany been approached in an orderly way.
The Vice President raised the question of rubber and I made the same statement with respect thereto that I had made to the Vice President the day before. I said that to such a large extent officials of the B.E.W. viewed rubber procurement in terms of sending indiscriminately all kinds of people to Mexico without being prepared to head up the organization properly under Mr. Ransom and without definite formulation of program and that some fantastic ideas had been expressed with regard to what could be done in the way of the procurement of wild tree and other types of rubber. I said that I thought it was time that we stopped the indiscriminate sending of individuals and really determined on a sound and practical and reliable program.

There was discussion of other phases of the procurement problem and the Vice President stated that he would have to leave for other appointments but wished the meeting to continue.

We then raised the question of the labor clause which the Vice President before leaving indicated he wished to be covered. We went into this quite fully along the lines I had covered it with the Vice President the day before. I repeated that there was a growing tendency in Mexico and in others of the American republics to believe that certain agencies were endeavoring to use the procurement and development program for social purposes and that this was a warranted interference in the internal affairs of other countries which was certain to be resented and which would eventually damage our whole procurement program as well as our relationships with these countries. Through the Good Neighbor policy we had established the principle of non-interference in internal affairs and we could not permit that through the procurement and development program there should be such interference.

Mr. Perkins with reference to the Minas de Guerrero project said that there had been no intention on the part of the B.E.W. to insist on the inclusion of a clause which would obligate the company to enter into an exclusive collective bargaining contract. The clause proposed had not meant that and had not been intended to mean it. They had been willing to eliminate it. I said that if the clause did not have the importance which it seemed to have it was difficult to understand
the insistence of certain officials of the B.E.W. that it should be retained. There was general agreement that the clause arrived at in the Minas de Guerrero contract and which has been quoted already in this memorandum was satisfactory. I said that while it was still in my opinion a little bit too broad the Embassy in Mexico City would have no objection to its inclusion in contracts and that I thought the Mexican Government would offer no objection.

When it came to a further discussion of the rubber program Mr. Perkins said that they were all ready to send a further mission to Mexico on rubber. He said that under the new directives of Mr. Jeffers in charge of the rubber program it was the function of the Rubber Reserve to actually carry through procurement and development of rubber but that Mr. Jeffers had expressed a desire that from time to time the B.E.W. was to send missions to the rubber producing countries in order to determine what progress was being made by the Rubber Reserve on the programs and to offer ideas, et cetera. He said that they wanted to send this mission to Mexico right away and were awaiting approval from the State Department and me.

I remarked in this connection that it was my understanding that up until recently - that is a few days ago - the B.E.W. had been giving all of the directives in the rubber program to the Rubber Reserve and had really been responsible for the number and character of the men sent to Mexico on rubber. I said that this change in the set-up had taken place recently and that I could not see how a new mission was necessary from the B.E.W. to check up on what its own people had been doing. I took it for granted that the B.E.W. here knew what its agents in Mexico had been doing. If they wished to send a mission later I could understand it but I saw no objective in this great haste in wanting to send immediately a mission to Mexico for the B.E.W. to check up on what its own people had been doing during the past months.

Mr. Perkins continued to say that they would have to have an increasingly large number of men in the American republics "to meet their responsibilities". This remark was obviously directed at me because I have been endeavoring to keep the number of men going to the B.E.W. within proper
proper limits. I said that this whole question would have to be gone into because unnecessary organizations were being built up abroad bringing about duplication in effort and all sorts of confusion. So far as Mexico was concerned we had a good, effective, well-coordinated establishment and were trying to do our work with the minimum of men necessary to do it. I thought this was what we had to do in all agencies of the Government in view of the manpower situation. So far as Mexico was concerned we would have to keep order in this picture and all questions with regard to personnel would have to be gone into most carefully. I made it clear that I would not consent to indiscriminate sending of personnel to Mexico.

The discussions were all amicable and for the most part on a constructive scale. I had the feeling that the men present were much interested and that while what was said was in no sense decisive that my remarks were making an impression. Whether they did can only be determined by developments. All those present expressed their appreciation of my having given this time to this discussion and said they were grateful for the helpful observations which I had made.

The Vice President before leaving the meeting indicated that he would like to have a further meeting with me next week probably with Mr. Perkins, and then later a further conversation with me alone.

The following day I had lunch with Secretary Jones and Mr. Will Clayton. Without going into all the details, covered in the conversations with Mr. Wallace and with the B.E.W., we went over broadly procurement and development projects which the Reconstruction Finance Corporation is financing. I said that the metals program was in good shape because the Metals Reserve had been able to make the basic arrangements through the State Department with the Mexican Government before the Executive order of the spring of last year which put the B.E.W. into a position of giving directives to the Metals Reserve. I said that the Metals Reserve had functioned much more efficiently before the Executive order last year and the order clarifying it. The fibers program, too, was in good shape. Practically all the other programs were not in such good shape. I felt that the Metals Reserve, Defense Supplies and
and Rubber Reserve had functioned much better so far as Mexico is concerned before the period last year when the B.E.W. was put into the position of giving them the directives. I felt that the organizations of Metals Reserve, Rubber Reserve and Defense Supplies were much better than the organization of the B.E.W. itself. I then covered the questions of personnel being sent to the field by the various procurement agencies in excess of the number needed and often without adequate directives, et cetera. I gathered that this was due to the directives which the above-mentioned companies got from the B.E.W. rather than to initiative of the companies themselves which had increasingly less voice in their own activities.

I told Mr. Jones and Mr. Clayton that I had had on the Sunday before a long conversation with Mr. Bicknell of Rubber Reserve at which Mr. Cissel of the Department of State was present. I had given him the picture which I have already set forth in this memorandum. I said that in view of the fact that Rubber Reserve under the new set-up now had more initiative and responsibility again it could proceed on its own. The important thing was to get a head for the rubber program under Mr. Ransom. Mr. Bicknell had said that the Rubber Reserve recognized this and was ready to place Dr. Mallory in charge and as a consequence I said the Department would send a telegram to Dr. Mallory to come to Washington immediately to talk with Rubber Reserve. I explained to Mr. Bicknell that we had a closely coordinated organization in Mexico and that it was my hope that Dr. Mallory would head not only the rubber program under Mr. Ransom but also that of other agricultural products. Mr. Bicknell had said that Rubber Reserve was quite prepared to accept Dr. Mallory as head of the rubber program but doubted whether he would be able to take care of other agricultural products as well because of the volume of work involved. I said I hoped that Rubber Reserve would be willing to let Dr. Mallory head not only the rubber program but also that of other agricultural products under the B.E.W. which now had that responsibility. Mr. Bicknell reserved any comment in this respect until he could consult Mr. Clayton.

Mr. Clayton expressed doubts as to whether Dr. Mallory could take charge of more than the rubber program. I said that while in my opinion I felt sure that
that Dr. Mallory could head up all the agricultural products procurement programs I would not offer any objection to his heading up only the rubber program. I informed Mr. Jones and Mr. Clayton that Vice President Wallace had already informed me the day before that the B.E.W. had selected a Dr. Crawford to head up under Mr. Ransom the procurement and development programs in other agricultural products than rubber. They had been very definite in this and in view of Mr. Clayton's and Mr. Bicknell's desire that Dr. Mallory head up only rubber I was prepared to go along with the arrangement that Dr. Crawford would head up agricultural products other than rubber and Dr. Mallory rubber.

Mr. Clayton then went on to say that he did not see how they could permit Dr. Mallory to work under Mr. Ransom as he would be working for the B.E.W. but that Dr. Mallory would be directly responsible to the Embassy. Mr. Clayton was of the opinion that by putting Dr. Mallory under Mr. Ransom it would be creating a very difficult position for Mr. Ransom. I said that I could not see this and I was confident that no such difficult situation for Mr. Ransom would arise.

I pointed out to Mr. Jones and Mr. Clayton that for almost a year I had been struggling to keep a single procurement and development office headed by one man, irrespective of what the arrangements were in Washington. This was just as indispensable now as before. I said that under the Executive order of last year the B.E.W. was authorized to give directives to the other procurement agencies and the B.E.W. had seriously considered relieving Mr. Ransom as they considered that because he had been acting for Rubber Reserve and Reconstruction Finance he was not in a position to function properly for the B.E.W. I had insisted that the unity of the organization in Mexico be maintained and had a great struggle to do this and the B.E.W. had finally consented to let Mr. Ransom remain in charge. I pointed out that it would now seem rather incongruous for the Rubber Reserve, under the new set-up, to take an attitude perhaps even more arbitrary than that which the B.E.W. had desired to assume some six, seven months ago.
I pointed out that Mexico was the only country in the other Americas in which we had a really well coordinated and well functioning procurement unit. I did not believe that the Rubber Reserve would now wish to change this situation which was so satisfactory to us and to the Mexican Government and which was working out so well by removing the procurement and development program for rubber from our general set-up and establishing a separate office reporting directly to the Embassy instead of through Mr. Ransom.

I also pointed out that Mr. Ransom was an extraordinary capable man and that I felt that he would have great reluctance in continuing in his position if the Rubber Reserve would not continue to have him as the head of the rubber program - that is to have Dr. Mallory act directly under him. Such a step would not be understood by Mr. Ransom and would be considered by business interests and even by the Mexican Government as a lack of confidence by the Rubber Reserve in Mr. Ransom. Mr. Jones and Mr. Clayton said that they had, of course, the greatest confidence in Mr. Ransom and knew his effectiveness and what they had in mind was not embarrassing him. I said that their reserves in this respect in my opinion were not well founded and I was sure Mr. Ransom would confirm this.

Mr. Clayton showed considerable reluctance in giving up the idea that Dr. Mallory would head up the rubber program directly under the Embassy and he felt it would be impossible for him to report through and act under Mr. Ransom. We talked about this at considerable length and while Mr. Clayton indicated that he would consider the matter further he would not give a definite answer. It was not until Mr. Clayton continued the conversation later in the day that he indicated that he understood the weight of the reasons which I advanced and that if he could convince his associates in Rubber Reserve he was prepared to let Dr. Mallory continue to act through Mr. Ransom. This I consider most important as it maintains the integrity, unity and coordination of our organization in Mexico.

I told Mr. Jones and Mr. Clayton that Mr. Perkins had informed me the day before that they had determined "to keep Mr. Ransom as head of the procurement and development"
development activities in Mexico under the direction of the B.E.W. because of a high regard which they know I have for Mr. Ransom. I had said to Mr. Perkins that the B.E.W. had had ample opportunity during the past year to determine Mr. Ransom's competence and effectiveness and I hoped their decision was primarily based on what they must recognize to be his capacity, and not on the fact that I thought he was competent.

As Mr. Jones and Mr. Clayton now have the responsibility for rubber procurement and development in Mexico under the recent action of Mr. Jeffers we went into the rubber situation in Mexico as it was important that they should know just what we can expect from Mexico and what not. I said that up to now too many people had felt they were discharging their obligations by sending men to the field indiscriminately and by talking in wild terms of what could be got from Mexico. I wished to bring the picture into perspective and I gave them the information with regard to Mexico which has already been set forth in this memorandum. They said they were substantially in agreement with this picture.

Mr. Jones and Mr. Clayton expressed appreciation of the manner in which the Embassy was cooperating in these problems and of the firm stand which it had taken with respect to so many of these matters in order to keep the programs in line. In view of what I said with regard to the Mexican rubber problem they both expressed the hope that I would see Mr. Jeffers and give him the same picture.

I saw Mr. Jeffers last Saturday and had a long talk with him. I said that my only desire in taking up his time was to give him an objective and I believe a well founded picture of the possibilities of getting rubber from Mexico. There had been so many exaggerated ideas on which some official action was being taken that I thought he should know the facts as we in the Embassy saw them. I, therefore, gave him the full picture with regard to rubber from Mexico which has already been set forth in this memorandum. Mr. Jeffers had brought into the meeting Colonel Dewey who is his principal assistant on the general rubber program and Mr. Tompkins who is his principal executive. They informed me that their views
views with regard to the possibilities of getting rubber from Mexico coincided entirely with those which I had set forth and that they were in complete agreement with what I had said as to the possible scope of programs for securing wild rubber.

I raised again specifically with them this practice of sending all sorts of people to Mexico on this rubber program when a proper program had not been formulated and when these people were working aimlessly and up to now without proper direction. I told them that I had endeavored to keep this number down to a minimum and that I had made very bad friends through it and that I was considered in certain quarters as an obstructionist and lacking in imagination and understanding. I said that this did not bother me as my primary responsibility was to say to my Government and its agencies what the facts were. In this respect Mr. Tompkins had with him a letter which he had just received from the B.E.W., indicating some impatience on the part of the B.E.W. that a rubber commission had not already proceeded to Mexico for the B.E.W. The letter from the B.E.W. stated that this mission was going at the initiative and invitation of Mr. Jeffers and it quoted a sentence from a directive of Mr. Jeffers with regard to the rubber program. Mr. Jeffers called attention to the fact that this sentence apart from the context was misleading and that he had not invited the B.E.W. to send a rubber mission to Mexico at this time. He did not see the need of such a mission proceeding at this moment. In this connection, I mentioned to them what Mr. Milo Perkins had said to me the day before insisting that such a mission go at once and what I had said in reply (as already recited in this memorandum). I said that this was indicative of the way the B.E.W. was handling these problems by trying to save their conscience and sense of responsibility merely by sending people to the field without really knowing what they sent them for. In this particular instance there was no need of a B.E.W. mission going so hastily and precipitately to Mexico to check upon what Rubber Reserve was doing when, up until a few days ago, B.E.W. had been giving all the directives to Rubber Reserve and should know what had been going on. If such a mission was to be sent later, I did not see the necessity of it but I would not make any objection to it.
if under Mr. Jeffers' directives the B.E.W. was to have the privilege of sending from time to time such a mission to Mexico.

Mr. Jeffers and his associates expressed very real appreciation of the picture which I had given them with which they were in complete accord. They were particularly understanding of the fact that there was not much use from the point of view of the war effort to enter into a program for guayule development if the guayule planted would not come into bearing until a time when we can reasonably expect the war to be ended and they were in agreement that at the end of the war we would not be wanting to buy guayule except in restricted quantities for use in synthetic rubber. They were, also, in accord with the views which I had expressed with regard to the cryptostegia program. They were in agreement that properly conceived and well founded programs of guayule and cryptostegia should be developed without delay so that real progress can be made along the lines decided upon.

Mr. Jeffers asked whether I intended to mention our conversation to others. I said I would mention it to Mr. Clayton in Rubber Reserve and to my Department. He asked whether I would mention what I had said to the B.E.W. and to him regarding the rubber program to the President. I said I had not intended to do so as there were so many things which I wished to discuss with the President that I doubted if I could touch on rubber. I said that it would be very difficult in a few moments to give to the President the picture which we had discussed. Mr. Jeffers said he nevertheless hoped that I would have an opportunity to say to the President some of the major things which I had said with respect to the rubber program as it concerned Mexico and indirectly the other American republics. He emphasized that he felt this would be most important. I said I could make no promise but that if I found it possible to do so I would.

The net result of the foregoing conversations is that it confirms what I believe the Department already knows that Mr. Perkins is very largely responsible for the indiscriminate sending out of personnel, for the confusion in the procurement programs, for the insistence on certain labor clauses - in short, for the factors
factors which give us concern in these programs. The conversations showed that the Vice President while recently taking a very keen interest in these procurement and development problems is just beginning to be informed with regard to them in some detail and is just beginning to learn the nature of some of the activities of the B.E.W. He showed particular concern with regard to some of the things which I mentioned and made very definite statements with respect thereto to the B.E.W. heads who were in the meeting and discussed in this memorandum. It is quite clear that the Vice President has not been fully informed concerning some of the procedures followed by the B.E.W. in the field and here in Washington and that he understands the dangerous implications which some of them have in our relationships with the other American republics.

It is my intention to arrange for another conversation with the Vice President as he has suggested and in that case I shall prepare a supplementary memorandum.

GSMessersmith: MEB