Restrict - First Priority
No. 25,473

Subject: Observations on the Importance of Giving Immediate
Consideration to the Sugar Problem from the Point
of View of Major Policy, with Certain Specific
Recommendations as to Procedure.

The Honorable
The Secretary of State,
Washington, D. C.

SIR:

I have the honor to bring to the attention of the depart-
ment some observations on the sugar problem and recommendations
with respect to procedures which the circumstances impose;
both with respect to equitable distribution of available
supplies of sugar, and with respect to considerations of
major policy in the political, economic, and social field.
I have, in the last year, brought to the attention of the
department, and through it to the attention of the interested
agencies of our government, particular considerations with
respect to sugar applying to Mexico, and general observations
with respect to sugar policy. Reference to these despatches
will be made at the end of this report, and several of them
will be of interest in connection with the consideration
of this despatch.

Sugar is one of the primary basic commodities for which
there is a universal demand and the production of which is
limited to certain areas. This involves that there are
surplus producing countries, others in which production is
normally up to consumption, others in which there is production
which does not equal consumption, and still others in which
there is no production at all. Because of the foregoing,
there is a world interest in sugar and the distribution of
sugar, and any dispositions with respect to sugar cannot be
considered from the point of view of one or a few countries,
but must be made with the foregoing factors in mind.

In the period before the war in which we are now engaged,
there was a surplus production of sugar from time to time
which depressed prices and brought economic distress of
considerable magnitude, and which was disturbing from the
political point of view in certain areas where sugar is the
main
main article of production. Cuba, the Philippines, and certain
west Indian Islands are the large surplus producers of sugar
and inadequate demand or unusual production created economic
disturbances in these areas. Already for a considerable
number of years, the fact that sugar was a world problem was
recognized and the leading sugar producing countries from
time to time made and entered into arrangements in order to
prevent too great production and too great price fluctuation.
The basic reason for this interest by the sugar producing
countries was to prevent economic disturbances of a grave
character which, in certain weaker countries, had political con-
sequences. It is important here to emphasize that before the
beginning of the present war, sugar had for years been a
product in surplus production and the problem was to maintain
prices at a level which would give a reasonable margin of
profit in the principal producing countries and to prevent
competition in dumping surplus sugar.

From the very outset of the present war, it was realized
in the United States that sugar would become an article in
short supply. The ravages of war in France, Belgium, Germany,
Czechoslovakia, and Austria, which had been considerable pro-
ducers of sugar, materially reduced their production. Soviet
Russia had become a considerable producer of sugar, and the
raze committed by the German Armies on Soviet territory con-
siderably reduced sugar production there. The Philippines,
which had been one of the largest producers of sugar in the
world, fell into the hands of the Japanese, as did all of
the East Indian Islands. Our own sugar production in the
United States was capable of only limited expansion, par-
ticularly in cane sugar. Cuba became the principal supplier
capable of meeting deficits in the United States and for
the United Nations.

Those of us who are familiar with the world sugar problem
before this present war started, are familiar with the fact
that the economy of Cuba is about eighty-five per cent de-
pendent on the production of sugar. She has been, because
of reasons of proximity and others, the principal supplier
of our considerable deficit of sugar in the United States.
Cuban sugar production has always been subject to the vagaries
and whims of our own legislation in the United States and of
our varying production. Because of the large sugar interests
in the United States, there was always sufficient pressure
on the Congress to prevent legislation giving Cuba a minimum
participation in our market, although we always considered
Cuba as the country on which we wished to depend for our
deficit in the degree that we wished to call upon her. This
is not the place to discuss the vagaries of our sugar policy
with respect to Cuba. It is sufficient to point out that the
country which we freed from the yoke of Spain and gave its
independence and which has, in many respects, been the one
country on which we could depend for sincere friendship and
gratitude, became restless and resentful against the United
States began to develop because, while we indirectly were
interested in maintaining the dependence of the Cuban economy
on sugar, we were not willing to give any stability to the
industry.
industry. The uncertainty with regard to the crop which Cuba could produce and, less directly, the price which she would get for that crop, caused the whole island to live year by year in a state of political and economic uncertainty.

Just before I left Cuba in February, 1943, we had completed a new trade agreement, or rather a revised trade agreement, with Cuba, in which we wisely guaranteed Cuba a minimum participation in our sugar market. Although it was only a crumb from our table, and an inadequate solution, even the partial arrangement made in the trade agreement signed in early 1942 gave some measure of stability to the Cuban production, and I can recall with what gratitude that arrangement was received in Cuba. As a matter of fact, it was only a small measure of recognition of what we owed to Cuba in this respect.

As has already been indicated, from the very outset of the present war it became clear that sugar, which is so important an item in basic diet among all people, would become a scarce commodity. The appropriate authorities of our Government immediately therefore considered the advisability of purchasing the whole Cuban sugar crop, or such part of it as we thought we would need to make up our deficit. I was charged with the principal responsibility of carrying through such a purchase. It was the first time in our history that we had made such a purchase and it was a difficult procedure to carry through in view of the fact that on one side we had as purchaser the Government of the United States, and on the other side the hundreds of producers in Cuba. There were, however, in Cuba two organizations, one representing the cane growers and one representing the mill owners, which were well-organized and through the cooperative attitude of these two organizations and through the benevolent and helpful attitude of the Cuban Government, it was possible to consummate the first purchase of the Cuban sugar crop. I would like to point out that when we made this first purchase, however, we limited it to just the amount which we thought we needed for the deficit we had estimated in our supply, and that of the United Nations, and that we did not take into account the potential production capacity. In other words, we limited by our purchase the amount of cane which Cuba could cut and the amount of sugar it could produce. The price which we paid was a price which allowed only a very reasonable margin of profit over the established cost of production.

We have continued since 1942 to buy the Cuban sugar crop and I believe it has been a wise measure. Following the first purchase we considerably increased the tonnage we purchased over the first year. The third year of purchase the world deficit had grown to such an extent we were ready to purchase every ton which Cuba could produce. As far as price is concerned, it was not until this last purchase, that is, of the 1945 crop, that we were prepared to consider an increase in price, although costs of production had risen rapidly in Cuba due to conditions not peculiar to Cuba but which existed in practically every country of the world. We are now con-
sidering the purchase of the 1946 crop and are interested in getting every pound that Cuba can produce.

There is a world sugar shortage. How long this will continue it is difficult to say, but in my opinion, it will not last for more than two years. There is no adequate reason why the production of France, Belgium, Germany, Czechoslovakia, and Austria should not rapidly approach normal. The best sugar crop is one which requires relatively little attention. One factor concerning which I am not certain at the writing of this despatch is to what degree the sugar mills are intact in those countries but, in view of the tremendous importance of these mills in the German war economy, it is not likely that they were destroyed by the Germans, nor is it likely that they were much the object of our attack from the air. The probabilities are, therefore, that with any reasonable attention and measures, the sugar production in Europe should return to normal within two years. The sugar production in Soviet Russia will rapidly increase, and there is every reason to believe that Soviet Russia will become a considerable factor in the world sugar market within the course of the next few years. As a matter of fact, surplus production in Russia is likely to become one of the disturbing factors in the future sugar market, and this may be a source of real preoccupation for our producing areas in the Philippines, and for the producing areas in this Hemisphere, particularly Cuba, Puerto Rico, and Santo Domingo, where any interference with production at present levels will mean serious economic problems as well as political repercussions.

The problem with which we have had to deal during the period of this war has been an entirely different one so far as sugar is concerned than our problem before the war, in that before the war it was a question of surplus production and maintaining an adequate price to prevent output in producing areas. After the war is over, at least shortly thereafter, we will have the same problem to deal with, probably in a more accentuated form because the probabilities are that world production will be considerably beyond world demand—this in spite of what I believe to be constantly increasing consumption in most countries of the world.

We have handled the sugar problem during the war, so far as our Government is concerned, as purely an emergency war problem without regard to the things which we knew about sugar before the war, and without regard to the considerations we have to keep in mind with respect to the sugar problem which will arise within a relatively short period after the end of the war. I am not being hypercritical of our authorities in this matter. From the outset of this war, it became obvious that whether the United Nations won it or not would depend upon the effort of our own country. From almost the outset it became obvious that the principal burden would fall on us in practically every phase of the war as our own existence was at stake and we took all extraordinary measures which had to be taken to preserve our existence. I would be the last, therefore, to criticize adversely some of the many steps which were taken by our authorities, and for which there can be found every justification as necessary for the winning of the
the war. It is my considered opinion, however, that in the matter of sugar we could have handled this matter; even under the pressures of war, keeping in mind more the sugar problem which had always been with us and which will be with us again at the end of the war. I would like to say here that one of the most effective things that we have done through our emergency measures with respect to sugar and with respect to the purchase of the Cuban crop, has been to maintain a reasonable price for Cuban sugar which would otherwise have climbed to the extraordinary levels to which it rose during the first world war which, because of the price, left Cuba prostrate for many years after the war.

In this matter of sugar, we have been concerned during the war first with the needs of our Army and Navy, second with the military needs of our allies, third with the needs of our own civilian population in the United States, and fourth with the needs of civilian populations of most of our allies. Now that in Europe the countries subject to Germany have been released from that yoke, we are concerned with the civilian needs of those populations and are taking them into account, in addition to the foregoing factors. I would like to point out that during the period of the war, while we have kept in mind the foregoing factors, we have not kept in mind the civilian needs of the deficit countries of the other American republics. It is a strange fact that we have been continuously concerned with civilian needs in certain countries of Europe and the Far East, and have had no concern, or at least have not taken into account, the civilian needs of deficit countries in this Hemisphere.

At this point I should like to emphasize that, in my opinion, it must be fundamental to every thoughtful American that in a well-ordered world, at least in the world in which we will have to live in the foreseeable future, certain regional systems will be bound to exist. That certain regional arrangements are essential is recognized in the world charter approved at San Francisco by the United Nations and ratified by our Senate. In the Mexico City meeting of the American republics collaborating in the war effort which was held just before San Francisco, conclusions were reached which were most important, and more epoch-making than any reached during more than one hundred and twenty preceding years of inter-American collaboration. These conclusions covered the political, economic, defense, and social field. The act of Chapultepec, which is a multi-lateral instead of a unilateral source doctrine and therefore an extraordinary instrument for the defense of the Americas, consolidated the bases for collaboration of the American republics among themselves and in a world security and peace organization. Far-seeing statesmen and military men in our Government as well as in other Governments of the Americas realized that while we must look to the ideal of a world organization for peace and security in which regional arrangements may not be necessary, it is fundamental in our interest and realistically necessary that until the world charter has proved its effectiveness, the gains which have been
been assured in over one hundred and twenty years in American solidarity must be consolidated.

I will not labor this point, but in a world in which Soviet Russia is establishing her sphere of influence over a number of neighboring and satellite States, and in which England is determined to maintain the structure of Empire and trade preferences, it is obvious that the American Republics must maintain these gains among themselves in the form of regional arrangements.

It is equally obvious to statesmen and military men, as well as to enlightened businessmen in our country, that we can make this consolidation of interests and cooperation in the political, economic, military, and social fields in this Hemisphere only if due consideration is given to the problems of the countries in this Hemisphere, and an equitable treatment as conditions permit prevails. I wish, therefore, to emphasize in this respect that the emergency measures taken by our Government during the war with respect to sugar, which have taken into account the deficit needs of practically all areas except the Americas and our own country, have caused a very deep and unfavorable impression in the other American Republics. There has been no equity and no understanding in the manner in which we have handled the allocations of available sugar, as far as our nearest friends and allies in this Hemisphere are concerned. I put forward the thought that this is a grave failure to recognize fundamental considerations of policy in our own interest as well as in the interest of the defense and peace of this Hemisphere.

I have, in various despatches and reports during the last few years, brought to the attention of the Department that Mexico is a sugar deficit country, that while a producer of sugar, she has had a continuous deficit which has been supplied before the war from Cuba. I have brought out the fact that this is a country with low nutrition standards and a per capita consumption of sugar which is one of the lowest in any civilized country. I have brought out the fact that there is in Mexico, as in some of the other American countries, a gradually rising standard of living which is a most fortunate circumstance. I have brought out that while the consumption of sugar in Mexico has somewhat increased even during the war, that this has been a desirable circumstance in view of the still very low nutrition standard. In a measure, what I have said concerning Mexico in my despatches and reports applies to a number of the other American Republics.

I have also brought out the fact that the production of sugar in Mexico is from many points of view uneconomic, and that it has been our continuous policy, keeping in mind world sugar problems, to discourage further increase in production of sugar in Mexico. This was and is a wise policy on our part. The Mexican Government recognized the wisdom of this policy and showed no tendency to encourage the production of sugar in Mexico.
When we started to buy the Cuban sugar crop and left her a very small amount of free sugar which could be disposed of to the deficit countries of the Americas, we created in effect a corner, just as definitely as any speculator used to be able to create a corner in wheat or corn or certain essential products in our country. We used to have serious words with which to qualify such speculators. They produced such corners for selfish profit. We produced what was the equivalent of a corner in sugar by circumstances forced upon us by the emergency of the war and, as I have said before, our purchase of the Cuban sugar crop has been entirely justified and is still justified for perhaps as much as two years longer.

What, however, has not been justified and which should be corrected as soon as possible is the circumstance that while we have kept in mind our own civilian needs as well as the military needs of ourselves and our allies, and even the civilian needs of the people of our allies and now of the liberated countries, we are still not taking into account the deficit needs of certain of the American republics. In our plans for the Cuban sugar purchase for 1946 we are presently thinking of leaving her only fifty thousand tons of free sugar. We are not in any way endeavoring to determine what the deficit needs of Mexico and others of the American Republics may be. In fact, we are not taking into account these deficit needs at all, and we are telling them that they must look for their deficit in such small surplus producing areas where a relatively small quantity of surplus sugar may be available.

I am not going to give figures in this dispatch. They have been set forth in reports and despatches of this Embassy which are available to the Department and to the other agencies of our Government. I am transmitting herewith a memorandum which has been furnished me by the Mexican Government through the Ministry of Finance which shows the deficit position of Mexico in sugar. These reports rendered in the past and the enclosure herewith transmitted show that Mexico has been paying almost six cents a pound for Cuban sugar f.o.b. Cuban ports this year, and up to eight cents for Peruvian sugar f.o.b. Peruvian ports. This is in comparison with the price of 3.15 cents per pound at which we are buying the Cuban sugar crop for this year. The fact is that by buying the Cuban sugar crop, which has been entirely justified, and by leaving Cuba no free sugar, we have created this corner and made it necessary for Mexico and other deficit countries to buy these small quantities of sugar in countries where there is a small surplus production, as in Central America and in Peru, at prices which are outrageous. There is no question but that it is our action which has brought about the necessity for certain countries such as Mexico to buy sugar at these high prices. The natural effect of scarcity in such a primary commodity and the payment of such high prices for the deficit sugar which could be secured has inevitably increased the price of sugar in general in Mexico and in others of the American countries, and has contributed very seriously to the dislocation
dislocation of prices in general and to the tremendously increased cost of living which is a source of the gravest preoccupation to the Government of Mexico and to every one of the other countries of the Americas.

Whenever these circumstances have been brought to the attention of certain authorities of our Government, they have indicated that they are primarily occupied with winning the war and providing sugar for our Armed Forces and our allies. They have said that these countries in the Americas in which there is a deficit of sugar production, or no production, should provide rationing measures such as we use in the United States. It is rather difficult to apply rationing measures in a country which has no sugar production and no source of supply. It is unreasonable to ask countries like Mexico, where there is some sugar production but which has in the past been inadequate, and which has an extremely low per capita consumption, to apply rationing measures. It is like asking rationing measures to be applied where there is no article to ration or where consumption is already below the most minimum consumption needs. None of our authorities too, have failed utterly to take into account the fact that the conditions in most of the other Americas countries are such that rationing procedures cannot be applied without creating black markets on an extraordinary scale. In many respects the other American Republics are still lacking in the economic and political organization to enforce so highly delicate a procedure as rationing, which requires so complete a mechanism. The fundamental fact, however, which has been ignored is that we have been asking and have been telling friendly countries in the Americas that they must ration and reduce their consumption of sugar when their per capita sugar consumption is still on unbelievably low standards. What we have been doing is equivalent to saying to those countries that they can remain on a low standard of nutrition as far as we are concerned, and it does not take very much imagination to foresee what the reactions of the great masses of the population of these countries, as well as of thoughtful people therein, must be to this attitude of ours.

The result of our sugar policy, particularly with respect to allocations, has been therefore to tremendously increase the cost of sugar in sugar deficit countries of the Americas, to make it possible for certain countries with surpluses to ask the most exorbitant prices for the surplus sugar they had for sale, and by this disturbance in sugar supply and price to accentuate the course of price increases in other staple foods in the American countries to a point where these countries are increasingly unable to control this situation.

One unhappy effect also has been that in Cuba, as well as in several other countries where there is a small supply of free sugar or surplus sugar, certain brokers have been able to get hold of this sugar and have been demanding extortionist prices and already I have concrete evidence before me that
these brokers are planning in 1946 to demand the most exorbitant prices for these small amounts of free sugars. I am not going to mention any names, but I am familiar with the practices of a few of these brokers in Cuba in particular, whose undesirable activities it had been possible to control and almost eliminate by the time this war started. Now they are absolutely free in their practices and there are no names which are sufficiently hard to qualify the attitudes of these people.

I wish further at this point to mention the fact that our policy has been such as to make it necessary for Mexico to enter into further unscientific production of sugar. At present, plans are in progress for the construction of two sugar mills immediately in Mexico, as soon as the equipment can be manufactured in the United States, each with a capacity of fifty thousand tons a year. Plans are already under way to plant cane so that it will be available when the mills are completed. I will not enter here into a discussion of the relative cost of producing sugar in Mexico and in Cuba but I think that it may safely be said that if it cost one cent a pound to produce a pound of sugar in Cuba, it would cost two cents in Mexico. The inevitable result of Mexico endeavoring to become self-sufficient in sugar, which is what she has been forced to try to do, is to increase the cost of sugar in Mexico to her population and it will result in tariff barriers against foreign sugars to protect the high Mexican produced sugar. It will mean that when normal times return, Cuba will have lost one of her good customers in sugar. It means that by an arbitrary and unnecessary measure on our part we are making it necessary for Mexico to enter into unscientific production of sugar. What is equally serious is that in forcing this unscientific industry which will require tariff protection, we are proceeding contrary to our own principle of keeping down tariff barriers. What is even more important in the broad picture is that our present policy is completely out of line with that which must prevail in this Hemisphere and in the world as a whole, of having certain products produced in the areas most adapted to them so that there may be as few an exchange of goods and as low a price as possible. In other words, our present policy with respect to sugar is directly contrary to every fundamental policy of our Government. Incidentally, by forcing this increased production in Mexico to meet her deficit and the establishing of these two mills, it will be necessary to turn some very good lands into sugar cane which should be used to much greater advantage in the Mexican agricultural economy for other food products for which the country has a deficit and in which the rising standard of living of her people will bring about constantly increased demands.

I respectfully advance the idea that we have been handling the sugar problem so far during the war purely as an emergency problem. As I have said previously in this dispatch, I realize the tremendous task which has confronted the responsible and secondary officials of our Government at home during the war. It is my opinion, however, that even during the war we could have
have handled this sugar problem keeping in mind certain fundamental factors which were long before us and troubled us before the war, and which we will have to deal with after the war. In view of the important considerations involved and the increasing difficulties which are being created by our present procedures, I think we can no longer delay revising our basic policy and procedure in order to bring it more in line with our national interest, with our long-range interest, and at the same time provide more equitable treatment for countries which we have been leaving out of account.

Even if we were not entering into what appears to be the last phase of the war, and even if the end of the war with Japan were not in sight, I would be making the recommendations which I shall make in this despatch to the Department and for the consideration of the agencies of our Government concerned. The thoughts which I am expressing in this despatch and the recommendations which I am making were formulated before the last news we have had with regard to the probable approaching capitulation of Japan. What I should like to emphasize is that whether the war ends in the next few days or unfortunately may be prolonged another six months, the basic considerations which I have brought forth in my despatch require, I believe, in our basic national interest, the immediate and appropriate action of our Government.

With respect to whether we should purchase more than the 1946 crop from Cuba, I venture the opinion that it may be found desirable to purchase it for at least 1946 and 1947. From my knowledge of the sugar problem, I believe that this will prove advantageous not only to us but to the Cubans. I believe that we will be able to prevent in this way further abnormal wage increases in Cuba which the Cuban Government will otherwise sanction if the price for the 1946 and 1947 crops is not fixed now. The inflationary trend in Cuba which has reached extraordinary proportions is due very largely to factors in the sugar economy and unease pressures being brought upon the Cuban Government by workers and in the sugar industry. I believe it will be advantageous to our Government to have control of this crop for 1946 and 1947 and to purchase it now at a determined price. I believe it will be advantageous to Cuba, both to the workers and to the industry, as well as to the Cuban Government, to reach the appropriate arrangements for the sale of the 1946 and 1947 crops. I do not believe that it is either necessary or advisable at this time to contemplate the purchase of the 1946 crop, as it is more than likely that by that time fairly normal conditions of supply and demand and price can be brought about in the world sugar market without involving our purchase of the Cuban crop.

As to what price we should pay for the 1946 and 1947 crops, I do not wish to comment here, as this is a question for negotiation between our Government and the Cuban officials. We made the purchase of the 1942 crop at 2.63 a pound, which was a fair price. We insisted on purchasing the 1943 crop at the same price, although without any question, production costs
costs in Cuba had considerably increased. In 1944, we still insisted on the 2.65 per pound price, when there was not a doubt that Cuban costs of production had further risen and that the price was no longer a fair price. For the 1945 crop we are paying 3.15 cents a pound, which will allow a reasonable margin of profit to the industry in Cuba. In view of the inflationary trends in Cuba, and in view of the price increases and production costs, some of which are due to increased costs of materials from the United States, I do not believe that 3.15 is a fair price for the 1946 crop, and I believe that a price of from 3.15 to 3.50 cents per pound may be found to be necessary. In my opinion, we should endeavor to buy the 1946 and 1947 crops at around 3.50 cents a pound. The Cuban negotiators will endeavor to secure a considerably higher price for the 1947 crop, but I think they realize that this is not to their real advantage for it will only mean further increases in wages which will eventually put the Cuban industry in a higher inferior competitive position in the world market. I am sure that most of the sound people in the industry in Cuba realize this situation.

I strongly recommend as the measure most immediately necessary by our Government, and as the one which is necessary on pure grounds of equity and understanding, the change of our policy in the sense that our allocations of the Cuban purchase will be made on a basis which will include the needs of the sugar deficit countries of the Americas. We are presently taking into account the needs of all other purposes and areas except the sugar deficit countries of the Americas. In my opinion this was not appropriate during the war, nor wise, and I am convinced that it was not necessary, but it has been done. We should immediately establish what are the deficit needs of Mexico and certain other countries of the Americas and we should take these deficit needs into account in making our allocations. It is true that sugar is in short supply but if it is in short supply, then the available supply should be made available in equitable amounts on a basis of relative needs. It will be a very simple matter to establish the deficit needs of Mexico and the other American countries and take them into account, as we are now taking into account other needs.

The Minister of Haciendas of Mexico in the memorandum hereto attached has indicated that the minimum of one hundred thousand tons of sugar is needed by Mexico from outside sources in 1946. I believe that this on the whole is a reasonable figure, but the closest kind of examination may show that the minimum import needs for sugar in Mexico in 1946 may be established at eighty thousand tons. These should be available from Cuban or Caribbean sugars. The needs of the other American republics are much smaller compared to those of Mexico, but these minimum needs can be established.

I would at this point wish to observe that we shall be holding,
holding, towards the end of this year, a meeting of the
American Republics to discuss economic problems. We shall,
before or after that meeting, be holding another meeting
to discuss the implementation of defense measures which were
agreed upon at Mexico City and which form part of the arrange-
ments at San Francisco. We shall shortly with Mexico, and
later with other of the American countries, have to begin
discussion with regard to renewals or maintenance of existing
trade agreements, we will wish to consider on a broader scale
with the American Republics commercial treaties. If we
disregard in a matter like sugar and in fats and oils and
certain other basic products, the deficit needs of the
American countries, we will be creating a situation which
will be most unhappy background for all of these meetings
and negotiations and conversations. Only the most elementary
prudence makes it necessary for us to keep in mind the pertinent
decisions of the Mexico City meeting, which I will not
indicate in detail here as they are well known in the Depart-
ment.

If the taking into account of the deficit sugar needs
of some of the American countries will mean that a smaller
amount of sugar will be available for other deficit areas,
then certainly there is nothing unfair about this because
these undernourished populations can expect as much considera-
tion from us in the matter of sugar as can certain areas of
Europe and the Near and Far East. I do not like to use the
language, but the fact is that certain officials of our
government have been giving an hysterical attention to the
needs of certain areas, including former enemy areas, and
have deliberately indicated that they have no interest what-
ever in the deficit needs of certain products in the American
countries, when there is no question whatever that any
examination of the facts will show that the nutrition standards
in these deficit American countries are as low as those in
some of the European and other areas to which we are giving
such specific attention.

There are several procedures which we could follow in
filling these sugar deficits of Mexico and the other American
countries. We could give Cuba, in arranging for the 1946 and
1947 crop purchases, an adequate amount of free sugar so that
she could sell these free sugars to the American deficit
countries. In accord with our liberal trade practices and
in our desire to return to normal trade channels as soon as
possible, this would be the procedure to follow. It has,
however, certain disadvantages. If we fixed the amount of
free sugar left to Cuba in the 1946 and 1947 purchases, as
the amount which is the established deficit need of the
American countries other than the United States, then Cuba
would, under normal circumstances and practices, sell this
sugar to the American deficit countries. In view, however,
of the apparent incapacity of the present Cuban Government
to control this situation, as shown by the circumstance that
certain brokers are already taking advantage of the present
situation, it is almost certain that this procedure would be
too much abused and the American deficit countries would be

obliged
obliged to pay, in one way or another, much higher prices per pound for such free sugars than our purchase price for the crop.

I have already very definite information here in Mexico that the Mexican Government is being offered sugar out of the 1946 crop at six and seven cents a pound and from brokers offers at a higher price have been made. Now Cuba can offer such sugars when no decision has been reached with regard to the sale of the 1946 crop and no information is available as to the free sugars which Cuba may have, is difficult to determine. The Department, however, is aware that sugar is already extremely scarce in Cuba and is difficult for the Cuban housewife to secure. There is, I think, only one explanation of this and that is that some of the sugar which Cuba is selling to Mexico this year, instead of coming out of her available free sugar under the 1945 purchase by us, is coming out of the several hundred thousand tons provided for in the agreement for Cuban consumption. In other words, through the incapacity of the Government in Cuba, and through the rapacity of individuals in Cuba, Cuban sugars are being withdrawn which were earmarked for internal consumption, and are being exported. While this is a reprehensible procedure and in every way inexcusable, we cannot avoid the observation that the manner in which we have made the purchase is in some respects responsible for this situation and this extortion being possible.

It would, of course, be possible in fixing the details of the 1946 and 1947 purchases, for us to leave Cuba an adequate amount of free sugar to cover the established needs of the deficit American countries other than the United States, and have the Cuban Government agree that this sugar should be sold to the deficit American countries at a fixed price, just as she agrees to sell the bulk of the crop to us at a fixed price. Such a formal agreement by the Cuban Government would be sufficient to prevent that Government from being imposed upon by irresponsible persons either in the Cuban Government or in the Cuban Industry or Sugar Trade.

The Mexican Government has, however, always indicated that it believes that the preferable procedure is for Cuba to be left for the present with only a small amount of free sugar and that we in the United States, through the Commodity Credit Corporation, make available to the deficit American countries their needs out of our purchases of Cuban sugars. This is a procedure which, I believe, is the most wise and the most sound and the one which will work the best, and I therefore strongly recommend that this be the procedure which is followed. I fear that any other procedure will lead to the accentuation of the rapacious practices of certain Cuban brokers whose activities are becoming more and more obvious and extortionate. The fact that these deficits are so real in the American countries and that they have, in one way or another, to satisfy these deficits, makes it possible for these extortionate procedures to develop.
Just the other day the Mexican Minister of Hacienda asked me, through the Economic Counselor of the Embassy, whether there was any hope of Mexico getting her deficit needs of sugar for 1946 through the Commodity Credit Corporation. I had to tell the Economic Counselor to tell the Minister that on the basis of the information and instructions which the Embassy had, I could offer no hope in this direction. The Minister then replied that, in view of this, the Mexican Government had no alternative except to get sugar where and how it could, and at what price had to be paid. The Minister said that the Cubans were offering the Mexican Government one hundred thousand tons out of the 1946 crop, and while he did not say what they were asking, he indicated that the price was extortionate. I have gathered from other sources that it was around six or seven cents a pound and, in addition to this, some "commissions" would have to be paid. The Minister said therefore that he was thinking of sending Mr. Aaron Ehrman, the head of the Mexican Sugar Association and one of the leading citizens and businessmen of Mexico, to Cuba to try to make a purchase of this amount "no matter what price we have to pay, because we just have to have the sugar in 1946". The Minister said to Mr. Lackett that of course if they could get the assurance that the Commodity Credit Corporation would let them have one hundred thousand tons out of our purchase from Cuba for 1946, such action on his part would not be necessary. He said that his primary obligation was to see that Mexico had the sugar it needed for 1946, and in order to get it he had to take action now. So far as I know, Mr. Ehrman has not yet left, but I feel sure that the Mexican Government has this definitely in mind.

I know that there will be those in our Government who will be extremely angry with the Mexican Government for any such procedure, just as they have been disturbed about the purchases which Mexico has made of land in the Argentine. There are some of our authorities who hold the Mexicans responsible for certain price increases in land in the Argentine. The fact is that the Mexican Government has not bought a pound of land in excess of what it knew its needs to be, and anyone who knows what the situation is in Mexico, particularly with respect to food, knows that the Mexican Government is under the absolute necessity of trying to find certain food stuffs where it can. We and the Combined Food Board control all these commodities and their allocations, and as we have not taken into account adequately the deficit needs of these American countries in our concern over the needs of other parts of the world and of our military and naval needs, we cannot complain if these countries go into the markets where small surpluses are available, for they cannot let their people starve. If such operations in very small quantities of food supply result in increases in prices, which is only to be expected, then it is in our procedures which are responsible, in my opinion, rather than the efforts of these countries to get these small available supplies. I am making mention of this because there has been a great deal of unjustified
unjustified criticism of certain Mexican operations and those of other American countries when they have only been endeavoring to meet definite needs for their populations, and their procedures were made imperative by our own procedures.

I wish to make it clear that I have written this frank and full despatch to the Department and for the information of our other agencies not because I am making a plea for Mexico for sugar, but because I have followed this sugar problem for years and because I have felt that irrespective of the status of the war, it is now necessary for us to make this basic revision of policy. This disregard of the American Republics and the needs of their populations can no longer be continued with safety. The off-hand way in which some of the authorities and "experts" of our Government speak of the civilian needs of Europe and other areas and of the "plenty" in the Americas, is something which is doing us a great deal of harm and it has affected our policy. I advance the opinion that in many respects our policy with respect to sugar, and fats and oils, has been based on some erroneous concepts or, at least, it has not taken into account known factors. If we have any regard for the maintenance of the collaboration which we fortunately have with the other American Republics, and if we take into realistic account the importance of that collaboration for the present and the future, we will no longer leave out of account the needs of the populations of these countries for certain basic food stuffs. There is no reason why the civilians in France or Holland or Belgium, or in any part of Europe, should fare better than the civilians in the other American Republics which are also our friends and our allies, and incidentally much nearer.

If this despatch should seem to be written in strong terms and in a critical vein, I wish to make it clear that it is written with a full comprehension of all the factors with which we have to deal, but also with a deep sense of responsibility which I feel I have as a reporting officer for our Government. I have written in this strong way because I feel we can no longer delay in changing some of our present procedures with respect to certain basic commodities and I have a very real conviction that is order to bring about the adequate change in policy and the establishment of an adequately realistic and equitable policy, it will be necessary for the highest officers of our Government responsible for these matters to take a hand.

I am at the end of this despatch listing a number of despatches and reports which I believe may usefully be considered in connection with this despatch.

Respectfully yours,

George S. Messrsarnith

Enclosure:
translation of memorandum as stated.

Note: References to despatches and reports mentioned in this despatch will be given on the following page.

To the Department in Original and Teletype.
Despatches

Jan. 4, 1945, No. 22,226 "Release of 15,000 Tons of Sugar by Commodity Credit Corporation to Cuban Sugar Stabilization Institute for Sale to Mexico."

Feb. 22, 1945, No. 23,128 "Ceiling prices for Sugar Revised Upward Throughout Mexico and Sugar Tax Law Amended."

May 7, 1945, No. 24,156 "Current Mexican Sugar Situation."

May 25, 1945, No. 25,121 "Transmitting Text and Translation of a Statement Made by the Unión Regional de Productores de Azúcar, S. A. (National Union of Sugar Producers) Concerning an Increase in the Price of Sugar for Industrial Use."

June 28, 1945, No. 25,131 "Mexican Sugar Supplies."

June 28, 1945, No. 25,103 "Conversation with the Minister of Industries, Mr. Sávila, with Reference to the Increased Needs of Sugar for Mexico and the Construction of Two New Refineries."

July 12, 1945, No. 25,125 "With Further Reference to the Indication of Private Interests in Mexico to Build Two Sugar Mills of Fifty Thousand Tons Capacity Each."

Reports

Feb. 16, 1945, No. 70 "Mexico - Sugar Situation."

Apr. 7, 1945, No. 125 "Regulations of Article V of the Law of Manufacturing Industries, Sugar Branch."

Aug. 10, 1945, No. 362 "Mexico Sugar Situation."

Airships

May 23, 1945 No. A-1527

May 31, 1945 No. A-1541

Special attention is directed to despatches Nos. 25,103 and 25,125.