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BY COURIER

TOP SECRET

Buenos Aires, Argentina.  
September 18, 1946.

Dear Spruille:

I have from time to time sent you some information of a very confidential character with regard to the Brazilian Ambassador here, Lusardo. On Monday morning, September 16, he came in to see me to talk about wheat, but I will refer to this later.

That same morning there had appeared in La Prensa a dispatch from Rio de Janeiro to the effect that decrees were about to be signed by the Brazilian Government relieving Lusardo of his functions here and Martins of his duties in Washington. This naturally caused a good deal of comment here but no further comment in the press. When Lusardo came in to see me on the same day that this article appeared in La Prensa from Rio, he made no mention whatever of it, and I made no mention, of course.

In today's El Laborista there appears an article to the following effect:

With respect to the motive of the trip which the Ambassador of Brazil to the Argentine, Mr. Juan Bautista Lusardo, is making to his country, he has made statements to the effect that the rumors which circulated lately in the sense that he had been offered a high post in the government of General Dutra were not correct. He added that his trip was motivated by the desire to be present on September 19 at the ceremony in connection with the promulgation of the new Constitution of Brazil, and to be present the day following at the election of the new Vice President of the Republic, which will be carried through by the constituent assembly.

He said further that he would be present at the commercial negotiations with the Argentine which would be carried on by functionaries of his Government and the special delegation of the Argentine headed by

Mr.

The Honorable  
Spruille Braden,  
Assistant Secretary of State,  
Washington, D. C.

Mr. Lagomarsino, the Minister of Industry and Commerce. He closed his statement by saying that he would return to Buenos Aires as soon as possible.

When the Brazilian came in to see me on the morning of September 16 he said that he was having all of the Chiefs of Mission of the American Republics for lunch on September 20 and asked if I could come. I said that I would do so. He called the Embassy on the evening of September 17 to say that he had to leave for Rio on September 18 and would not be able to have the luncheon he had planned.

I do not know what the real reason for Lusardo's trip to Brazil is. That he is uncertain in his post we know here and you know in the Department. Whether there will be any change in his assignment is another matter concerning which I am not able to form any worthwhile opinion here, except that I think it is certain that he has lost a good deal of prestige here for various reasons and his friendship with President Perón does not seem to be as close as it was before. What the exact reasons for that are I do not know, but Lusardo is a very indiscreet individual and it is possible that he has presumed somewhat on that friendship.

The situation between Brazil and the Argentine in some ways is not at all good and I wish I were able to have a definite opinion as to where the blame really lies. Most of the difficulty seems to arise out of the fact that the Argentine is not sending Brazil the wheat which she needs and the Argentines are not getting from Brazil the rubber and other articles which Brazil agreed to send them. The Argentines say that Brazil says that she cannot send the rubber and textiles, etc. because she does not have them, and the Argentine responds by saying that she cannot send the wheat because she does not have it.

As you know in the Department better than I, Brazil has been getting her wheat from the Argentine for years and the Brazilian importation of wheat runs from 1,000,000 tons to 1,200,000 tons a year. Brazil has been one of the best customers of the Argentine for years for wheat and she is, of course, the natural supplier of wheat to Brazil. Similarly, Brazil is the natural supplier of certain articles to the Argentine, but recently things have not been going right, and as I said earlier in this letter, I don't know where the fault lies and which is the more to blame.

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On September 16 when Lusardo was in to see me I told him that I was extremely preoccupied about this question of wheat and asked him to tell me what the real situation was. He went into great detail with regard to the conversations which he had been having with President Perón and Foreign Minister Bramuglia. He said that in spite of his strong presentation of the matter to both of them, that not a single sack of wheat had been sent from the Argentine to Brazil in July, August, and up to September 16, the day of our conversation. He said that this was creating a serious situation in Brazil, for the flour mills were idle and stocks were practically nil. According to Lusardo, who had presented this matter in the strongest possible way to Perón and Bramuglia, they had responded by saying that the stocks of wheat in the Argentine for the rest of the year were so low that they simply could not send any wheat, and of course they had reproached him because of Brazil's failure to send rubber and other goods which Brazil had agreed to send. I asked Lusardo several times whether it was true that the Argentine had not shipped any wheat during July and August and so far in September to Brazil, and he again assured me that the Argentine had not sent "a single sack".

I was very much struck by what Lusardo told me, because on Friday evening, September 13, Bramuglia asked me to accompany him to the Casa Rosada to see President Perón. When we arrived there the President received us immediately and he immediately plunged into a discussion of the dangers of Communism which he saw developing in some of the American countries. He said that he saw no danger of Communism in the Argentine because they would know how to take care of the situation and besides that Communism would not have a fertile field in the Argentine. He spoke of the situation in Chile and said that it now seemed certain that González Videla would be elected by the Congress, and as he had been elected with the help of the Communists and had so many promises which he had made to the Communists, he thought that within six months the Chilean Government would be in control of the Communists. Perón said that if the number of Communist Ministers in the government of González Videla could be kept to two it might be possible to control the situation in Chile, but he spoke of the very dangerous situation with respect to the Communists in the north of Chile. He said that Chilean Communists were active even outside of the country and that they had found an infiltration of Chilean Communists in the Argentine through Mendoza and had had to put a stop to it.

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With respect to Brazil President Perón said that he was very much disturbed and he saw the possibility of a very serious situation there, and that he had information that Communism was already making some progress in the Brazilian army. He spoke of the possibility of growth of Communist strength in Paraguay and in Bolivia. He then went on with a favorite theme of his, to the effect that we should do something in the Americas to put an end to Communism and that this involved joint action by the United States, the Argentine and all of the American governments. He went so far as to suggest that he thought it would be a good thing if I could make a trip home in the near future to discuss this matter with President Truman and Secretary Byrnes, for he felt that something would have to be done to stop this movement before it was too late.

I told the President that I agreed with him as to the importance of the Communist Menace in some of the American countries. I said I did not see what joint action the American countries could take at this time, because any action which the American countries agreed to take jointly would simply infuriate Moscow and increase the difficulties which we and others were having in Paris and in the big picture. I said that any common action which would be undertaken here, whether it were to be undertaken quietly or openly, would be known to Moscow, and I thought it might have more bad effects than good at this time. I told him I thought the best means of combating Communism for the present was for every one of the American countries to take the appropriate steps to keep its house in order. I said that one of the important things was that we had to see that there was no hunger and no distress in these countries, for hunger and distress were the surest way of bringing on Communism or giving strength to the movement. President Perón agreed with this and said that he saw difficulties, but that he felt some joint action was necessary.

With respect to his statement that he thought it might be desirable for me to make a trip home to discuss this Communist situation with President Truman and Secretary Byrnes, I said there were several reasons against it which were for the present controlling. I said that if I left here for Washington, no matter what motive I gave for the trip, it would lead to a lot of speculation which would not, in my opinion, do any good in the present circumstances. I said further that I could not think,

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for physical reasons, of taking a trip by air at this time unless it was absolutely indispensable. I said that I did not mind traveling by air, but rather liked it. I said that my stomach condition was much improved but that the outlet of my stomach was still not functioning normally and that I was on this extremely strict diet and had to take the greatest care and restrict my activities somewhat, and that even though such an air trip would not seem to be a strain because I did not mind air travel, it would necessarily be a strain and might provoke the same situation which laid me low in the beginning of July. The President said that he thoroughly understood that but he still felt that when circumstances permitted I should make such a trip to discuss this matter because he considered it very serious.

I told the President that now that the Acts of Mexico City and San Francisco were ratified and that they had taken what seemed to be adequate action in the field of enemy schools and institutions, there still remained this question of enemy property and aliens, and I thought in any event, before we could collaborate with the Argentine in any such broad movement which he had in mind we would have to get that situation straightened out. We then discussed at some length what the Argentine is doing in the way of liquidating the matter of enemy property and aliens, and there isn't any doubt that they are making progress, but I told him that progress was not yet adequate for him to make any recommendations to my Government so far as enemy property and aliens were concerned. The President said that he understood this but hoped that I was informing my Government that they were working very hard on this matter and what their difficulties were, but that they would surmount them. I expressed the hope that in the course of several months they would have their program so fully under way with respect to enemy property and aliens that no question remained with respect to their good faith and performance. I told the President that I was keeping my Government objectively informed of what was happening here, and I thought they had made great progress, but in the field of enemy property and aliens there was still a great deal to do. The President again agreed, but said that he thought it was too bad we were losing time in this matter of really working together in combating Communism. It was, in his opinion, only by common action that it could be arrested and that in some ways an American conference to take measures with respect to Communism was more immediately important even than the meeting for the defense pact. The defense pact was to meet a situation which would arise out of war and the immediate problem was to combat a movement which might provoke war. He said that one of his principal pre-occupations was that some of these countries, in case  
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it came to war, might not be able to align themselves up properly because of the strong Communist sentiment which already existed in several of them.

Incidentally, in this connection I may say that a few days ago one of my best friends from Chile, who is a very well-informed man, passed through here and he said that he was deeply concerned about the situation in Chile and that he could see the possibility, in case of a war against Soviet Russia, that we would not get "a pound of copper out of Chile".

I left this matter in suspense with the President in the conversation under reference, But I said to him that I thought in the meantime we must do everything to combat Communism. I said that for that reason I could not understand why adequate quantities of wheat were not going from the Argentine to Brazil. The President then went on to speak about the relatively low stocks of wheat in the Argentine. He said they had completely miscalculated their stocks. He said that at the most they had 160,000 tons available for export between now and the end of the year. He asked me what our own estimates were. I told him that I was sorry to say that our own latest estimates in the Embassy of available stocks were between 160,000 and 200,000 tons for export and that this would not be sufficient to meet even the Brazilian needs if all the Argentine wheat were sent to Brazil.

The President then spoke of the failure of the Brazilians to send rubber and other goods which they had promised to send, but he said that in spite of that they were sending some cargoes of wheat to Brazil. I cannot reconcile what the President says, that they are sending some wheat to Brazil currently, with what Luzardo says, that not a single sack has gone since the first of July. I am trying to check up here, but at this writing cannot say which one is right.

One thing we do know, and that is that the stocks of wheat available for export in the Argentine are smaller than we had thought. Jorge Born came in to see me the other day and said that he wished it to be clear that he was not speaking from a business point of view, but that I had known him for so many years that I would know he was speaking out of his preoccupation. He said that they

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had, as I knew, these flour mills in Brazil and that normally they shipped about fifty per cent of the wheat from Argentina to Brazil. He said that their mills were practically without wheat in Brazil and that he sees serious situations arising there of a political character as a result of the lack of bread. He then confirmed what Lusardo had said to me; that no wheat was going from the Argentine to Brazil. I asked him about stocks and it was interesting that he should say, as one of the best informed men on the question of wheat in the Argentine, that the Argentine available stocks for export to the end of the year were at the most 200,000 tons.

Incidentally, in this connection I should state that I am told that the wheat crop begins to come in in the north of the Argentine at the beginning of October, that a great deal is harvested in November, and that the crop is in full swing in December. If the Argentine, therefore, wishes to fully collaborate in getting wheat to Brazil, she should be safe in shipping at least some of the wheat which she is holding for local consumption. On the other hand, it is true that the locust menace in the north of the Argentine is so serious that they have not been so preoccupied for years with this matter, and for that reason it will be very difficult to persuade the Argentines to export any of the stocks which they are holding for local consumption to the end of the year.

It is altogether possible that the trip of Lusardo to Rio may have to do with this urgent situation regarding wheat. Even though some shipments may have been made from the Argentine to Brazil, they have certainly not been equal to the needs of Brazil. The Brazilian Government may be very much disturbed to the effect that Lusardo may not have adequately pressed this matter before the Argentine authorities. There are those here who even believe that Lusardo would view an upset in Brazil with complacency, believing that it would bring Vargas back, and of course he is one hundred per cent a Vargas man.

While I have a rather low opinion of Lusardo in many respects, I am extremely doubtful that he has not adequately presented this question of wheat to the Argentine authorities, including President Perón. I think President Perón's fear of Communist penetration is so great that he would not withhold wheat from Brazil for the purpose of bringing about an upset in the government there. That, however, is purely a personal opinion of mine, but I cannot explain why, if President Perón is so preoccupied

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about the Brazilian situation, he does not let wheat go from here in greater quantities. Of course he says that he has, but Lusardo says and the grain exporters say that it is not moving. Of course, if the Argentine does not send wheat we will have to move heaven and earth ourselves to help the Brazilians, for if they don't get wheat there is sure to be an upset there. I am sure you have a lot of information on this matter and the information I have given in this letter may serve as useful background.

This is a rather disjointed letter but I have wanted to get it off by the pouch, so you will be good enough to pardon the rather unrelated manner in which I have presented the substance of the letter. I am sending a copy of this letter to Will Clayton and also to Ambassador Pawley in Rio.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith

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