

December 14, 1948

MEMORANDUM For G. S. M.

I had lunch today with Ambassador de Lequerica and a mutual friend. While the purpose of the lunch was to discuss the problem of reconstruction of nitrogen fertilizer plants and petroleum refineries in Spain, the Ambassador was anxious to find out to what extent engineering firms in this country could assist him in paving the way to industrial modernization in Spain, if and when he gets a loan. As you will see below, the conversation took quite a surprising turn.

1. He was most gratified that the President greeted him quite unresentfully at the reception offered to Barmuglia (as you know, it is said on the banks of the Potomac that the Spanish Ambassador was betting a little too publicly and too heavily on a Dewey victory). He also expressed hope that Churchill's speech would influence the President. The Ambassador hoped that the climate on the Hill would be as favorable to his mission after the election as it was before. He mentioned that the Defense Departments were fully cognizant of the role of Spain as the oldest bastion of anti-communism, and that Mr. McCloy "was looking forward to a green light from the State Department to entertain a loan application from Spain". He expected that there was a favorable climate to Spain both in Washington and in New York, and there would be no obstacle to the application for the loan as soon as London and Washington decided which would take the first step before the United Nations.

2. We then discussed the advisability of forming an engineering group similar to Overseas Consultants, Inc. (the consortium organized by the State Department to study rehabilitation of Japanese industry) to make a blue-print of Spain's requirements, even before Spain is admitted into the United Nations and a loan is granted. This the Ambassador expected very soon because Spain "was the oldest bastion of anti-communism".

3. At this point the Ambassador stated that he was very anxious to maintain a favorable atmosphere and a high standing for Spain's credit application and that no misunderstanding develops in business circles. He said that he had been following very closely, "out of curiosity", the conflict between Juan March and certain Canadian companies, keeping himself informed of anything that might endanger his effort to build a solid foundation of goodwill for Spain.

My friend was quite non-committal as to any influence that the Juan March incident might have upon public opinion here, so I took the liberty of giving de Lequerica a friendly lecture on American public opinion. I told him that while during the three terms of F.D.R.'s presidency, our State Department did not defend American investments abroad, and our own public opinion was adverse to the large oil companies and for this reason took in

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its stride the expropriation of American interests in Mexico - which took place under the guise of an amendment to the Mexican constitution, - the situation was different today. The man in the street - and his Congressman - would not fail to qualify the Juan March shenanigans in Reus as plain highway robbery - performed under the complacent wink of the Spanish Government. They were lucky that the whole story is still in the clouds of Corporate and Trust Law and has not percolated down to the New Yorker Magazine. When it would, the Ambassador would probably find out that in this country the Wall Street tycoon and a haberdasher have two things in common - a sense of fair play and the notion that there is no personal security where ownership is in jeopardy. And all Spain had to offer to the USA was added security. At this point I made the customary reservation, to wit, that I was speaking only from personal knowledge of public opinion and knew nothing of the opinion of the U. S. Government.

4. The Ambassador dwelled at length on the subject and said that he was looking into the matter. He professed to understand its importance, and mentioned that he had lunch on Sunday with Mr. Messersmith and Mr. Heineman "to find out more about their side of the story". He stressed that the Reus incident was not at all characteristic of the attitude of the Spanish Government toward foreign investments. In his opinion there was much more behind the Juan March proceedings than the eye could see. The trouble was that Mr. Heineman was associated in Spain for many, many years with local people overtly antagonistic to the Franco regime whose names were symbolic and offensive, "in spite of Franco's natural forgetfulness". It is most dangerous for a foreign investment "to become a political tool of certain people" or become involved in local politics. Mr. Heineman, after so many years, could not change the trend and was probably so loyal to his people that he understood only their side of the picture, and might underestimate their mistakes.

The Ambassador proceeded saying that he "was delighted (encantado) with Mr. Messersmith". He was sure that any mission that Mr. Messersmith would undertake in Spain would be an outstanding success, "on sheer prestige and personal talent, because he had a personality and an approach that would go over big with the Spanish Government." De Lequerica repeated twice that a "new man like Mr. Messersmith who has never been involved in Spanish affairs could certainly negotiate the whole March incident in a most satisfactory manner on the highest level of the Spanish Government - which Mr. Heineman probably could not do personally because of his allegiance to his old friends".

The Ambassador said that he was very deeply aware of the importance of the March incident and sympathized with the reaction of American investors. He had also heard details of the story from a fellow townsman (Vidal y Guardiola) whom he liked very much and who understood perfectly the local political situation in Spain and the difficulties which the Heineman group had and their foreign implications. He felt that "Mr. Messersmith could handle that as well as he had handled the Argentine situa-

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tion". (At this point it was not quite clear to me whether he had reference to your able cleaning-up of the Braden mess, or was thinking of the spreading of the March incident to Argentina? I did not want to continue discussing this subject and did not try to find out.

He does not know anything
I had the impression that Lequerica was talking at such length about the problem because he was interested and he seemed quite sincere in voicing his disapproval of the whole thing. Incidentally, I am quite satisfied that he does not know anything of my pre-government background and did not even know of our acquaintance. He appeared most anxious to disassociate himself from the action of local officials and when he mentioned Franco's forgetfulness and Messersmith's ability and insight, I had the impression that he was thinking out loud a satisfactory solution to something that may stand in the way of his own mission here.

5. The Ambassador then proceeded to stress the importance of Spain to the national defense of the United States. While he knew that the Navy Department and the War Department have been most sympathetic to his cause, he was "very anxious to make new friends". He intends to stay here. He is reorganizing the Embassy and trying to know as many people as he can. He feels that there has been no reconstruction planning whatsoever in Spain, and that if and when a loan is available, through whatever channels they are, there will be a mad rush for the dollar exchange, as no loan is sufficient to cover their requirements. He is anxious to start something on rehabilitation of fertilizer production and strategic mining. He is anxious to establish a precedent and show that he is not waiting for the loan to start working with American industry.

I told the Ambassador that after talking over with the War Department and the State Department his plans, it might be possible to form a small group, similar to Overseas Consultants, Ltd., to make a survey of the requirements of Spain. The conversation then turned to social matters.

(signed)

Mike