

AIR MAIL

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SECRET

Buenos Aires, Argentina
September 3, 1946

Dear Will:

I have by despatches and letters to Spruille Braden kept the Department informed of developments in connection with the British negotiations here. The British Ambassador from the outset kept me informed concerning the progress of the negotiations, and I note from telegrams which our Embassy in London is sending to the Department that the Foreign Office in London is keeping the Department informed. These negotiations, of course, are very important, and in some ways are very interesting to us, and for that reason I have been following them very closely.

I think that I should give you a very brief summary of developments.

Sir Herbert Leisching came here several months ago to tell the Argentine Government why the British Government could not enter into a long-term trade agreement or treaty with the Argentine at this time, and therefore to endeavor to get a prolongation of the agreement which had already expired and which had temporarily been prolonged. Leisching explained to the Argentine authorities that in view of arrangements with us with reference to preferences and in view of the world meeting which was to be held to discuss major economic problems, Britain was under a commitment not to enter into any long range agreements until after that meeting, and therefore wanted an extension of the present agreement with the Argentine. Leisching was here only a short time and he endeavored to make the British position clear, but it was hopeless from the outset because the Argentines simply do not understand what is happening in the world economic picture. Leisching did his best, but it was obvious that he had

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The Honorable

W. L. Clayton,

Under Secretary of State for Economic Affairs,
Washington.

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made no dent on the Argentines and the agreement, of course, has now lapsed as the Argentines have refused to make any extension thereof.

When the new British Ambassador arrived here, Sir Reginald Leeper, he had a conversation with Perón just before he became President, and asked him if it was true that the Argentine Government wanted to buy the railways, and Perón said that was the intention of the Argentine Government. Leeper then said that the British Government was prepared, if the Argentine Government desired it, to send a mission to the Argentine to discuss the sterling balances, the meat prices, and the sale of the Argentine railways. The Argentine Government expressed its desire that such a mission come and indicated its willingness to discuss all three of these matters.

The mission arrived, headed by Sir Wilfred Eady. The Argentine Government appointed Miranda, the President of the Central Bank, to conduct the negotiations for them. Miranda is a very difficult man with very little knowledge of either finance or broad economic problems. He is merely a successful businessman who has made a lot of money in canning fruits and vegetables. Besides this, he is extremely rough and crude and completely lacking in courtesy and has no love for us nor much more for the British.

From the outset the negotiations went badly. The British wanted to talk about sterling balances, sale of the railways, and meat prices concurrently because in their opinion they formed part of the same picture and had to be dealt with together. At the first meeting Miranda blandly informed them that the Argentine Government no longer desired to buy the railways, and he refused to discuss the railways or meat prices. He definitely and categorically said that they wanted to discuss the sterling balances and until the question of sterling balances was settled, the Argentine Government could not discuss either meat prices or the railways. He did this in the crudest and rudest manner, and the British learned for the first time what it means to deal with the Argentines.

The British stuck to their point that all three matters must be discussed together. Miranda did not budge from his position and said that the Argentine must have

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2-1/2% interest on the sterling balances which amount to some 125,000,000 pounds or these balances must be considered as unblocked and freely available to the Argentines. The British answer to this was that they could not pay any interest and they could not unblock the balances as this would create problems for them in almost every part of the world and they could not give any special treatment to the Argentine.

They simply have not been able really to talk with each other. The British and the Argentine have stuck to their positions. The British Ambassador, Sir Reginald Leeper, is not a member of the commission and has kept himself in reserve. He went to see the Foreign Minister, Dr. Bramuglia, and explained to him that unless they could make progress there would have to be a breakdown in the conversations. He emphasized that the mission had come here with the understanding that all three matters could be discussed and concurrently and that Miranda was refusing to do so. He said that under these circumstances, a breakdown of the conversations was inevitable and this would seriously interfere with Argentine-British relations, and he suggested that they call on the President.

Bramuglia, the Foreign Minister, has shown a very understanding attitude with respect to this whole matter and he therefore arranged for Leeper and himself to call on the President, which they did about a week ago, and Leeper had an opportunity of setting forth the whole position to the President. The President agreed that the three matters should be discussed concurrently, but he did not give any indication as to what recessions the Argentines would make with regard to the sterling balances or with regard to meat prices. So far as the railways are concerned, the position is clear that the Argentine has indicated it will not buy the railways at this time.

The British mission was so fed up that it was ready to go home and take all of the risk incident to a breakdown of the negotiations. They have made a brief trip to Montevideo and have now returned to Buenos Aires and the negotiations are to begin again. It is not improbable that the Foreign Minister, Dr. Bramuglia, may take more of a lead in the negotiations for the Argentines than Miranda, and in that case there is some hope of some arrangement.

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With Miranda dictating the Argentine attitude there is no hope of any agreement for he is altogether lacking in understanding of the consequences of a breakdown.

The British Ambassador here has kept me fully informed concerning the negotiations and is a very sound man. He has been giving very good counsel to Sir Wilfred Eady and the members of the British mission. As a matter of fact, if it were not for the British Ambassador here and for Dr. Bramuglia, the Minister of Foreign Relations, the negotiations would already have broken down and the mission gone home.

The situation as it stands today is that the mission is back from a brief stay in Uruguay and is opening its conversations with the Argentine negotiators again, and the Argentine negotiators have the instructions from the President that they are to discuss all three matters concurrently; that is, sterling balances, meat prices and a meat agreement, and the situation of the railways, even though no sale is to be made to the Argentine Government.

As I see very little opportunity for the negotiations to be a success, I thought I would take the opportunity to mention the matter to President Perón at the first opportunity in a purely informal and unofficial way. The President expressed a desire to see me this last Sunday evening with the Foreign Minister at his home for supper as he had some matters he wished to talk over with me. His real purpose was to discuss informally Communist activities in the American Republics. After the close of the conversation I said to the President that there was a matter which I wished to mention to him, and I wanted to make it clear that I was doing so in an entirely personal and unofficial way, that I had no instructions from my Government in the matter, and also that I wanted it to be clear that I was not speaking to him at the request of the British Ambassador or the British mission. I said that I wished to speak to him in this purely personal way about the negotiations they were carrying on with the British because I was sincerely interested in the Argentine and in its problems and that I saw a breakdown in the negotiations impending and I thought it would be very disastrous all around. The President said that he would be glad to hear any thoughts which I had to express on the matter.

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No one was present at the conversation other than the Foreign Minister. I started out by saying that although we were not a party to these negotiations, we were naturally interested in them because anything which affected Britain affected us. I said that the responsibilities of Britain and the United States today were very great because they were the two principal countries which stood for certain trading principles as well as certain political ideas and that these economic ideas and political principles had to control in the world or there could be no peace and security for any country, including the Argentine. I then went on to state that the subject matter of the negotiations was very difficult. I realized that the 125,000,000 pounds which the Argentine had immobilized in Britain were a serious matter for her, but I recalled to him that if the Argentine had not had this market for her meat during the war, her economy would have gone to pieces. I recalled to him that Britain was not in a position to give special treatment to the Argentine in the way of interest or complete freeing of balances as this would mean arrangements with other countries which Britain simply could not make at present because she could not meet the obligations involved.

I recalled to the President that we had furnished great quantities of material to Britain during the war, including food as well as war materials, and that we had practically wiped the slate. I recalled to him that in addition to that we had given a credit of over 3-1/2 billions to Britain which did not carry any interest for some years because we realized that it was so important that Britain get on her feet completely; we realized that the strength of Britain was important for us and for all countries attached to certain principles, economic and political. I told him that it had naturally been difficult to convince our Congress of all this, but that our people had seen the light. I said that we were by this credit helping Britain to really become a competitor with us on many markets, but that we recognized that this was a healthy thing in the long run.

I reminded him that if there was a breakdown in the negotiations it would mean that Britain would have to cut down her meat purchases and that she would have to look for some of her supplies in other areas. I recalled to him that although Argentina might eventually be able to build up other markets and build up a fleet of refriger-

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ator ships to carry her meats, this, under the best circumstances, would take years.

I will not go into further detail with regard to the remarks which I made to the President, but I made it clear to him that a breakdown would have many inconveniences for the Argentine under the best circumstances and that any deterioration in British-Argentine relationships would not be a happy thing in the world picture today.

The President said that he appreciated these considerations and that he was very much concerned about the whole matter. He said the principal difficulty for them was these sterling balances, for while Britain had not been paying them for exports, the Argentine Government had been under the necessity of issuing currency to pay the producers here. He referred to the conversation which he had had with the British Ambassador a few days ago, and said that he had given instructions that the conversations were to cover the three points concurrently rather than being confined to sterling balances alone. He said he was extremely anxious to find a solution. He expressed very great appreciation of the observations which I had made which he said he knew were made in a friendly and constructive spirit.

He said that one of the difficulties was that Miranda, who was conducting the negotiations for the Argentine, was too intransigent but he said that Eady, who was conducting them for the British, was just as difficult. I said to the President in this connection that the Foreign Minister had been most helpful so far and had a very real understanding of the problems, and I gathered from what the President said that Bramuglia, the Foreign Minister, will from now on play a more important part in the conversations. After we left the President, Bramuglia took me in his car to my home, and he thanked me for what I had said to the President as he said that "it helped him in his task."

I called on the British Ambassador yesterday morning and said I wished in confidence to give him the substance of my conversation with the President and the Foreign Minister. I asked him to be good enough not to tell Sir Wilfred Eady or any of his associates that I had mentioned these matters to the President. I said to the

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British Ambassador that I was able to talk over these matters with the President because he knew that I did not talk them over with other persons, and that if it became known to the President that I discussed my conversations with him with other persons, I would lose the opportunity of having these conversations with the President which I can assure you, in all modesty, have been very helpful up to now. While President Perón is more a military man, he has some understanding of economic problems and he is very intelligent, and I know that these conversations which I have had with him have been very helpful to him for background purposes and have had a very restraining effect when some have urged on him arbitrary measures in the economic field. Therefore, I emphasized to the British Ambassador that I had made mention of this matter of the British negotiations to the President on my own initiative and without instructions because I thought it was a matter of common interest, but I would appreciate his not mentioning my having done so to any one here, and if he made any mention at all, it should be only to Mr. Bevin, the Foreign Minister, for his personal background. The British Ambassador said he thoroughly understood and that he would not mention my conversation with the President to any one here. He expressed deep gratitude for what I had done and expressed the thought that it would be helpful.

I told the Ambassador that I did not know whether what I had done would be helpful, but that I felt I should use the opportunity which I had and had done so.

I am not at all certain that it will be possible to find an agreement. As Bramuglia will be more in charge for the Argentines, there is some hope, but the substance of the negotiations is really most difficult. You know how difficult the question of the sterling balances is, both from the Argentine and the British points of view. The question of the meat prices is also very difficult on both sides. The situation of the British railways is not good, and I just don't see what they can work out. It is difficult to conceive of a negotiation more difficult than that which the British have with the Argentines.

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I am hopeful that some kind of an arrangement may be worked out. I am confident that President Perón wants to find an arrangement. I think the British, in some respects, are being almost as difficult as the Argentines although, of course, the greatest difficulty is that the Argentines simply do not understand these major economic problems. The Argentine is one of the few countries that hasn't gone through the trials and tribulations that most of us have gone through, and her public men, whether they are in or out of the Government, and unfortunately, most of her businessmen, do not understand these broad economic problems which are requiring our attention and the world's attention these days. This is a tremendous handicap when one is negotiating on such difficult problems. The British have the background of these broad problems and the Argentines do not. The Argentines are learning, but they are learning slowly, and I am not sure that they will learn fast enough to prevent some very serious economic disaster for their country.

One thing is certain, and that is that a breakdown in the negotiations will be more serious for the Argentine than it is for the British. There are some people here who realize that, and perhaps that is why some arrangement may yet be found. A crisis has been reached in the conversations, and unless the conversations make some progress in the next two weeks, it is certain that the British are going to go home and take all the risks. They are terribly fed up with the way they have been handled and treated here, and in some respects they have every reason to be fed up.

The British Ambassador has been most understanding and constructive in his attitude, and it is a piece of good fortune for the British and, I believe, for us that they have a man of his understanding here.

I have wanted to give you this background as there is so much possibility that the negotiations will break down, and it is nothing that we can view with complacency for a deterioration in the British-Argentine relationships in the economic field will mean a deteriora-

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tion in the political relations between the two countries and that is going to arouse a lot of resentment here in the Argentine against foreign interests in general.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith