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Weekly Contributions
Latin America Branch, ORE, CIA
24 May 1949

Two items have been selected this week by B/LA as being of particular interest: that on the US stake in the UK-Argentine meat-purchase negotiations (p. 3), and the item on Colombia's tense pre-election situation (p. 2).

CURRENT DEVELOPMENTS

NORTHERN DIVISION: Cuba's recent sugar sales have improved that country's relations with the US and have strengthened the government (p. 2).

CENTRAL DIVISION: Colombia's government is expected to survive the cabinet crisis (p. 2).

SOUTHERN DIVISION: Bolivia's government has been strengthened slightly since acting President Urriolagoitia assumed office (p. 2). Peru's Odría regime has become more stable with the departure of two influential cabinet members (p. 3). Renewed diplomatic relations between Paraguay and Uruguay contribute to Hemisphere solidarity (p. 3). The US has an important stake in Argentine-UK meat-purchase negotiations (p. 3).

SPECIAL SUBJECTS

The Current Situation in Costa Rica 6

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1. CUBA: The sale of 950,000 long tons of sugar to the US and Great Britain boosted Cuban morale last week. Cubans now feel fairly sure that most of the undesignated portion of the 1949 crop (about one million tons) will be sold, and believe that economic depression will, as a consequence, be postponed for at least another year. Previously there had been widespread pessimism over the economic outlook — despite the advice of some economists that potential world demand for sugar is almost unlimited and could conceivably grow large enough to stabilize Cuban sales at a high level — and it was feared that the 1949 sugar crop would substantially exceed demand on the world market [redacted] with consequent impairment of Cuban national income. Now, however, it appears that the carryover at the end of this year may not greatly exceed the normal figure of about 500,000 tons. The assurance that this year's crop will be sold will improve the relations between the US and Cuba and strengthen the government's hand at home.

2. COLOMBIA: Government expected to survive cabinet crisis
Conservatives and military officers replaced Liberal Party members in Colombia's cabinet on 22 May, marking the end of Colombia's 13-month-old National Union (a modus vivendi by which the majority Liberal Party was included in the Ospina government). Despite a Liberal Party threat to call a general strike, President Ospina accepted the Liberals' resignation rather than accede to the demand that he replace two Conservative governors with military officers and take certain other steps to assure electoral guarantees prior to the 5 June congressional elections. In the face of the President's determination, the Liberal Party directorate has not fulfilled its threat of a general strike, but, on the contrary, has appealed to Liberal Party members to avoid provocation and to continue organizing for the coming election. It is unlikely, however, that the directorate's appeal will be entirely successful in checking violence by Liberal groups. The government, prompted by sporadic violence in recent months, had already taken security precautions, and has now alerted the police and the army.
It is expected that sporadic violence will continue, but that it will not reach the proportions of a civil war.

3. BOLIVIA: The shaky Bolivian Government has been strengthened slightly by acting President Urriolagoitia since he assumed office. His forceful attitude and his policy of close consultation with army leaders have combined to strengthen the regime despite his failure to persuade other political parties to join with the government PUSH party in the formation of a new cabinet.

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The army has stated that it has had "enough of disorder" and that it favors the control or deportation of agitators who plan to weaken the administration by the continuous provocation of civil disturbances [redacted] Consultation with army leaders — a policy seldom followed by President Hertzog — will have the further effect of stiffening the government's attitude against the opposition MNR and PIR parties. Inasmuch as the subversive MNR and PIR groups are the principal threat to Bolivian stability, strong army support of the administration — if it is continued — constitutes a real gain regardless of failure to establish harmony among the liberal political parties.

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4. PERU: The Odría regime has probably gained in stability as a result of the departure to the US for medical treatment of Lt. Colonel Llosa, Minister of Development. Llosa's relations with Odría — never very cordial — had reportedly deteriorated lately. Since both Llosa and the Minister of Marine, Saldías, had been urging the holding of elections at an early date, Odría may have found their "state of health" a convenient reason for suggesting their departure [redacted] Odría's control over the junta — and possibly over the country — will be increased by the absence from that body of these influential opponents — even though it should prove to be no more than a temporary absence. Relations with Bolivia should also improve because Llosa had been accused of aiding Bolivian revolutionaries and his departure should allay Bolivia's fears as to repetition of such acts.
5. PARAGUAY-URUGUAY: Renewal of diplomatic relations between Paraguay and Uruguay marks a gain for US interests in Hemisphere solidarity, and relieves the nearly two-year period of strain between the two countries. Tension arose in 1947 during the Paraguayan civil war, when the Corifigo government accused the Uruguayan Government of sending arms and ammunition to the rebels. Despite Uruguayan denials (made somewhat ludicrous by the crash of a plane loaded with guns and ammunition), both countries withdrew their diplomatic representatives. It was not until Uruguay's recent overture toward the Molas government that a reconciliation was effected. Diplomats will be assigned in the near future.
- ✓ 6. ARGENTINA: US stake in Argentine trade negotiations with UK In view of the great importance to the British, the Argentines, and the US of current negotiations on the Argentine-UK meat-purchase agreement, the US Embassy in Buenos Aires has urged that the Department of State discuss with London the importance of

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agreeing on a price sufficient to cover the cost of production. Disagreement over prices has been prolonging the negotiations; thus far, the best British offer is still below the British estimate of Argentina's cost of production. A projected higher offer by the British is tied to conditions that would be disadvantageous to US business and contravene ITO principles. Argentine acceptance of lower-than-cost-of-production offers would impair US interests and US-Argentine relations.

Thus far the best British offer is 15.2 cents a pound based on the British estimate of cost of production at 16.0 cents a pound. The British contend that the Argentines should offset the price difference by giving Britain a preferential exchange rate. Argentina is asking 21.2 cents a pound based on the packers' (British, US, and Argentine) estimate of cost of production of 13 cents a pound, and pointedly adds that pounds sterling can be bought at as much of a discount as pesos in the black market.

The British Embassy in Washington has informed the Department of State that the UK intends to offer 17.7 cents a pound provided that Argentina meets the following conditions: (1) 30 percent of all UK exports to Argentina will be non-essentials; (2) there will be no dollar payments; (3) there will be no gold guarantee for any favorable balances of payments; (4) the UK will receive better than most-favored-nation treatment in exchange rates. The fourth condition would give Britain price advantage over US and other foreign competitors in the Argentine market during the proposed 5-year period of balanced trade, and it is similar to the Anglo-Argentine trade agreements of the '30's that resulted in diversion of former US trade with Argentina to the UK. Moreover, better than most-favored-nation treatment would contravene ITO principles.

Argentine acceptance of prices lower than cost of production would impair certain US interests and would probably have unfavorable repercussions on US-Argentine relations. Although it is US policy to support the British economy, for political and strategic reasons, it is also to the US interest to have the Argentine meat industry flourish. Meat is still in short supply, and a further decline in Argentine production cannot be offset immediately by increased production elsewhere because of the time required for such development. Higher prices will have to be paid to the producers to halt the decline in livestock production and also to the frigorificos which have threatened to close because of large losses. Failure to cover such costs will increase existing instability because of the necessity of subsidizing the meat industry, usually a principal source of income. Concomitantly, US packers' dependence for continued operation on Argentine Government relief would be a source of possible friction in US-Argentine relations. Furthermore, if the Argentine Government feels that it is forced to accept an insufficient British offer, it will blame the US; it will point to US sales of pork to the UK during the negotiations as evidence of US backing the British position, and it

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will renew charges of PCA discrimination such as those which attended CIA authorization of British dollar purchases of bacon from Canada at higher than Argentine prices.

Resurgence of anti-US feeling would probably undermine the present joint Argentine-US efforts to improve trade and financial relations between these two countries and cause Argentina to revert to a policy of seeking to displace US leadership in Latin America.

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The Current Situation in Costa Rica

(Summary: US security interests are not involved in the present Figueres-Ulate political rivalry since both are pro-US. Communism remains of minor importance. A slightly favorable shift in the country's terms of trade is anticipated. The military situation is confused. The country's foreign policy continues to be pro-US and anti-USSR. There has been a tendency toward lessened participation in Central American-Caribbean power-balance rivalries.)

The current situation in Costa Rica has developed as predicted

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President-elect Otilio Ulate has again demonstrated his reluctance to assume official responsibilities. He still prefers to mitigate the more radical of Junta Chief Figueres' measures by innuendo and political maneuver. He has also declined to participate in revolutionary conspiracies against the junta. When Minister of Public Security Cardona led an abortive revolt and demanded the dismissal of the junta's more radical ministers and a reversal of its economic policies -- both of which demands had the support of the majority of Ulate's followers -- the latter refused to join the revolt and remained loyal to Figueres. More recently, when the Constituent Assembly rejected a Figueres-sponsored new constitution and voted for an 1871 model advocated by Ulate, Figueres resigned as Provisional President. But Ulate, as president-elect, refused to assume office himself. Instead, he promised Figueres to make his followers in the Assembly assume a more cooperative attitude if the latter would remain in office until 8 November. Eventually, of course, the issues between the two will have to be taken to the polls. In such an event, US security interests will in no way be involved. Both Figueres and Ulate are pro-US.

Communism remains of minor importance. The junta, upon assuming office, outlawed the Communist Vanguardia Popular, exiled its leaders and disrupted its internal organization. The Vanguardia, however, still distributes propaganda clandestinely. Its publication, Trabajo, reveals a schism between present leaders and Manuel Mora, its exiled chief who is berated for seeking publicity without previously consulting the party's political bureau. Apparently in an effort to make the Vanguardia more popular among those circles that would normally be the farthest removed from it in an ideologic sense, Trabajo has attacked the junta on the same grounds as the conservatives and opposes the junta's nationalization of the banks and the 10 percent capital levy as an anachronism that discourages capital. By an oversight, the former CTCRC was never fully dissolved subsequent to the collapse of the Picado government. Former union leaders

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have now commenced a campaign to organize an "Independent Labor Union Federation". In the event such an organization is actually established, it will probably be Communist-dominated.

Costa Rica's economic problems remain much the same as described in

25X1 [redacted] The government hopes for and is seeking a US loan by which to finance a program of reconstruction, development and reform. Considering invisible items, 1948 foreign trade was almost in balance. With the cost of US imports down slightly and with the price of the country's two leading exports -- coffee and bananas -- holding to their high levels, there has been a slightly favorable shift in the terms of trade. This, coupled with import restrictions that the junta has imposed, should cause an improvement in the country's foreign-exchange position. A contract has been negotiated with the Honolulu Oil Company to explore and develop Costa Rica's petroleum resources.

The military situation remains confused. The Costa Rican Army has, in theory, been twice abolished and twice revived; the first time to repel brigand-invaders from Nicaragua, and the second time to quell Cardona's abortive revolt. The manner with which the revolt was suppressed revealed that the budget of Public Security had been increased. Funds had apparently not been transferred from the military to the Ministry of Education as had been promised. The army's present strength, excluding the band, is about 475; and the police, including customs guards and traffic police, about 1,325. President-elect Ulate has declared himself definitely opposed to the proposed abolition of the Ministry of Public Security and the dissolution of the army, the newly appointed head of which is, by Costa Rican tradition, entrusted to a person having Ulate's confidence.

The junta's foreign policy has become less controversial since the signing of the Nicaragua-Costa Rica Pact of Friendship on 21 February 1949

25X1 [redacted] The junta has refrained from public espousal of the aims of the Caribbean Legion. Several leaders of the Legion have left the country. Although its matériel and officer cadre remain for the most part intact, it is now less likely that it will resume operations on Costa Rican soil -- a welcome development to Ulate and the non-interventionists who oppose Costa Rican abandonment of its traditional isolationist policy in favor of active participation in Central American-Caribbean power-balance rivalries. It is unlikely that the junta will become involved in Panamanian revolutionary conspiracies, as the jailing of former Minister of Public Security Cardona has removed from the scene Arnulfo Arias' principal Costa Rican protagonist. In Hemisphere and world matters, Costa Rica continues to support the Organization of American States and the United Nations. At the same time, it is pro-US and anti-USSR. This policy should continue regardless of the outcome of the rivalry between Ulate and Figueres.

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