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31 July 1953

MEMORANDUM FOR: Chief, WH
FROM : Chief, RUM/OIS []
SUBJECT : The Coffee Industry in Guatemala - Special Considerations Regarding Possible Economic Sanctions.

1. In preparing the economic report on the Coffee Industry in Guatemala (our case K-10602), certain evidence emerged which was outside the scope of that study and is outside the scope of this Division's functions. This evidence, nevertheless, is passed to you because it may be important to the success of a possible operational plan for applying economic sanctions. These considerations might be disregarded if Guatemala were the only country concerned. Thirteen other countries in Latin America, however, are coffee producers. Their economies can be vitally affected by US policies or actions with relation to this commodity. Regardless of political sentiment, the governments and business interests of those countries would tend to judge this case, however it might be presented to public knowledge, in the light of its implications for their own future economic and political security.

2. Our evidence concerns: (a) special difficulties imperiling preservation of secrecy before and after the event, (b) possible public attribution of responsibility to CIA, (c) ability of Guatemala to sell its coffee stocks to European buyers and thus evade US pressure, (d) probable adverse results of time lag in impact of economic action, (e) long-term versus short-term advantages, and (f) nationalistic and Communist exploitation of revealed information to discredit the US in Guatemala and other Latin American countries.

a. Preserving secrecy: The danger to maintaining secrecy comes from two directions which will be extremely difficult to control: (1) the American advocates of intervention and the American interests who fear business losses in case of US intervention, and (2) Central Americans who will not hesitate to make their opinions known publicly at home and to the American press.

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The American advocates of intervention will be just as dangerous after the event as before it, with regard to future interests of CIA and the US Government in Latin America. If the operation is successful, some of those who have advocated such action at any time will be likely to brag about their own participation, whether they actually were involved or not. Such individuals will tend to be devoid of a sense of personal responsibility as long as they see no direct danger to their own interests. Various other interested persons not susceptible to our control might be adversely affected and thereafter would be likely to throw out charges of US intervention to the press in this country and before anti-US interests in Latin America.

Another danger to security lies in the fact that there is such a large number of diverse investment interests, both in the US and in Central America, which are involved in the problem. This multiplies the risk since all concerned cannot be expected to agree; the dissidents can hardly fail to get some information about the proposed action and are likely to reveal it deliberately. The practice of US buyers extending short-term credits to Guatemalan coffee producers creates a situation that is especially vulnerable in this regard. J. A. Folger, for example, last year loaned over \$1 million dollars to several Guatemalan coffee producers. The parent firm in San Francisco and the Guatemalans involved, therefore, have large stakes in the coffee industry, and could not be expected to accept serious financial losses quietly. Moreover, they comprise an interlocking group wherein convincing explanations of any major change in credit policy would be demanded, thus compounding the chances of unwitting or deliberate revelation. Experience in the Agency shows that although thoroughly trained and indoctrinated, many non-intelligence-trained people fail to maintain secrecy "forever" because of a lack of understanding of the effects of even a minor breach of security. When dealing with independent businessmen accustomed to complete freedom of talk and habitually inclined to spend hours daily in trade gossip, the probability of maintaining complete security, especially after the event, becomes very doubtful.

Intelligence reporting indicates the existence of a considerable amount of loose talk already predicting that the US is planning to use economic sanctions against Guatemala in an

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effort to curb Communism there. An outstanding example of this type of talk was evident in a recent interview between a CIA component in New York and an American businessman who deals in Guatemalan coffee.

In another case it was reported that J. A. ("Duke") Medina, one of the largest importers of Guatemalan coffee, had expressed [] serious concern that the US was planning action against Guatemala. Medina was worried because he had purchased Guatemalan coffee futures extensively and had no escape clause in his contracts and would lose heavily in the event of any dislocation in the Guatemalan coffee industry. (It is likely that Medina did not confine expressions of his concern to [] of the US government.)

Emanating from Central America is the report that Jose Figueres, victorious Costa Rican presidential candidate and one of the largest coffee growers in the area, sent [] to Guatemala and proposed to Foreign Minister Osegueda that Guatemala review its relations with the US and try to improve them since he had received the distinct impression on his trip to the US that the US was probably going to apply economic sanctions against Guatemala if matters get worse. Figueres allegedly offered to help in settling the differences between the two countries and expressed the hope that Costa Rica and Guatemala would be much closer once he became President. Osegueda reportedly told the envoy that Guatemala was not worried in the slightest about any economic action the US might take as Guatemala already had European markets all lined up to take care of their coffee and other produce.

In San Salvador shortly afterwards [] revealed the content of his conversation with Osegueda and added that Figueres "had been very well received in the US by officials of the Department of State, by Mr. C. D. Jackson in the White House, and by Mr. Allen Dulles, and intimated he might be able to assist the Guatemalan Government in mediating its difficulties with the United Fruit Company." [] claimed he had several meetings with President Arbenz, Osegueda, and other Guatemalan officials, but he found them "rather belligerent and disinclined to accept Figueres' view that sanctions would be imposed."

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b. Attribution of responsibility to CIA: The initiative of Figueres in seeking a meeting with the Director of CIA and the nature of the comments he made indicate that he presumes that other interested people anticipate that CIA will be responsible for the opposition. This contact with CIA has been reported in Central America, where the Agency has already been credited with instigating an abortive revolt in the interest of the United Fruit Company. This charge also has received wide publicity in the US press. As a consequence, any dislocation in the coffee industry will also probably be attributed to CIA, whether the Agency is responsible or not.

c. Possible diversion of Guatemalan coffee to European markets: Osegueda's comments, above quoted, as to Guatemala's ability to sell its coffee to European buyers probably is not entirely an empty boast. Recent reporting indicates renewed contacts and negotiations with Germany, formerly a large purchaser of Guatemalan stocks. Guatemala this year opened a consulate in Hamburg.

d. Probable adverse results of time lag: The possibility of an operational impact which would take effect fast enough to paralyze the Guatemalan coffee industry seems remote.

Coffee interests in the US and in Guatemala are so well integrated that any hints of approaching sanctions or boycott are likely to pass among them so quickly that elements in opposition to the plan could readily marshal their resources for resistance and evasion.

In the event of advance security leaks, or if the action should take place in successive stages, the Arbenz Government might be able to increase its domestic support because of the nationalistic resentment the government probably could arouse on the basis of suspicions of US intervention. Arbenz also could stimulate alarm and adverse reactions in neighboring countries which, like Guatemala, depend heavily on one or two export products. It is not beyond the realm of possibility that some of these countries might try to bring the case before ODECA (whose Secretary-General, Roberto Canessa, is one of the leading coffee growers of the area) or the OAS, and thus embarrass the US and damage inter-American relations. In any case, Guatemala and other Central American countries might more aggressively seek - pursuant to recent overtures - European markets, a step which would weaken one of the bonds of the inter-American system.

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e. Long-term versus short-term advantages: In case of any security leak, the long-term interests of the Agency and the Government in maintaining the willing economic cooperation of Latin American countries would be jeopardized. Suspicion of US good will and intentions on the economic front has been growing for some time throughout Latin America, and great sensitivity already exists in the Latin American coffee producing countries regarding the power the US can wield against their interests. By way of recent illustration, concern was expressed in a 27 April 1953 bulletin issued by the Board of Directors of the Coffee Federation of Central America, Mexico, and the Caribbean (FEDECAME), which complained of activities in the US seeking to "boycott" Latin American coffee.

f. Nationalistic and Communist exploitation: Nationalistic parties and propagandists throughout Latin America, as well as anti-Communist agitators, can be expected to exploit and exaggerate any hints of information detrimental to the US, along these lines, for an extended period after the event.

Such interests in Argentina could be expected to capitalize on the anti-US propaganda aspects of US interference in Guatemala, regardless of Peron's recent goodwill overtures. It certainly would be very difficult for the Argentines to resist an opportunity of exploiting in any derogatory way the fact that their "favorite arch-enemy," Spruille Braden, is now (was) chief of public relations of the United Fruit Company.

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