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DISPATCH NO. ~~X~~HULW - 512

SECRET RYBAT
CLASSIFICATION

TO : Chief of Station, Lincoln

DATE 15 JUN 1954

FROM : Chief, WH

SUBJECT { GENERAL Operational
SPECIFIC Effects on the Economy of Guatemala of a Cessation of Imports.

RYBAT PBSUCCESS

1. Attached for your information is a report on above Subject. This report was prepared to provide a basis on which to judge statements and claims concerning results of possible economic sanctions against Guatemala.

2. This report indicates that the overall suspension of imports into Guatemala would have little effect on the Guatemalan economy on a short-term basis. It does not, however, consider psychological reactions.

3. On a long term basis, however, the suspension of petroleum imports, if undertaken so as to assure the exhaustion of diesel and crude stocks at the time the coffee crop begins to move in December, could seriously affect the economy; coffee is the primary export commodity, accounting for over 70 percent of total exports and therefore of foreign exchange. Obversely the shortage of petroleum products would also affect imports by interrupting the internal distribution channels from the ports.

OLIVER G. GALBOND

Attachment - as above

11 June 1954
Distribution:
Orig & 1 - LINCOLN

SECRET RYBAT
CLASSIFICATION

19 JUN 1954

FORM NO. 51-28
JUN 1949

SECRET

THE EFFECTS ON THE ECONOMY OF GUATEMALA OF A CESSATION OF IMPORTS

The immediate economic effect upon Guatemala of a cessation of imports at this time would be negligible. At the end of two weeks, or even four weeks, there would be hardly any dislocation in the economy. It would be most unlikely that the business community would suffer sufficiently to cause any business failures. At the end of two months, some shortages probably would appear, depending upon inventories, but with the exception of a cessation of petroleum products these shortages probably would have no appreciable effect upon the economy of Guatemala.

The only imports of major economic importance to Guatemala are petroleum products and machinery and metal manufactures. The government has taken pains specifically to exclude these products from various increases in duty and trade restrictions. Guatemala also is entirely dependent on imports for newsprint.

Guatemala is totally dependent upon foreign sources for petroleum and petroleum products, because no petroleum is produced or refined in the country, but a cessation of imports would have an immediate effect only if stocks were abnormally low.* Storage capacity within the country would provide, under normal use, a 60-day supply of motor gasoline, a six-month supply of aviation gas and up to a one-year supply of diesel fuel. Shipments are received, however, at comparatively long intervals, with a few large shipments a year rather than frequent smaller ones, and exact figures on current stocks are unavailable. Consequently, the effect of a lack of imports would be in direct relation to the amount held in storage at the time an embargo was enforced.

Petroleum products account for more than 80 per cent of the total energy supply and are used primarily to power the railroads, motor transport and for domestic lighting and cooking. The only part of the transportation system which might feel any immediate effect of an end to imports, however, would be the motor transport. Taxis in Guatemala City, which use most of the motor gas, would feel the shortage most acutely. Current supplies are received from Aruba, Curacao and the US, with minor amounts from Venezuela and Mexico. The alternate sources of supply for petroleum products are:

Peru (International Petroleum Co. Ltd., a Canadian-American Company in which Standard Oil of New Jersey owns an interest)

Trinidad (British companies, probably affiliated with the Anglo-Iranian group)

Indonesia and Borneo (Royal-Dutch Shell and Standard Vacuum Co.)

Middle East (American, British and Iranian Cos.)

Soviet Bloc (USSR, Rumania)

The tanker market is currently depressed, so that Guatemala could charter the necessary tonnage, although transport costs from these areas would be very high.

The effect of a cessation of manufactured imports would be negligible from a short-term outlook. Imports of machinery consist primarily of earth moving equipment and farm equipment, almost all of which come from the US. In a matter of months, without imports, machinery and metal products in use in Guatemala would begin to need replacement and shortages would become apparent. The government, however, has cut down on appropriations for the extensive public works program begun in 1951. Thus the possibility of shortages being felt in that field to the government's disadvantage becomes even more remote. The alternate sources of supply are:

Canada
United Kingdom
West Germany
East Germany
Czechoslovakia

Guatemala is entirely dependent on imports for newsprint. Local production is limited to paper suitable for a flat-bed press, and there is no newsprint produced in Guatemala suitable for roller presses. The 2,500 tons required by Guatemala is supplied almost exclusively by the US and Canada. Worldwide supply and demand is approximately in balance, but there is an unused capacity, principally in:

Argentina	67,000 tons
Japan	62,000 "
Soviet Bloc	85,000 "

In addition an 129,000 tons of estimated unused capacity exists in the US.

In the consumer goods field, wheat flour and textiles are among Guatemala's larger imports by value, but the government is taking specific steps to curtail these imports. The technique usually is to establish a required ratio of domestic material in the product; i.e., all bread baked in Guatemala must contain a minimum of 70 per cent domestic flour. The US has complained officially to the Guatemalan government that these actions contravene the provisions of the 1936 Reciprocal Trade Treaty between the US and Guatemala.

The third quarter is notably the slack period in Guatemalan business, with imports in August being usually about 50 per cent below the January-March peaks. The cutting off of imports would have, therefore, substantially less effect upon the Guatemalan economy at that time than a cessation during the active months of the first quarter.