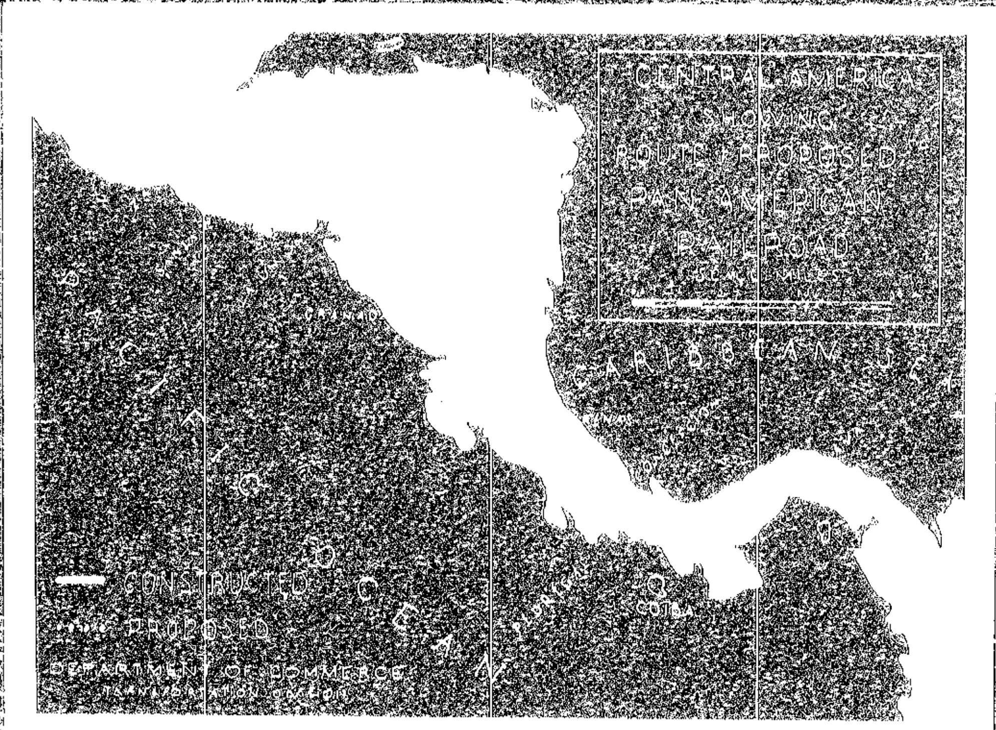
A COLLECTION OF DOCUMENTS ON ECONOMIC RELATIONS



BETWEEN THE UNITED STATES AND CENTRAL AMERICA 1906 - 1956

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

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A COLLECTION OF DOCUMENTS ON ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND CENTRAL AMERICA (1906-1956)

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INTRODUCTION

The socioeconomic history of twentieth-century Central America has yet to be written from primary sources. By contrast, other, more distant, periods of the Isthmus' history have been thoroughly studied. The colonial period is superbly described and analyzed in Murdo McLeod's "socioeconomic" history of Central America from 1520 to 1720. It is the most authoritative study available about colonial times and is likely to remain so for many years.[1]

Periods such as the nineteenth century and the independence from Spain are relatively well covered, although there does not yet exist an economic history of the past century comparable to that available for the colonial period.[2] A study of the "political economy" of Central America from 1920 to the present has been published recently. It constitutes the most complete study available of the contemporary period, but it draws mainly on secondary sources.[3]

The documents included in this collection constitute primary sources about the most decisive external economic relationship of twentieth-century Central America. As they reveal, the presence of the United States is so pervasive that it constitutes one of the main keys to understanding the present economic and social evolution of the Central American countries –Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. In fact, the documents presented here give ample support to the conclusion that, for Central America, the twentieth is the American century.

Few direct references will be found to conditions prevailing in the Central American countries, or to the positions they adopted in negotiations with the United States Government and with United States corporations. With few exceptions, the point of view that appears in the documents is that of the United States Government, as reflected in dispatches transmitted by diplomats stationed in Central America. Those interested in the Central American viewpoint will have to look for it in the national archives of each country.

The publication of this limited sample demonstrates the richness of the primary sources available in the National Archives of the United States. The collection presented here is representative, but hardly exhaustive. Important events during the period covered are not mentioned because pertinent documents were not found in the Archives. For example, under the general economic headings researched, no documents could be found concerning the economic consequences of the military intervention of the United States in Nicaragua from 1911 to 1933.

The choice of the period covered, 1906-1956, was pragmatic since, in the National Archives starting from 1910, the documents are classified by subject. This classification system facilitated access to documents that deal specifically with economic relations between Central America and the United States. The last year covered, 1956, is the most recent currently available under the rules of declassification of the National Archives.

Some previously published (but rarely seen) documents are included because they illustrate the different subjects covered, particularly at the beginning and the end of the period. Some of the

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[1] *Spanish Central America: A Socioeconomic History, 1520-1720.* (Berkeley: University of California Press, 1973).

[2] Ralph Lee Woodward, Class Privilege and Economic Development: The Consulado de Comercio de Guatemala, 1973-1871 (Chapel Hill: The University of North Carolina Press, 1966).

[3] Victor Bulmer-Thomas, *The Political Economy of Central America since 1920* (Cambridge: Cambridge University Press, 1987).

published sources date from 1906 and 1925, and others are as recent as 1956. Their inclusion allows the reader to compare the state of these economies over a span of 50 years. Such comparison in turn permits the identification of profound socioeconomic changes the region experienced during the half century covered.

Several other purposes are served by gathering and publishing these documents. It is expected that they will entice historians to examine the very special relationship that has prevailed between the United States and Central America throughout this century. The documents speak for themselves: they illustrate the dynamics of this relationship and the stages through which it has passed. Finally, the documents confirm the prevalence of certain characteristics of Central American development.[4]

The Central American States have enjoyed a dynamic economic relationship with the United States during the 50-year period covered by these documents. Their publication may discourage gross generalizations that misinterpret and freeze the dynamics of this intense and varied relationship.

First of all, the documents confirm that in the twentieth century the United States emerged as the most important trading partner, source of finance and investor in the isthmus. At the beginning of the century, the United States was already supplying more than half of Central America's imports and absorbing an equal share of its exports. The other two most important trading partners, England and Germany, were already far behind.

This dominant trading position persisted and intensified during the years of the Great Depression and the Second World War, and it became a special relationship with the signature by the five Central American Governments of reciprocal trade agreements. These agreements remained in force into the 1950s, postponing the first steps towards industrialization generated by the exceptional functioning of world markets during the depression and the war.

Finally, it is illustrative that with the loosening of these special trading relationships, the Central American overnments intensified their commercial interdependence by undertaking a process of economic integration.

The United States was also dominant throughout the period as a source of development finance, notwithstanding several British loans to Costa Rica and Guatemala. With the end of the Second World War, the Export-Import Bank emerged as the main source of finance, and the first loans were granted by the multilateral financial agencies.

Throughout the period, the United States remained the principal source of direct foreign investment in Central America. Ubiquitous from the first, it encompassed the whole spectrum of investments demanded by the export of bananas, including the transport and telecommunications infrastructure.

The documents presented here illustrate a number of basic, enduring features that the development process in Central America has regularly exhibited. For instance, there is ample evidence of the overwhelming dominance of a few agricultural products exported to a limited number of markets.

The levels of domestic economic activity are intimately linked to the fortunes of two agricultural exports: coffee and bananas. As a result, Central America's development exhibits wild booms followed by profound busts. The Great Depression of the 1930s epitomizes the prolonged downturn caused by a precipitous fall in the prices of the principal exports, followed by a period of relative prosperity generated by equally spectacular increases in the prices of the basic agricultural exports.

A rather brief but vivid –even impressionistic– description of what the Great Depression meant for these export-led economies will be found in Chapter I, in the form of a witty report dispatched, on 24 January 1933, by a United States commercial attaché. This picturesque description of the devastating consequences of the Great Depression in Central America furnishes a sobering vantage point from which to confirm that the 1980s, like the 1930s, constitute another lost decade for the development of the isthmus.

Because of the erratic nature of the region's socioeconomic evolution, investments in physical infrastructure are inherently protracted. Given the elusiveness of sustained development, the

[4]ECLAC, *Notas sobre el trasfondo histórico del desarrollo centroamericano* (ECLAC/MEX/ODE/35), January 1980.

isthmus exhibits, well into the second half of the twentieth century, an impressive lack of physical integration due to the very limited availability of modern transportation. This is poignantly illustrated by two documents reproduced in the first section of chapter I: the first is a consolidated report of the United States consuls posted in Puerto Cortes, La Ceiba and Tegucigalpa, Honduras, of 7 February 1916. This document makes detailed recommendations to United States exporters about how to trade with Honduras. Included are detailed instructions for packing: United States exporters are advised to keep in mind that "Honduras is mountainous. The trails are rough and difficult and packing becomes an important matter. Merchandise for consumption or sale at the port towns or for Tegucigalpa may be sent in regulation packing cases or bales but for strictly interior destination they should be sent as nearly as possible in size and weight, for mule back transportation."

The next document deals with Central America as a "market for American goods" and contains precise instructions to "commercial travelers" on "canvassing Central America". Present travelers in the region be struck by contrasting their own experiences with these detailed recommendations, made in 1925, concerning travel in Central America. To travel a short distance in the Gulf of Fonseca between Corinto, in Nicaragua, to Amapala, in Honduras, the author recommends a boat from the Mexican States Line which sailed every eight days, or another from the Pacific Mail Steamship Co. which sailed "about every 22 days."

Effective physical integration began for the Isthmus in the latter half of the nineteenth century with the construction of railroads to link the coffee plantations to the ports. Foreign investors later completed the national railway systems to serve the banana plantations. The decisive link between export booms, investment and the development of physical infrastructure is fully confirmed by a document reproduced in chapter IV. It describes in detail the state of the national railway networks in 1925. A few years later, the Great Depression and the consequent drying up of investment left these networks in virtually the same state they are in today.

Further, it is evident that if not for the foreign investment linked to banana exports, the development of even these limited means of transportation would have been even more cumbersome. By 1953, the railways still constituted the dominant means of transportation. Construction of highways lagged far behind.[5]

Finally, another characteristic of the development of Central America during the first half of this century can be found in the fragmentation of the isthmus and the virtual absence of physical links to facilitate economic interdependence among the individual countries. Because Central American countries specialized in the export of a few agricultural products, their economies functioned with their backs turned toward each other: economic interdependence was unknown before 1956.

The documents are classified by subject and presented chronologically in five separate chapters. The first chapter contains documents about the general economic conditions that prevailed in Central America in three different periods: the beginning of the century, the Great Depression and the post- Second World War years.

The second chapter includes documents about the commercial relations between the United States and the Central American countries. This chapter is also divided into three sections: the first deals with the negotiation of reciprocal trade agreements, the second contains evaluations of the functioning of these instruments, and the third highlights the conclusion of these special trading relationships.

The third chapter contains documents on development finance, as it was granted during the 1920s, and illustrates some of the difficulties experienced by certain countries in servicing their external debts during the Great Depression. Examples are offered of more recent lending activities, in the form of two Export-Import Bank credits granted during and after the war, one to a government and one to a private corporation. Other documents in chapter III describe difficulties faced in obtaining external financial resources. The chapter closes with a detailed description of the financial system of each country at the beginning of the 1950s.

The fourth chapter deals with foreign investment, giving examples of investments in telecommunications, railways and bananas. Important differences appear rather neatly in the

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[5]ECLAC, El transporte en el Istmo Centroamericano (E/CN.12/356) Mexico City, September 1953.

negotiations of these investment flows during the 1930s and the 1950s. The chapter closes with a review of the prospects for foreign investment, which were judged favorable in the early 1950s by a team of international consultants.

Finally, the fifth chapter contains a set of brief but highly illustrative documents about the process of economic integration which the five Central American Governments began to promote during the 1950s.

The subsequent decades of sustained development led to spectacular increases in intraregional trade. This increase lasted until the beginning of the present decade, when the isthmus began to experience yet another downturn, which has nearly wiped out much of the interdependence that emerged during the boom years. Economic integration in Central America has proven to be as vulnerable to external shocks as are the individual economies.

Each chapter contains a brief introduction describing the documents included. Footnotes have been added where needed for clarity.

CHAPTER I

ECONOMIC CONDITIONS IN CENTRAL AMERICA

This chapter contains documents that survey general economic conditions in the region during the first quarter of the Twentiety Century, the Great Depression, and post-World War II.

A . U.S. Ascendance, 1906-1925

1. COSTS AND UNCERTAINTIES OF TRANSPORTATION (1906)

From: Hutchinson, Lincoln, Special Agent of the U.S. Department of Commerce and Labor, *Report on Trade Conditions in Central America* and on the West Coast of South America 59th Congress, 2nd Session, House of Representatives, Document No. 154. (Washington: Government Printing Office, 1906), pp. 9-10, 66-79, 90-100.

CENTRAL AMERICA

GENERAL CONDITIONS

The geography of the six Central American States[1] is so well known as to call for little comment in this place. In order, however, to understand certain features of the commercial development of these countries, it is necessary to emphasize one or two points which are sometimes overlooked. The six States of Guatemala, Honduras, British Honduras, Salvador, Nicaragua, and Costa Rica together form a long narrow strip of land extending from southeast to northwest over a distance of some 800 miles. The width varies from about 60 miles to over 300; and the total area is estimated at 176 927 square miles, or somewhat larger than our State of California. So far as mere latitude is concerned, this entire section is tropical, the northern-most point being in about 18º and the southernmost in about 8º north latitude. But throughout the entire length runs a backbone of mountains rising more or less abruptly from the coast, reaching in places altitudes of 10 000 or 12 000 feet, inclosing many plateau regions, and greatly tempering the climate of much of the interior.

OBSTACLES TO TRANSPORTATION

Probably the most important effect commercially of the presence of this mountain backbone is the difficulty which it presents to transportation between the two coasts or from either coast into the

[1]The Republic of Panama should, properly speaking, be included among the Central American States. That country has, however, attracted so much attention and been so fully reported on since the establishment of independence and the beginning of active work in the Canal Zone that it is unnecessary to add further details in this place. The commercial conditions there, aside from the unusual features introduced through the influx of American capital and enterprise, may be regarded as similar to those existing in the neighboring States.

interior. The lowest pass from coast to coast is in Nicaragua, with an elevation of between 100 and 200 feet. In the other countries far greater altitudes have to be overcome; in Costa Rica, for example, over 4 000 feet, and in Guatemala, nearly 5 000. These altitudes have prevented the construction of railways from coast to coast, and have maintained a sort of commercial separation between the west and the east slopes of the countries. The western slope belongs still to the commercial sphere of the Pacific and the eastern to that of the Atlantic. There is at present no railroad crossing the whole of the very short distance from the Atlantic to the Pacific side. In some cases such roads have been begun and have been pushed a greater or less distance from one side or the other or both, and in one or two cases, as in Costa Rica and in Guatemala, there are prospects of an early completion. In the main, however, the economical passage of goods from the one coast to the other is at present an impossibility; and even in districts near either coast the transportation of goods is a costly and uncertain affair. Ox carts or pack animals are the burden bearers, and many of the roads, which are bad enough even in the dry season, become virtually impassable during the rainy months. This commercial separation of the two coasts has important practical consequences, which will be discussed more fully in another place.

POPULATION AND COMMERCE

The population of the six States is, in general, very sparse, the total number of inhabitants being estimated at about 4 100 000. This population is, however, very unevenly distributed. The smallest of the six States –Salvador– with an area of but 7 225 square miles, has a population density of 140 per square mile, while the largest, Nicaragua, with an area of 49 200 square miles, shows a density of only 8.5 per mile. In both area and population British Honduras is insignificant (7 562 square miles and about 37 000 inhabitants), but her nearest neighbors, Honduras, Guatemala, and Salvador, constituting the northern half of Central America, form the most important group among the six States. The combined area of these three is about one-half of the total area of the six, but their population is 80 per cent of the total.

DEVELOPMENT WILL INCREASE TRAFFIC

The commercial activity of the people as a whole is not great. The total imports of the six countries probably reach a value of about $16 000 000 per annum, or a little less than $4 per capita. But in this respect, again, we find great differences. Costa Rica is the most active in proportion to population, her export and import trade together reaching nearly $30 per capita. The others are far behind, except British Honduras, whose commercial statistics, are, however, swelled by a large transit trade and are therefore misleading. The exports and imports of Nicaragua reach a value of about $10 per capita; of Guatemala, $9; Salvador, $7, and Honduras, $6.30.

Three of the countries in question have been going through a period of commercial depression in the past two or three years, due, in part at least, to poor crops of coffee, combined with low prices in the world market. Those most affected have been Guatemala and Honduras. Nicaragua has suffered in less degree, at least so far as the effect on foreign trade movement has been concerned. Costa Rica has felt the coffee depression less than any of the others, because of the development there of another great industry-banana raising. Thus we find that in some sections foreign trade has declined in recent years, while in others it has grown rapidly. It is probable that the growing sections represent the more normal condition of the whole, for where decline has taken place it can be traced to causes which are mostly of temporary character. The countries all have great resources. New investments of foreign capital are taking place, and new enterprises are being developed. It is safe to assume that the next few years will see a fairly rapid growth of trade in all the countries.

UNITED STATES LEADS IN IMPORTS

The imports of Central America are such as are always characteristic of countries whose industries are chiefly extractive: Textiles, implements, tools, machinery, and foodstuffs. In this respect Central America does not differ materially from most of the countries of South America. It does differ from them, however, in that the United States holds the lion's share of the trade. Taking the six countries as a whole, it is probable that the United States supplies at least 50 per cent of their total foreign purchases, and our trade is growing in most satisfactory manner except in the countries which have been suffering commercial depression. Commercial statistics in most of the six countries are either entirely lacking or are incomplete or unreliable, so that comparisons must be made by employing the export statistics of the countries which supply the goods sent to Central America. The three principal competitors for the trade are the United States, England, and Germany, and their export statistics are shown in the annexed table. The figures represent average annual values for the five-year periods in United States gold.

Table I.1.1

AVERAGE ANNUAL EXPORTS FROM THE UNITED STATES, THE UNITED KINGDOM, AND GERMANY TO CENTRAL AMERICAN STATES, FOR SPECIFIED PERIODS

	United States		United Kingdom		Germany	
	1895-1899	1900-1904	1894-1898	1899-1903	1897-1899	1900-1904
Costa Rica	$1 178 000	$1 688 000	$836 000	$664 000	$350 000	$347 000
Guatemala	2 183 000	1 214 000	1 519 000	952 000	493 000	452 000
British Honduras	511 000	813 000	374 000	313 000	...	...
Honduras	667 000	1 057 000	212 000	258 000	} 445 000	619 000
Nicaragua	1 005 000	1 405 000	826 000	674 000		
Salvador	1 163 000	794 000	1 421 000	1 071 000		

It will be noticed that the United States stands first in all of the countries except Salvador. England takes second place except in Salvador, where she leads, and Germany stands third. In Costa Rica, Honduras, British Honduras, and Nicaragua we have made great gains, and although we have lost in Guatemala and Salvador the decline is simply a part of a general decline in the trade of those countries.

EXTRACTIVE INDUSTRIES

It has already been explained that the industries of these Central American States are chiefly extractive. The products are mainly tropical in character, although in the uplands some few commodities common in temperate climates are also exploited. Manufactures in any broad sense of the term are wholly lacking, but in some of the towns small industries, such as beer brewing, ice making, the manufacture of matches, of furniture, etc., are to be found. The demand for foreign implements, tools, machinery, etc., is therefore connected almost wholly with the development not of these embryo manufactures but of the forest and agricultural industries and the exploitation of the mineral deposits which are found in some districts.

The character of the chief industries, as well as the lines of future development in all of the countries, is perhaps best illustrated by analyzing the course of trade and industry in one of them, which, as already stated, has developed the greatest commercial activity –Costa Rica. It is the more satisfactory to do this, as the statistical department of that Republic has developed a high degree of efficiency, which makes it possible to obtain very complete data.

COSTA RICA

BANANAS AND COFFEE CHIEF EXPORTS

The chief exports of Costa Rica are coffee and bananas, these two items together making up over 90 per cent in value of all shipments abroad. Hard woods, hides, and small quantities of precious metals supply the major part of the remaining 10 per cent. In the other five countries the exports comprise nearly the same list, but in different proportions. In most of them coffee occupies the leading place, while in Costa Rica bananas have risen to a point of equality with coffee and bid fair soon to surpass it. The value of coffee exports has remained nearly stationary during the past ten years; in 1896 it was $4 310 000 and in 1905 only $3 774 000. Banana exports, on the other hand, have grown with astonishing rapidity from $565 000 in 1896 to $3 648 000 in 1905. The market for Central American bananas is extending rapidly, the last few years having seen large sales in England, and it is certain that the success of the industry in Costa Rica will stimulate the development of the banana lands of the other five countries.

IMPORTS BY COUNTRIES

The decline in the value of coffee exports from Costa Rica has been more than offset by the increase in banana exports, and the total value of shipments of all commodities to foreign countries has therefore increased from $5 333 000 in 1896 to $8 148 000 in 1905. And this growth in exports has naturally been accompanied by a development of the import trade through general increase of purchasing power, as well as through the increased demand for the paraphernalia needed by the expanding industries. In this growing import trade the United States has played a more and more important part, as is well illustrated by the following table (I.1.2) showing the percentage of imports from the principal countries:

Table I.1.2
SHARE OF LEADING COUNTRIES IN THE IMPORT TRADE OF COSTA RICA, 1894-1905
(Percentages)

Year	England	United States	Germany	France
1894	32.03	34.59	19.21	7.79
1897	26.92	3.64	21.01	10.00
1898	19.61	44.80	15.50	10.80
1899	19.60	54.00	14.55	5.90
1900	27.30	46.50	13.59	5.94
1901	21.83	46.77	13.50	5.43
1902	23.94	54.08	12.47	5.25
1903	21.57	50.20	11.07	6.47
1904	19.27	52.20	12.50	4.60
1905	19.73	46.88	12.90	5.24

The share of the United States has increased from a bare superiority over that of England to an excess of some 9 per cent over England, Germany, and France combined.

COMMODITIES FROM THE UNITED STATES

The general character of the import trade of Costa Rica, and to a large extent that of the other Central American countries as well, is illustrated by the following figures compiled from the import statistics for the year ending December 31, 1905, showing the principal imports into Costa Rica in 1905, with percentage of each coming from the United States:

Table I.1.3
SHARE OF THE UNITED STATES IN THE IMPORT TRADE OF COSTA RICA IN 1905, BY CLASSES OF COMMODITIES

Class	Total	From United States	
		Value	Per cent
Textiles	$1 171 159	$243 674	20.8
Foodstuffs, including breadstuffs, provisions, wines, etc.	1 070 262	670 882	62.7
Iron and steel, and manufactures of	777 336	525 078	67.5
Paints, pigments, dyes, etc.	157 690	92 577	58.7
Chemicals, drugs, medicines, etc.	147 306	66 401	45.1
Paper, and manufactures of	111 330	31 814	28.6
Tobacco, and manufactures of	100 899	66 684	66.5
Carts, carriages, etc.	73 398	71 889	97.9
Leather, unenumerated	76 874	55 126	71.7
Lumber	66 137	65 738	99.4
Coined money	501 601	501 601	100.0
All other articles	985 425	314 599	31.9
Total	**5 239 477**	**2 706 063**	**46.9**

The above table gives a sufficiently clear idea of the chief classes of commodities imported into Costa Rica from the United States, but a more important question remains –the growth or decline of our trade in specific articles. The following table (I.1.4) throws light on this point. It gives annual average values, in United States gold, of the principal exports from the United States for the five-year periods stated:

Table I.1.4

AVERAGE ANNUAL IMPORTS OF SPECIFIED ARTICLES INTO COSTA RICA FROM THE UNITED STATES, 1895-1904

Article	1895-1899	1900-1904
Textiles	$113 400	$202 400
Foodstuffs, including breadstuffs, provisions, wines, liquors, etc.	405 000	491 000
Iron and steel, and manufactures of	188 000	342 000
Tobacco, and manufactures of	56 200	68 600
Wood, and manufactures of	50 600	122 600
Chemicals, drugs, medicines, etc.	41 200	47 800
Leather, and manufactures of	22 400	34 400
Scientific instruments and apparatus	19 400	39 000
Oils	19 200	30 800
Carts, carriages, other vehicles, and parts	18 000	51 200
Paper, and manufactures of	17 400	21 000
Paints, pigments, and colors	2 600	4 600

In all of these, and they constitute the bulk of American trade with Costa Rica, there has been marked increase. There are, however, certain small items (some of them included in one or another of the above groups) in which our trade has declined. The more important of them are:

Article	1895-1899	1900-1904
Live animals	$9 200	$8 600
Books, maps, engravings, etchings, etc.	7 400	4 800
Fish	21 600	16 000
Wines, spirits, and liquors	44 600	29 200
Paraffin and paraffin wax	26 200	23 000
Perfumery and cosmetics	4 600	3 400
Vegetables	15 600	15 000

INCREASES AND DECREASES

The decline in our exports of live animals seems to be merely a part of a general decline in purchases of such animals. Larger numbers are being raised within the country itself and in the neighboring Republics, and it is not probable that any considerable supplies will be brought from the United States. The demand must be confined to a few animals for breeding purposes.

Books, maps, engravings, etchings, etc. (of which the largest item is books), do not present a very promising field for American exporters. American illustrated papers, chromos, lithographs, etc., have a certain sale, but books imported are of course printed chiefly in Spanish or French, and American publishers, with a rather limited market for works in those languages, can hardly compete with Spanish, French, and German houses.

In fish the United States continues to hold the larger part of the market in spite of the decline. The falling off is difficult to explain. It seems likely to be only temporary, though Spain, France, Germany, and Italy are sending considerable quantities, especially of sardines and canned shellfish.

In perfumery and cosmetics the share of the United States is small at best. France is the chief source of supply and seems likely to remain so.

The falling off in our sales of vegetables is so slight as to be of little significance. The same can not be said, however, in regard to the decline in our sales of wines, liquors, etc. A few years ago there were indications that we were building up a fair trade in these goods, especially in wines. The foothold then obtained seems now to have been lost in favor of Portugal, Spain, and France.

HONDURAS

SHARE OF THE UNITED STATES IN EXPORTS AND IMPORTS

The statistical office of the Government of Honduras has recently prepared a statement of the foreign trade of the country for the fiscal year ended July 31, 1905. The figures are of considerable interest as emphasizing the preponderance of the United States in the commerce of the Republic.

The total imports of the country for the year were valued at $2 362 760, and of this amount the United States furnished $1 689 900, or over 70 per cent. The exports were more than twice as large as the imports ($5 564 003), the United States taking $4 622 700, or more than 80 per cent. The share of other countries is shown by the following table (I.1.5):

Table I.1.5

FOREIGN TRADE OF HONDURAS, YEAR ENDED JULY 31, 1905, BY COUNTRIES

Country	Imports into Honduras	Exports from Honduras
United States	$1 689 900	$4 622 700
England	212 800	85 500
Germany	185 000	217 400
British Honduras	95 000	74 400
France	66 500	3 600
Nicaragua	56 600	15 500
Spain	21 300	...
Salvador	8 400	18 600
China	8 000	...
Japan	1 800	...
Guatemala	1 600	130 000
Cuba	900	391 100
Panama	200	1 300
Costa Rica	...	3 800
All others	15 000	...
Total	**2 362 800**	**5 564 000**

The principal items of export are the various natural vegetable products of the country, these reaching a value of $2 593 700. Mineral exports were valued at $1 998 700 and animal exports at $909 000. Among the vegetable products exported, bananas are by far the most important, the total value of shipments being $2 078 400. Cocoanuts come next, with $210 900; then hard woods, with $128 100; rubber, with $83 900; coffee, with $52 700, and sarsaparilla, $30 000.

The chief mineral export is copper, $1 154 000; gold and silver make up most of the balance, $813 700. The only important animal products exported are cattle, $595 600, and hides and skins, $298 000.

COMMANDING POSITION OF THE UNITED STATES

The report from which the above figures are compiled illustrates the great strength of the United States in the markets of Honduras, but it fails to reveal the equally important fact that the commanding position of the United States has been attained only in recent years. Ten years ago the sales of the United States to Honduras were not only much smaller in absolute amount, but they constituted a far less important share in the total purchases of that country. And the increase has shown itself not merely in one or two classes of goods but in nearly every important item of our trade. The following figures illustrate the development of exports from the United States, values being stated in United States gold. The figures represent annual averages for two five-year periods.

Table I.1.6

AVERAGE ANNUAL IMPORTS OF SPECIFIED CLASSES OF ARTICLES INTO HONDURAS FROM THE UNITED STATES, 1895-1904

Class	1895-1899	1900-1904
All foodstuffs, including breadstuffs, provisions wines, liquors, etc.	$131 600	$220 300
Cotton goods	181 400	278 900
Iron and steel and manufactures of	92 600	151 100
Chemicals, drugs, medicines, etc.	35 400	51 300
Explosives	21 700	42 900
Quicksilver	43 300	47 900
Wood, and manufactures of	20 000	38 900
Leather, and manufactures of	14 700	33 200
Sugar and molasses	14 400	20 400
Oils	10 500	19 100
All goods	667 200	1 057 200

The only goods showing a decline between the two periods are a few unimportant ones: Scientific instruments and apparatus, $5 700 to $4 500; notions, $2 300 to $1 900; soap, $8 100 to $6 600; and bottled wines, $2 100 to $1 400.

Besides the foregoing more important classes of goods there are many others which show a similar increase –paper, candles, cars, carriages and other vehicles, coal, earthen and china ware, glassware, rubber manufactures, lamps and chandeliers, matches, oilcloths, paints, etc., perfumery and cosmetics, manufactures of straw and palm leaf, tinware, etc. The rapid rise of the United States to the controlling position in the commerce of Honduras is but one of many illustrations of what our exporters may do in time in many parts of Spanish America.

GUATEMALA

REVIVAL OF COMMERCIAL LIFE

Mention has already been made of the fact that Guatemala has in recent years been passing through a period of commercial depression which has reduced the purchasing power of the country to considerably below what it was ten years ago. A period of prosperity and speculation, culminating in 1898, was followed by collapse, and the falling price of the staple product of the country -coffee- has greatly hindered recovery. The severity of the crisis is well illustrated in the commercial dealings of Guatemala with foreign countries. In 1897 the United States sent to Guatemala goods to the value of $2 992 000; in 1898 this figure dropped to $1 163 000, and in 1900 to $765 000. England in 1896 sent $2 000 000; in 1899, $640 000. Germany, in 1897, $800 000; in 1898, $440 000; and in 1899, $250 000. The lowest ebb of the important trade was reached in 1899 and 1900. Since then there has been a gradual recovery, hindered by the low price of coffee and by the recent revolution, yet sufficiently marked to give promise that the country's trade will soon return to the position it had reached before the crisis.

The official figures of imports for the year 1904 showed considerable increase over previous years. Those for 1905, which have just been published by the Guatemalan Government, exhibit still further advance. Beginning with the years immediately following the crisis the figures are shown in the annexed table (I.1.7), which represent annual average values for the three-year periods stated and for 1904 and 1905 separately:

Table I.1.7
FOREIGN TRADE OF GUATEMALA, 1899-1905

Year	Imports	Exports
1899-1901, per annum	$3 714 500	$7 761 100
1902-1904, per annum	4 009 900	7 767 400
1904	5 041 100	7 551 900
1905	6 884 400	8 237 800

UNSETTLED COMMERCIAL CONDITIONS

The country is still far from having returned to a sound commercial condition. Its trade is still much below the figures of ten years ago, confidence is still weakened by the existence of a depreciating and fluctuating currency and by revolution, and coffee prices still remain low. Yet the increase in trade, the improved quotations of Guatemalan securities held abroad, the resumption of work on several public and semipublic undertakings –such as the Northern Railway– and several other factors seem to indicate that the worst is over. Throughout the period of depression the commerce of the United States with Guatemala has suffered in common with that of other countries, but in less degree, and to-day, although our trade is smaller than it was ten years ago, our share in the total is larger.

EXPORTS AND IMPORTS BY COUNTRIES

The first table on the next page shows the average annual values of exports and imports for the eleven years ending with 1904 and for the year 1905 between Guatemala and the United States, England, Germany, and France.

Table I.1.8
TRADE OF GUATEMALA WITH SPECIFIED COUNTRIES, 1894-1905

Country	Imports into Guatemala				Exports from Guatemala			
	1894-1904	Per cent	1905	Per cent	1894-1904	Per cent	1905	Per cent
United States	$2 125 300	36.6	$3 067 000	44.8	$2 166 600	25.9	$2 875 300	34.9
England	1 222 700	22.6	1 570 100	22.9	1 287 400	15.4	1 050 500	12.8
Germany	1 151 000	20.0	1 408 500	20.6	4 506 000	53.8	4 078 600	49.5
France	534 700	9.2	269 500	3.9	201 300	2.4	25 300	.3

French trade with Guatemala has sunk almost into insignificance; English and German have remained nearly stationary, with a slight increase in their share of the imports and some decline in their share of the exports, while that of the United States has increased in both respects. Our share in the import trade in 1905 was nearly as large as that of England, Germany, and France combined.

GROWTH OF IMPORTS

It is a common statement that American exports to Guatemala consist chiefly of food stuffs, and I have repeatedly been told by persons supposedly familiar with the facts that the reason for the recent increase in American trade is the shortage of Guatemalan maize crops, which has made necessary the purchase of foreign supplies. An examination of the figures proves this to be but partial truth. It is true that foodstuffs constitute the largest single item in our exports to Guatemala; it is likewise true that a very considerable part of the increase in Guatemala's imports in 1905 consisted of these same goods, but these facts tell but part of the tale, for there are other extremely important items in our trade with Guatemala which show similar increase with foodstuffs. In 1905, when Guatemala's purchases of food stuffs from the United States were abnormally large, they formed only about 35 per cent of her total purchases from us; at least an equal percentage is made up of sundry manufactured goods, of which the chief are iron and steel and textiles. On the other hand, the growth in Guatemalan imports is in many lines of goods which offer us a market. The shortage of the Guatemalan maize crop affected mainly the importation of breadstuffs, the increase for the year being $558 000 (from $450 000 in 1904 to $1 008 000 in 1905), but other increases are scarcely less significant, as will be seen from the following:

Table I.1.9
PRINCIPAL ARTICLES OF IMPORT INTO GUATEMALA SHOWING INCREASES IN 1905

	1904	1905
Other foodstuffs	$168 000	$409 000
Iron and steel	176 000	422 000
Textiles	1 249 000	1 467 000
Glassware and porcelain	17 000	48 000
Coal	49 000	69 000
Tallow	39 000	73 000

There were also many other smaller items. In most of the classes of goods in which Guatemalan purchases have made marked gains the United States has contributed largely increased amounts, and in all of them except textiles and glassware the United States already holds the bulk of the trade. We furnish 89 per cent of the breadstuffs, 50 per cent of the other foodstuffs, 42 per cent of the iron and steel, 92 per cent of the coal, 98 per cent of the tallow, 22 per cent of the glassware, and 21 per cent of the textiles.

KINDS OF GOODS NEEDED

A clear idea of the kinds of goods in demand in Guatemala and the position of the United States in the trade may be obtained from the following table (I.1.10), which includes all principal items of Guatemalan import (values in United States gold):

Table I.1.10
PRINCIPAL IMPORTS INTO GUATEMALA AND SHARE OF UNITED STATES THEREIN FOR SPECIFIED YEARS

Article	1905			Average per annum from United States		
	All countries	United States		1899-1901	1902-1904	Increase (+) or decrease (-) Per cent
		Value	%			
Foodstuffs:						
Breadstuffs	$1 054 800	$937 500	88.8	...	...	...
Beverages	210 100	45 400	21.6	...	...	...
Provisions	128 000	116 200	90.8	...	...	...
Fruits and vegetables	38 400	29 500	76.8	...	...	...
Sundry preserved goods	89 600	48 400	54.0	...	...	...
All others	25 700	4 800	18.8	...	...	...
Total	**1 546 600**	**1 181 800**	**76.4**	**$439 500**	**$445 100**	**+1.3**
Textiles:						
Cottons	1 447 600	317 300	21.9	171 600	239 900	+39.8
Woolens	143 600	800	.5	...	...	...
Silks	163 600	68 800	41.9	...	...	...
Linens	12 400	1 000	7.9	...	...	...
Sacks	135 000	18 600	13.8	...	...	...
All other	11 300	1 000	8.9	...	...	...
Total	**1 913 500**	**407 500**	**21.3**	...	...	...
Iron and steel:						
Machinery	152 200	78 600	51.6	...	...	...
Agricultural and laborers' tools	107 600	21 700	20.2	...	...	...
Mechanics' tools	24 300	9 400	38.7	...	...	...
Railway materials	93 800	68 200	72.7	...	...	...
Household utensils	76 400	16 800	22.0	...	...	...
Galvanized roofing	60 550	6 800	11.2	...	...	...
Pipes and fittings	19 300	11 200	58.0	...	...	...
Fence wire	30 000	22 400	74.9	...	...	...
Hardware	13 300	6 500	48.7	...	...	...
Iron and steel for industrial uses	32 400	23 000	70.9	...	...	...
All other	92 400	33 600	36.4	...	...	...
Total	**702 100**	**298 000**	**42.4**	**139 200**	**180 000**	**+29.6**
Paper 104 500	18 600	17.8	16 500	20 800 +26.1		
Glass and glassware	38 500	8 700	22.4	6 300	9 400	+49.2
Cars, carriages, etc.	5 700	3 100	54.8	14 100	11 300	-19.9
Wood:						
Unmanufactured	42 700	42 300	99.1	...	...	...
Manufactures	27 300	9 200	33.8	...	...	...
Leather						
Unmanufactured	51 500	33 000	64.1	...	...	...
Boots and shoes	6 500	4 900	76.0	...	...	...
Other manufactures	14 400	1 900	12.9	...	...	...
Total	**72 400**	**39 800**	**55.0**	**13 700**	**30 900**	**+125.5**
Coal	69 300	63 900	92.2	7 700	32 000	+315.6
Oils	72 000	54 300	75.4	31 300	40 900	+30.7
Paints, pigments colors, etc.	25 400	15 800	62.3	12 500	13 500	+8.0
Chemicals, drugs, medicines, etc.	128 200	59 100	46.1	35 300	33 400	-5.4
Explosives	22 000	21 700	98.6	19 000	22 200	+16.8
Copper manufactures	16 400	4 100	25.0	1 300	2 600	+100.0

The bulk of American trade with Guatemala is seen to be in foodstuffs and in iron and steel goods, and in both of these classes of commodities as a whole we supply a larger share than any other country. There are many separate items included in these headings in which we are, however, far behind some of our competitors. A more detailed examination of these latter may offer hints to our exporters as to lines in which their trade might be increased. The annexed table (I.1.11) shows specified imports into Guatemala, share of the United States therein, and principal sources of competition in 1905:

Table I.1.11

GUATEMALA: IMPORTS, U.S. SHARE AND PRINCIPAL SOURCES OF COMPETITION IN 1905

Article	All countries	United States	Chief competitors
Breadstuffs:			
Rice	$37 100	$26 500	Germany
Malt	32 300	21 200	Chile
Crackers, etc.	5 600	3 900	England, Germany
Paste preparations	4 100	1 800	Italy
Provisions:			
Butter	4 600	2 800	Germany
Cheese	8 300	3 500	Italy, Germany
Hams, bacon, sausages	4 700	500	Spain
Sundry preserved goods:			
Wooden coverings	9 800	8 200	Germany, Spain
Other coverings	79 800	40 200	Germany
Sweets and confits	11 000	4 200	England, Germany
Beverages:			
Mineral waters	6 500	1 600	England, France
Beer	44 800	6 400	Germany
Spirits	54 600	18 200	France
Ginger ale	2 600	600	England
Liquors	7 300	400	France
Cider	1 600	400	Spain
Wine red	41 700	14 500	France, Spain
Wine, white	35 700	2 600	Spain, France, Germany
Wine, sparkling	12 500	65	France
Table oil	9 900	3 200	France, Spain
Iron and steel			
Electrical material and apparatus	20 700	5 900	Germany
Firearms-revolvers	6 600	6 000	Spain
Others	6 100	670	Germany, Belgium, England
Household utensils	76 400	16 800	Germany
Pumps	2 400	1 100	Germany, England
Pipes and fittings	19 300	11 200	England, Belgium
Hardware	13 300	6 500	Germany
Tools and implements	131 900	31 100	Germany, England
Galvanized roofing	60 500	6 800	Germany
Machinery driven by animal, water or steam power	113 300	45 200	England, Germany
Typewriters	3 075	2 774	Germany

COMPETITION IN TEXTILES

In textiles the United States holds but 21 per cent of the total trade, yet there are certain lines of these goods in which we are making progress, which is prophetic of considerable changes in the near future. In woolen, linen, and jute manufactures we hardly compete at all, but in silks we already hold the largest share, and in several classes of cottons we have made marked progress. The table (I.1.12) on this page shows imports of silk and cotton goods into Guatemala, share of the United States therein, and principal sources of competition in 1905.

Table I.1.12

GUATEMALA: IMPORTS OF SILK AND COTTON GOODS, U.S. SHARE, AND PRINCIPAL SOURCES OF COMPETITION IN 1905

Article	All countries	United States	Chief competitors
Silk goods:			
Ready-made goods	$63 300	$38 900	China, Japan
Shawls and mufflers	32 100	20 200	Japan
Ribbons	19 500	35	Germany, England
Umbrellas and parasols	4 500	750	Germany, Italy
Silk floss	16 500	7 100	England, Japan
Piece goods	18 300	1 300	Japan, France, Germany
Cotton goods:			
Ready-made goods	45 900	3 600	England, Germany
Ribbons	4 700	130	Germany
Corsets	4 500	600	Germany, England
Drills	135 200	53 500	England, Germany
Blankets	24 300	4 000	England, Germany
Thread and yarn	190 200	1 800	England
Umbrellas and parasols	4 700	1 800	Germany
Underclothing	56 600	4 200	Germany
Piece goods			
Unbleached	372 200	134 700	England
Bleached	114 800	8 200	England
Dyed	92 700	38 500	England, Germany
Prints	124 600	43 900	England
Twills	33 500	300	England
All others	120 300	10 400	England, Germany
Towels	10 400	250	England

In cottons the United States makes the best showing in drills, unbleached and dyed goods, and in prints. There is a steadily increasing demand for American goods of this sort not only in Guatemala but in all Central America. The difficulties which stand in the way of increased business are chiefly those which affect the sale of our cotton goods in all Spanish America. They have been repeatedly alluded to.

NICARAGUA, SALVADOR, AND BRITISH HONDURAS

Little need be added as to the trade of Nicaragua, Salvador, and British Honduras. The conditions existing there are similar to those already described as pertaining to the neighboring States, Nicaragua and British Honduras belonging to the group whose commerce has advanced in recent years, and Salvador to the group where commercial depression has made itself felt.

A considerable portion of the trade of British Honduras is probably transit trade to Guatemala. The United States has made definite advances in nearly all important commodities, our total exports rising from an average of $511 000 for the five years 1895-1899 to $813 000 for the years 1900-1904, the increase affecting all chief classes of commodities with the single exception of malt liquors, which have decreased from an average of $11 800 per annum to $9 300.

In Nicaragua there has been a total increase from $1 005 000 per annum to $1 405 000, but it has not been quite so general for all classes of commodities. In addition to malt liquors, which have dropped from $20 900 per annum to $17 200, must be mentioned wines, which have fallen from $19 300 to $11 600; and cars, carriages, etc., which show a decrease from $10 300 to $7 800 per annum.

Salvador presents directly opposite conditions. Our total exports have decreased from $1 163 000 per annum to $794 000, and the decline affects all commodities except cotton goods, explosives, and leather manufactures. Even iron and steel, in which lies our greatest strength in Spanish America, have fallen from $252 000 to $152 000 per annum. The decline is part of a general movement, however, and can not be regarded as permanent or affecting the United States alone, and its significance is more than offset by the growth from $179 000 to $233 000 per annum which has taken place in our sales of cotton goods. It is said that in prints, especially, in spite of the depression in Salvador, American goods are rapidly ousting the European.

CENTRAL AMERICA

The physical characteristics of Central America are such that the densest population, and hence the greatest commercial activity, are found on the Pacific slope of the Republics. British Honduras lies wholly on the Atlantic slope, but its population and commerce are both small, and it has, therefore, been left out of consideration in the following analysis of the transportation problems of Central America. On neither the Atlantic nor the Pacific lowlands of any of the Republics is the population dense. Climatic conditions have caused the inhabitants to seek the plateau and mountainous regions; there are no large towns on either coast; the capital cities and all important centers of population are in the interior at elevations ranging from 1 000 to 5 000 feet, and as the central backbone of mountains is nearer the Pacific than the Atlantic, the center of population lies on the Pacific side.

Thus it results that the commercial approach to these countries, as a whole, has been made from the Pacific. In Guatemala, Honduras, Salvador, and Nicaragua about seven-eighths of the foreign trade passes through Pacific ports; and even in Costa Rica the completion of the railroad from Puerto Limón on the Caribbean Sea to the capital has not wholly stopped the importation or exportation of goods via Pacific ports.

DISTANCES TO NEW YORK AND SAN FRANCISCO

Over against the advantage which the west coast (more properly, southwest coast) has through its proximity to the populated areas, must be set another advantage which is found on the east (northeast) coast –nearness to the great commercial centers of Europe and America. From New York to Puerto Limón (Costa Rica), San Juan del Norte (Nicaragua), or Puerto Barrios (Guatemala) is approximately 2 000 miles, while the distances[2] from San Francisco to corresponding ports on the Pacific side are: To Punta Arenas (Costa Rica), 3 100 miles; to Corinto (Nicaragua), 2 870 miles, and to San José (Guatemala), 2 565 miles. From New York via the Isthmus of Panama the distances

[2]These are distances with stops at way ports; direct routes are much shorter

to the Pacific coast ports exceed those to Puerto Limón, San Juan del Norte, and Puerto Barrios, as follows: To Punta Arenas, 500 miles; Corinto, 780 miles, and San José, 1 080 miles. From Europe the distances are approximately 2 500 miles farther than from New York to both coasts of Central America.

As a mere question of transportation, therefore, the future importance of the west coast as compared with the east coast depends upon a double set of rates, the cost of carrying goods to the east-coast ports plus the cost of carrying them thence to the centers of population in the interior, compared with the cost of transportation to the Pacific coast ports plus the international freights on that slope. In all the countries except Costa Rica the cost of transportation from the eastern ports is virtually prohibitive. There has been some traffic from San Juan del Norte into the interior of Nicaragua via the San Juan River and Lake Nicaragua, but that has now ceased, temporarily at least. There are plans afoot for opening railroads both here and in Guatemala, but at present Costa Rica alone has any real transportation facilities on the Caribbean side. The most useful comparisons of rates are therefore to be made in this country.

SEA AND INTERNAL FREIGHTS

The question, as already suggested, is a twofold one; both sea freights to Central America and internal freights within Central America must be considered, and this can best be done by examining them separately.

First, sea freights to Central American ports. A sufficiently clear idea of the situation is given by comparing the rates to chief Central American ports from Europe, from New York, and from San Francisco. The following figures (and all rates quoted in this report) are taken so far as possible from actual bills of lading. Where this has been impossible, the published schedules of the steamships lines concerned have been used. There are undoubtedly some cases in which rebates are allowed or in which certain alterations may have been made, but the figures in the tables are probably a close approximation to the actual average charges.

Table I.1.13

TYPICAL FREIGHTS FROM NEW YORK AND EUROPEAN PORTS TO PUERTO LIMON, COSTA RICA

(Reduced to cents per cubic foot or 100 pounds)

Article	From Europe		From New York
	Port	Rate	
Iron cot	Southampton	15.2	16.0
Iron beadsteads	do.	15.2	16.0
Do.	Manchester	15.2	16.0
Wire netting	Southampton	15.2	16.0
Earthenware	do.	12.2	16.0[a]
Wine, in casks	Bordeaux	21.4	...
Do.	Barcelona	13.1	...
Wine, in bottles	...	...	16.0[a]
Shellfish, canned	Barcelona	43.3	52.1[b]
Codfish	Hamburg	52.9[c]	16.0
Biscuit	London	17.2	16.0
Apollinaris	do.	17.1	16.0

[a] Or 40 cents per 100 pounds.
[b] Or 16.8 cents per cubic foot.
[c] Per 100 pounds.

COMPARISON OF NEW YORK WITH EUROPEAN RATES

With one or two exceptions in the above list rates from New York are somewhat higher than from European ports. The differences in favor of Europe are greater at the northern ports of Central America. Hamburg rates, for example, are only about one-third higher to Puerto Barrios (Guatemala) than to Puerto Limón, whereas New York rates to Puerto Barrios range from 25 to nearly 200 per cent greater than to Puerto Limón. The following figures illustrate the differences:

Table I.1.14

RATES ON SPECIFIED ARTICLES FROM NEW YORK TO PUERTO LIMON AND PUERTO BARRIOS

Article	To Puerto Limón	To Puerto Barrios
Beer[a]	$6.40	$12.00
Beans and pease[b]	8.00	12.00
Flour in sacks[b]	4.10	12.00
Iron bar, sheet, rod, etc.[b]	8.00	12.00
Lumber[c]	12.00	15.00
Illuminating oil[a]	6.40	12.00
Barbed wire[b]	7.00	12.00
Salt[b]	4.10	12.00

[a] Rate per cubic feet.
[b] Rate per 2 000 pounds.
[c] Rate per M feet.

These figures illustrate the well-known fact that although New York is some 2 500 miles nearer to Central America than the principal European ports, and although our trade with Central america is as large as that of England, Germany, and

France combined, yet freights from New York are certainly no lower than those from Liverpool, Southampton, or Hamburg, and in some instances, at least, are much higher. If the distances from the United states and from Europe were nearly equal, or if the amount of goods offering from transportation were relatively small, as in the case of many of the countries of South America, this state of affairs could easily be understood, but under existing circumstances it is hard to explain. However, whatever the explanation may be, the fact is that the United States does not get the benefit of proximity to Central America which might be expected. In mail and passenger communication we do get such benefit, and this probably goes a long way toward explaining our preponderance in the Central American markets; but so far as mere freight charges are concerned we have no advantage over Europe.

RATES TO COSTA RICA AND GUATEMALA

Turning now to the rates from the Atlantic and Pacific coasts of the United States to Central America, we find typical freights from New York and San Francisco to Costa Rica, which are given in the following table (I.1.15).

Table I.1.15

RATES ON SPECIFIED ARTICLES FROM NEW YORK AND SAN FRANCISCO TO COSTA RICAN PORTS [a]

(Per ton of 40 cubic feet, or 2 000 pounds)

Article	New York to		San Francisco to Punta Arenas
	Puerto Limón	Punta Arenas (via Panama)	
Beer	$6.40	$14.80 [b]	$7.00
Beans and pease	8.00	14.80 [b]	7.00
Corn	8.00	14.80 [b]	7.00
Flour, in sacks	4.10	14.80 [b]	6.00
Cattle	75.00	...	50.00
Horses	75.00	...	60.00
Sheep	25.00	...	5.00
Lumber	12.00	20.00	12.00
Iron, bar, rod, sheet, etc.	8.00	14.80 [b]	9.00
Do.	6.40	...	...
Malt	16.00	14.80 [b]	8.00
Illuminating oil	6.40	10.00	10.00
Rice	8.00	13.00	8.00
Salt	4.10	14.80 [b]	7.00
Barbed wire	7.00	14.80 [b]	7.00 [c]
Cordage	6.40	14.80 [b]	8.00
Dried fruit	6.40	14.80 [b]	11.40 [d]
Canned salmon	6.40	14.80 [b]	11.40 [d]
Canned fruit	6.40	14.80 [b]	8.40 [d]

[a] Rates are small lots, less than 5 tons; on larger lots there is usually a considerable rebate.
[b] Per ton measure or $13 per ton weight.
[c] Per ton measure.
[d] The rates usually quoted on dried and canned fruits, canned salmon, etc. are $8 per ton. The above figures, however, are taken from freight bills on shipments actually made.

As might be expected, freights from San Francisco to Punta Arenas are cheaper than from New York (with the single exception of illuminating oil), in spite of the fact that the distance from New York via Panama is five or six hundred miles shorter than from San Francisco (2 500 miles as against 3 147). The transfer across the Isthmus partly accounts for the difference. From New York to Puerto Limón the rates in general are lower than from San Francisco to Punta Arenas. This, too, might be expected, the distance being eleven or twelve hundred miles less between the first two than between the last two. But there are a few of the items in the list which show a higher rate for the 2 000 miles' run from New York than for the 3 100 miles from San Francisco. These are beans, pease, corn, malt, and live animals. On lumber and rice the rates are the same by both routes. Primage from New York is 10 per cent; from San Francisco, nothing.

In the rates to Guatemala there is a greater difference in favor of San Francisco, as will be seen by typical freights from New York and San Francisco, given on the opposite page.

Table I.1.16

RATES ON SPECIFIED ARTICLES FROM NEW YORK AND SAN FRANCISCO TO GUATEMALAN PORTS [a]

(Per ton of 40 cubic feet, or 2 000 pounds)

Article	New York to		San Francisco to San José
	Puerto Barrios	San José via Panama	
Beer	$12.00	$14.80 [b]	$7.00
Bran	12.00	14.80 [b]	12.00 [c]
Beans and pease	12.00	13.00 [d]	7.00
Cement	7.10	13.00	7.00
Doors, etc.	12.00	14.80 [b]	8.00
Flour, in sacks	12.00	13.00 [d]	6.00
Hay, in compressed bales	12.00	13.00 [d]	16.00
Iron, bar, rod, sheet, etc.	12.00	13.00 [d]	9.00
Nails, spikes, etc.	12.00	13.00 [d]	8.00
Machinery (except heavy lifts)	12.00	14.80 [b]	8.00 [b]
Oats	12.00	14.80 [b]	2.00 [c]
Illuminating oil	12.00	14.00	10.00
Rice	12.00 [b]	13.00 [c]	8.00 [c]
Salt	12.00 [b]	13.00 [d]	7.00 [c]
Wine	12.00	14.80 [b]	8.00
Barbed wire	12.00 [b]	14.80 [b]	7.00
Lumber	15.00	24.00	12.00
Shingles	4.50	...	2.00

[a] Special rates on lots of 5 tons and upward.
[b] By measure or $13 per ton weight.
[c] By weight only.
[d] Or $14.80 per ton measure.

It appears therefore that with few exceptions rates from San Francisco are lower not only than those from New York and Europe via Panama, but also than those to corresponding ports on the Atlantic side of Central America. San Francisco shippers have an advantage so far as mere cost of transportation is concerned. In time, however, they are at a disadvantage, the voyage from

San Francisco to San José, Guatemala, occupying from fourteen to sixteen days and to Punta Arenas twenty days, while from New York to corresponding ports on the opposite coast requires only eight or ten days.

RAILROAD ADVANTAGES TO SAN FRANCISCO

In the four northern Republics, where transportation facilities on the Atlantic slope have not yet been developed, this advantage to San Francisco in sea freights is emphasized by a further advantage in land freights. In Costa Rica, on the other hand, the Northern Railway gives through rail connection from Puerto Limón to the capital, San José, and much freight is carried to the interior by that road which before its construction was imported via Punta Arenas. The rail freights from Puerto Limón are extremely high, but are kept at such a point that they give importations by that route a bare advantage. The actual cost of carrying goods from New York to San José (steamship and railroad freights combined) is in most cases a little less than the cost from San Francisco via Punta Arenas. On a few lines of goods, it is true, the costs from San Francisco are a little less, but not enough to counteract the influence of the quicker service from New York. Partly as a result of this it happens that certain typically California goods go to Costa Rica from New York rather than from San Francisco, such, for example, as dried and canned fruits and vegetables.

Following is a list of some of the principal goods which might be shipped to Costa Rica from San Francisco, but which are at present imported mainly from the Atlantic States (values being given in United States currency):

Table 1.1.17

RELATIVE AMOUNTS OF SPECIFIED ARTICLES IMPORTED INTO COSTA RICA FROM THE ATLANTIC AND PACIFIC STATES IN 1905

Article	From Atlantic coast	From Pacific coast	
		Value	Per cent
Codfish	$30 135	$43	0.1
Other fish	24 423	769	3.1
Beef, salt or pickled	27 906	201	.7
Other preserved goods, except fruits	12 441	555	4.3
Wheat flour	335 559	6 122	1.8
Corn meal	12 321	129	1.0
Other meal	3 702	27	.7
Crackers	9 701	441	4.3
Fresh vegetables	366	51	12.2
Beans (frijoles)	15 880	595	3.6
Fruit:			
Fresh	3 305	75	2.2
Preserved	1 925	472	19.7
Dried	2 028	245	10.8
Wine:			
White	44	400	90.1
Red	1 543	661	30.0
Cordage	17 944	469	2.6

Some of the articles in this list are, beyond doubt, chiefly of Pacific coast origin, such as the canned and dried fruits and vegetables, the wine, and a good deal of the fish; yet the Pacific coast sends but a small percentage of them to Costa Rica direct. They go to New York and other eastern points and are reshipped.

QUESTION FOR PACIFIC COAST SHIPPERS

A question of vital importance to Pacific coast shippers is whether this is a necessarily permanent condition. There are many indications that it is not, and that our western merchants can secure a good direct trade if they are prepared to take advantage of important changes which are promised in the near future. Taking San José, the capital of Costa Rica, as a common point, the present conditions are as follows: Goods from New York (and Europe) are shipped to Puerto Limón, and from there direct by rail, 102 miles, to San José. From San Francisco, on the other hand, they go to Punta Arenas; thence by rail, 13 miles, to Esparta; then by ox cart, 15 miles, to Santo Domingo, and finally by rail, 41 miles, to San José. The 15-mile cart haul usually costs more than the 3 100 miles of sea freight and the 55 miles of rail freight combined, averaging $12 per ton (somewhat less in the dry season and considerably more in the wet).

PROSPECTIVE REDUCTION

But the Costa Rican Government is now rapidly pushing the construction of a road to close the gap of 15 miles between the railways, and it is probable that before the end of the present year there will be an all-rail route from Punta Arenas to San José. The Government will own this railway, and strong assurances have been given that the freight rates on the completed line will be the same per mile as hold at present on the two sections now in operation. If this promise is fulfilled, there will be a great saving in through freights from Punta Arenas to San José, with corresponding advantage to all importers via the Pacific coast port. The following table (I.1.18) illustrates the probable extent of the change. It shows freights to San José, Costa Rica, from Puerto Limón and Punta Arenas.

Table I.1.18
PRESENT AND PROSPECTIVE RATES FROM PUERTO LIMON AND PUNTA ARENAS TO SAN JOSE, COSTA RICA
(Cents per 100 pounds or cubic foot)

Article	From Puerto Limón	From Punta Arenas	
	All rail	Present rate: Rail and cart	Possible future rate: Rail
Beer	90.0	94.6	44.9
Beans and pease	81.2	88.8	37.4
Corn	56.3	88.8	37.4
Flour	81.2	88.8	37.4
Iron, bar, sheet, etc.	81.2	88.8	37.4
Barbed wire	81.2	88.8	37.4
Cordage	90.0	94.6	44.9
Dried fruit	47.0	32.8	20.7
Canned fruit	47.0	36.7	20.7
Canned salmon	47.0	42.2	20.7
Canned oysters	47.0	35.3	20.7
Illuminating oil	47.0	56.0	20.7

It is not to be supposed that the rates on the Northern Railway, from Puerto Limón to San José, will remain as high as they now are after the completion of the new road. They are almost certain to fall; but the fact that this road is some 30 miles longer than the new one, that it runs through more difficult country, and that it must pay dividends on a high capitalization, will, under competitive conditions, tend to keep the rates permanently higher than the new rates from Punta Arenas. The completion of the new railway will, therefore, undoubtedly stimulate trade between our Pacific States and Costa Rica. The extent of this stimulation will depend upon what reductions in freights the Northern Railway and the steamship lines from New York to Puerto Limón may be able to make.

GREAT CHANGES PROMISED

In two other Central American countries –Nicaragua and Guatemala– great changes in transportation facilities are also promised for the near future. In Nicaragua the Government has recently contracted a loan for £1 000 000, a part of which sum is to be devoted to the building of a railway from Monkey Point, between Bluefields and San Juan del Norte, on the Caribbean Sea, to the eastern shore of Lake Nicaragua. This will give lake and rail transportation from the Caribbean to Managua, the capital, and the surrounding most thickly populated section of the country. At the same time it is possible that the route from San Juan del Norte via the San Juan River and Lake Nicaragua, recently abandoned, will be reopened. The distance to Managua, however, by either of these routes, is from two to three times as far as from the Pacific port of Corinto, which has the additional advantage of possessing a fairly good harbor; and even after the completion of the new plans (which is by no means assured) the Pacific route is likely to remain the cheaper.

COMPETING RAILROAD IN GUATEMALA

In Guatemala the project for establishing all-rail connection with the east coast seems much nearer realization. Steps have already been taken for the rehabilitation of the old railway from Puerto Barrios to the interior and the filling in of the 60-mile gap between its terminus and the capital -Guatemala City. It is thought that the road will be in operation within a year or eighteen months. If the opening of this through rail connection between Puerto Barrios and Guatemala City results in competition in rates with the Southern Railway (from Guatemala City to the Pacific port of San José), as it surely will unless some sort of combination is effected between the two roads, it will reduce the cost of importing goods from our Pacific coast States. The present rates on the Southern, which are noncompetitive, are extremely high. It is altogether probable that competition will bring reductions which will keep the cost of transporting goods to Guatemala City from San Francisco lower than from New York. New York shipments must be carried approximately 2 000 miles by sea and 170 miles by rail, while from San Francisco the sea distance is but little more (2 500 miles) and the rail distance is much less (74 miles) through a less difficult country than the new road will traverse.

PACIFIC COAST ADVANTAGE

In general, therefore, we may conclude that so far as transportation charges are concerned our Pacific coast exporters not only have certain advantages in the Central American market, but that these advantages are likely to remain permanent. In Costa Rica the opening of the all-rail route to the Pacific will be of direct assistance, while in Nicaragua and Guatemala the contemplated connections with the Caribbean coast are not likely seriously to reduce the advantages which the Pacific routes now old. Just what is going to be the result of the opening of the Tehuantepec route it is difficult to say, but the cost of transshipment from steamer to rail and back again from rail to steamer will be a handicap which will probably continue to give the all-steamer route from San Francisco an advantage except as to time and as to certain high-class goods.

It being a fact that our Pacific coast holds this advantage in the matter of transportation facilities, the question naturally follows, Why is it that our Pacific coast trade with Central America is relatively small? There are many reasons. The mention of the more obvious of them will indicate their nature.

1. Many goods that are in active demand in Central America are not at present produced in our Pacific coast States, and there are few such goods that can stand the rail freights from eastern points to San Francisco for shipment south. Points from Chicago westward do ship some articles of high value compared with weight or bulk via this route, but they are the exception rather than the rule. If the West (California, for instance) can build up manufactures under the stimulus of cheap oil fuel, there are many articles for which a market could be found in both Central America and western South America. Wire, nails, hardware, mining machinery, furniture, glassware, bottles, etc., may be mentioned as examples.

2. Many goods of local production on the west coast, such as California canned and dried fruits and vegetables, and wines, are sold only at abnormally high prices in our western markets. California producers have for many reasons found it to their advantage to permit the marketing of their goods to pass into the control of eastern middlemen. Central and South American importers can, consequently, in many instances get better prices on such goods in New York or Chicago than in San Francisco. Whether such arrangements are to remain permanently advantageous under conditions of increasing demand in Spanish America is a question for producers to determine.

German competition overestimated

3. There is an unaccountable tendency on the part of many of our exporters to overestimate the seriousness of foreign competition in Central America. In discussing the trade of these countries with numerous "travelers" for American houses one is struck with their exaggeration of what the Germans, in particular, are doing in these markets. The common answer to the question why our trade is not larger is that the Germans are driving us out. This is partially true of a few lines of goods, but as a general statement it is utterly without foundation, and the sooner our exporters get rid of the idea the better it will be for them. It is unnecessary to repeat here the statistics which have been presented at length in other reports. Suffice it to say that in most of the more important articles of Central American import the United States not only holds the bulk of the trade, but is increasing her share of the total.

"Good-enough" goods

4. There is a tendency among some of our exporters to regard inferior grades of goods as "good enough" for Spanish America. Many of the goods characteristically Californian –for instance, such as canned and dried fruits and vegetables– are of the nature of luxuries in Central America. They are consumed mainly by the wealthier classes, who are able and willing to pay good prices, who know how to distinguish between different grades of goods, and who in return for their money demand

the best. Much injury is done to the reputation of our goods through attempts to "dump" poorer grades.

5. With notable exceptions there seems to be a lack of persistence and enterprise in "pushing" Pacific coast goods. A single example will illustrate. California wine is well liked in Central America, where known, but there is little evidence that much effort is made to make it more widely known. The bottled wines, in general, are too high priced to sell well in competition with European, but wine in barrels does fairly well. When imported thus, however, and bottled in Central America, the work is often carelessly done; there is no uniformity in the shapes and sizes of bottles; they are untidily sealed and are often without either caps or labels. In this form it does not advertise itself as it might if our exporters by organized effort could insure proper handling, could furnish labels and caps, or even set up bottling establishments at principal points.

6. And finally must be mentioned once more the oft-recurring difficulty in regard to inferior packing and unwillingness to grant credits, which are a characteristic –fortunately decreasingly so- of all American export trade.

In closing, it remains only to repeat the conviction expressed in previous reports that an increased market for Pacific coast goods is a possibility not only in Central America, but on the whole west coast of Spanish America as far south as Peru, and for some goods as far even as Chile.

2. DOING BUSINESS IN THE ISTHMUS (1916)

From: Consular Recommendations on Honduras Trade; American Consulate, Tegucigalpa, Honduras, to Secretary of State, Washington, February 7, 1916; Unnumbered Despatch, 615.111, Central Decimal Files 1910-29, Record Group 59; National Archives and Records Administration, Washington, D.C.

AMERICAN CONSULATE
Tegucigalpa, Honduras, Feb. 7, 1916

SUBJECT: Consular Recommendations on Honduras Trade

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to submit herewith a joint report in quadruplicate of "Consular Recommendations on Honduras Trade," which is a collaboration by Consuls Gamon and Boyle and the writer. The idea of the report was suggested by Consul Gamon who also furnished by far the greater part of the subject matter and when he was transferred to Corinto, the several reports were sent to me for editing and combining in one report.

We hope that the very considerable investigation and study we have made in order to prepare the report, may be of practical use to the Department.

I have the honor to be, Sir,

Your obedient servant,

(signed)

American Consul

Enclosure: Report as stated.

CONSULAR RECOMMENDATIONS ON HONDURAS TRADE

Joint Report by

John A. Gamon, Consul at Puerto Cortes
Walter F. Boyle, Consul at Ceiba
E. M. Lawton, Consul at Tegucigalpa

Introductory

The United States enjoys a greater percentage of the trade and commerce with Honduras than any other country. This was the case before the beginning of the European war and the percentage is now even larger. Recommendations by Consular officers in the past, on shipping conditions, have been helpful in developing such trade extension and it is believed that a further study with occasional suggestions will continue to be of benefit. Especially does this seem pertinent in view of the demand and interest in the United States for increased trade with Latin America. Consular officers are constantly receiving inquiries not only from manufacturers entirely inexperienced in export business but from firms of long years of practical experience as well.

A Consular officer is in a position to see the shortcomings of certain trade transactions as well as note the excellent results in others. With the chance of being considered academic, it seems almost necessary to remind exporters that a satisfied customer in Central America, as at home, is the greatest aid for extending sales and helping to establish a reliable and permanent reputation. Lack of tact in handling credit inquiries, failure to conform to shipping instructions, poor packing, faulty invoicing, are some of the complaints against American exporters, which happily are gradually lessening but which must be entirely eliminated in order to permanently retain foreign trade in the face of probable post bellum European competition.

The Central American importer is interested in getting his goods through with the best dispatch and the least confusion. He has become accustomed to pretty fair service from European houses. Errors credited to the packing room, billing desk and such like matters he considers not of his concern. Even willingness to rectify an error will not compensate him for loss of time and incidental costs. For the exporter who desires to build up a business, a transaction does not end with the sale. Every satisfactory transaction concluded by an American house not only makes the next sale easier, but also sheds a favorable light upon a fellow American exporter.

The following report may be of value to new exporting houses if not to the more established firms. That the latter receive their share of complaints is proof that time does not always produce paragons. These suggestions are not exhaustive but are believed to be pertinent. They are offered not in a spirit of complaint so much as a desire to attain the best. The building up of a general reputation for American trade can only be attained by constant endeavor on the part of the individual. In considering the following suggestions examples should not be dwelt on extensively, lest the principle be lost sight of in the study of the example: they are noted merely to illustrate and in many cases to show the inconvenience and cost that may arise when the principles are not understood.

General Features

There are three Consular districts in Honduras corresponding to the ports of Puerto Cortes and Ceiba on the north coast and Tegucigalpa the capital in the interior. The latter has Amapala for its port of entry which is located on Tigre island in the Pacific Bay of Fonseca. The towns of the north coast have certain short railroads connecting with the banana lands and in general, with the long stretch of low lands adjacent to the coast. The interior and southern portions have no railroads and not many wagon roads with the exception of the automobile road from the Pacific subport of San

Lorenzo to Tegucigalpa. Unless specifically instructed all freight for central and southern Honduras must be shipped via Amapala. The towns of Santa Barbara and Santa Rosa de Copan are extreme interior points supplied from the north coast.

Many conditions and shipping requirements suitable for one coast are not suitable for the other ports. Under the following subheads, such requirements will be noted, so that while treating of the country as a whole, the varied necessities for each of the three Consular divisions will be indicated.

Sea Ports: Ports of Entry

Trujillo, Ceiba, Tela, Puerto Cortes and Omoa are the important ports of the north coast. The direct distance from New Orleans or Mobile to these ports is about 930 miles or three days direct sailing and from New York the distance is about 1730 miles. The only Pacific port is Amapala, on Tigre Island and imports are reshipped in lighters to the mainland port, a distance of about 25 miles. Unlike most of the Atlantic ports, Amapala has no pier, so that all goods are lightered ashore.

All important firms in the interior have agents at the ports for clearing goods and forwarding to destination.

Steamship Lines and Shipping Routes

The United Fruit Company has weekly service from New Orleans with intermediate stops at Belize, British Honduras, and at Puerto Barrios, Guatemala. The run consumes five days. The same company also had fortnightly sailings from New York to Puerto Cortes, Tela and Ceiba with intermediate stops at Jamaica, British Honduras and Guatemala points and direct weekly service to Tela and Ceiba from New Orleans but owing to inferior landing facilities at Ceiba, they do not bring freight to that port.

The steamers of Vacarro Brothers and Company maintain a minimum service of two trips a week to Ceiba and a monthly service to Roatan and Trujillo, all their ships sailing from New Orleans. Considerable freight from New York destined for Honduras is shipped from that city to New Orleans by the vessels of the Southern Pacific R. R. Co., and there transferred to the Vacarro Brothers and Company steamers.

Occasional fruit steamers arrive from Mobile and Galveston and other American ports as also Schooners and other sailing vessels in the lumber and coasting trade.

Freight and passenger rates and sailings may be ascertained at the offices of the United Fruit Co., 17 Battery Place, New York City and 630 Commonwealth Street, New Orleans. Also at the offices of Hubbard-Semurray Steamship Co., Whitney Bank Building, New Orleans and of the Vacarro Bros & Co., offices, Queen and Crescent Building, New Orleans.

For Amapala

Small vessels of the Salvador Railway Co., ply somewhat irregularly between Salina Cruz, Mexico and Colon, Panama and touch at Amapala, and the ships of the Pacific Mail S. S. Co., from San Francisco to Panama maintain a fortnightly service more or less regularly, to Amapala. With the proposed continuation of the latter and the additional service as rumored by the steamers of W. R. Grace & Co., it is hoped that Amapala will have a minimum service of not less than two steamers each way per month. The rumored closing of the service of the Pacific Mail steamers, brought a number of inquiries from various lines, some of which may yet establish regular sailings. Occasional vessels of others lines are beginning to arrive. All-water transportation from New York to San Francisco touching at Amapala is much desired in order to give quicker transit and less deterioration of goods by extra handling and long exposure to the extreme heat of Panama. A seven ton auto truck was held recently, four and a half months in Panama, awaiting a steamer with derricks sufficiently heavy for unloading in Amapala and groceries, chemicals, gasoline, etc., suffer loss in value by being side tracked on the transisthmian part of the trip.

Interior Freighting

The Honduras National Railroad extends from Puerto Cortes to Potrerillos, a distance of about 59 miles. This is hardly more than one fourth the distance across the country, from north to south. There are short "banana" or timber roads built from Omoa, Tela, Ceiba and Trujillo of a total length of about 200 miles but these are of little value for general freighting purposes. From the several ports and from points on the railroads as well as from Tegucigalpa, merchandise is distributed all over the interior by pack trains.

Honduras is mountainous. The trails are rough and difficult and packing becomes an important matter. Merchandise for consumption or sale at the port towns or for Tegucigalpa may be sent in regulation packing cases or bales but for strictly interior destination they should be sent as nearly as possible, in size and weight, for mule back transportation. On the north coast 200 pounds is considered a mule load and 250 pounds for the south coast. This does not mean one single package of 200 or 250 pounds but two boxes or packages as nearly equally divided as Practicable. As an illustration, two small steamer trunks make an ideal mule load, but a single 250 pound trunk of the "Saratoga" type is well nigh impossible to handle for mountain trails. If packing instructions with an order, call for shipment to be made for mule freighting, the shipper should bear this point in mind and pack accordingly.

Import Tariffs

More than half of the government revenues of Honduras is produced by customs duties. This tariff is more liable to revision upwards than down and while such charge does not concern the exporter as much as the importer, there are certain rules and regulations which if not understood by the export house, may cause expense, delay and trouble to the man importing. Neglect of this point, especially where explicit instructions have accompanied the order, is particularly exasperating to the foreign merchant. A copy of the Honduras Import Tariff (Arancel de Aduana) should be in the hands of every exporter to Honduras. It is printed only in Spanish but may be obtained from the Department of Hacienda at Tegucigalpa, or by writing to the American Consul at Tegucigalpa. Price, fifty cents in American currency or if sent to Consul, American postage stamps will be accepted.

While the exporter is not primarily concerned with the clearing of goods through the Honduras customs, he is expected and held accountable by the importer, to follow certain instructions in the matter of invoicing, bills of lading, etc., all of which will enable the agent at this end to clear without unnecessary worry, trouble and penalty.

In addition to the duties scheduled in the tariff, there are also assessed toll, ware-house and road charges and port and sanitary taxes, besides a surtax of five percent on the total duty. These several items in the last fiscal year were equivalent to more than ten percent of the total tariff duties. As most of these items as well as customs duties are charged on gross weight, they are mentioned here to show how desirable it is to eliminate unnecessary weight but this will be more fully discussed under the subject of packing.

Under the rulings of the present import tariff all shipments with the exception of parcel post packages must be accompanied by consular invoice certified by the Consul of Honduras, and a copy of the commercial invoice of the goods shipped. The Consular invoice must be in the Spanish language. The commercial invoice may be in English but one point must be borne in mind, viz: the consular and commercial invoices must agree in all facts and details and cover all of the goods manifested. A copy of the bill of lading should be included for the use of the custom house broker or agent to trace any shortage or correct freight charges.

Weights shown on consular invoices must be exact and should be expressed in kilograms, (1 kilogram equivalent to 2.2 lbs.) Weights on commercial invoices must check with consular invoices but may read in pounds. It is however advisable to give even these weights in kilograms. In case the weights given on invoices exceed actual weight, the duty is levied on the greatest weight shown and there is no recourse for correction. For this reason, clerical errors may prove to be expensive mistakes. In case the actual weight exceeds by ten percent the weight shown on the invoice, the importer must pay in addition to the duties, a fine amounting to ten percent of the full value. All papers and weights are closely checked at the port of entry. There should be no error as to the number of packages in a shipment and every package should carry a consecutive number plainly marked on both package and invoice.

When instructions are furnished by Honduras importers for declaration on invoices, these should be followed explicitly. It would be advisable when such declarations are not furnished to request that they be supplied with subsequent orders. Wrong wording is costly. Some time ago a shipment of ox-yokes was made to one of the more important merchants of Honduras. The declaration of the consular papers read "ox-collars". There is no such classification in the Honduras tariff, but there is a collar classification and while the customs official probably knew there was an error in the declaration, he had no power to determine the duties except in accord with the declaration. The duties amounted to over twenty cents per pound, whereas if the goods had been declared as agricultural implements, there would have been no duty, as agricultural implements are on the free list.

Classification for consular invoicing is a service of a very expert nature and save in the most routinary shipments should be placed in the hands of some one thoroughly informed in the customs tariff and of long experience in invoicing goods to Honduras. For example, barbed wire if invoiced as fence wire or simply as a bale or roll of wire would be subject to a duty of about six cents per pound, while if invoiced as barbed wire the duty would be less than one cent per pound. A metallic refrigerator might be invoiced as a piece of metal furniture made of iron with adornments of other metals and subjected to a duty of three cents a pound, while if invoiced as a refrigerator, the duty would be twelve cents per pound.

It is not positive that in every instance the custom house would allow the lower classifications to stand, and in some instances the classification might be treated as an attempt to defraud and it is on this account that the services of an expert should be secured, who would know from experience the minimum classification that will be accepted. On this score, exporters must be careful that the importer, in his desire to secure his goods at the lowest classification does not give directions for a classification on the invoice so fraudulent that a strict compliance therewith will place the American exporter in a bad light.

Forwarding of Shipping Papers:

Invoices, bills of lading and all papers connected with the clearing of the shipment should be sent on time to the consignee or his agent. This means that papers should be sent by the most direct route. Promptness in forwarding papers covering consignments of coal oil, fireworks and inflammables, heavy machinery and zinc roofing is especially imperative as agents are allowed only three days after arrival of goods for clearing the custom house. Exceeding this time incurs penalty. Cases have been known of papers addressed to Atlantic or Caribbean coast towns, because of carelessness in directing or routing, to have gone via Panama and Amapala, or other neighboring countries.

Correspondence with Honduras

A common error of American business houses is to address mail to Spanish Honduras and many of the largest and most important business houses in Honduras show Spanish Honduras on their letter heads, advertisements, etc., as the country in which they are doing business. The term Spanish Honduras is an old one and is perhaps used with an idea of distinguishing it from British Honduras, but as there is no such political division as Spanish Honduras, it is far better to address mail to the Republic of Honduras or simply Honduras.

The postal rates fixed by the Universal Postal Union apply to all mail matter except parcel post mails for Honduras, consequently letters prepaid at the two-cent or domestic rate are subjected to a fine of double the deficient postage. This is an important point to bear in mind as it is an error frequently committed by American business houses and invariably considered by the Honduras business man as the first indication that the American house is not acquainted with the first elements of foreign trade. That a few minutes study of North and Central American geography would be invaluable is indicated by the fact that when the papers in the United States published some months ago, the news of the adoption of domestic postage rates with British Honduras, the merchants here began to receive a tremendous amount of penalty postage letters. So common an error is it, that many houses simply decline to accept any mail not fully prepaid.

Spanish is the official and commercial language of the country. When in doubt, send letters and literature in that language, because it is always understood, even though the customer is Chinese, French or German. Catalogues are especially most effective in Spanish, because they should be such as can be shown to people who understand only Spanish. Such correspondence and literature demonstrate at once that the house is not a novice at foreign trade.

Parcels Post

Overseas shipments may be made to Honduras by freight or parcels post; express service has not yet been undertaken. While the great majority of importations come in as freight shipments, nevertheless parcels post may be used to exceptional advantage with a great many articles. This is particularly true for the Tegucigalpa or Pacific coast district, where shoes by the gross, shirts and cotton goods in substantial amounts, hats, haberdashery, and a large variety of goods are being received by mail. Shipments of this kind require no consular papers nor clearing papers at destination. There are no penalties for wrong weight, no charges for toll, warehouse or road tax, no port charges, or any of the items enumerated under the subject of import tariff except the duty on the classification of the contents plus five per cent plus five cents postage. It is especially advantageous for small parcels of valuable goods, where the tariff duty is high as on silk scarfs, laces, embroideries, casimeres, because excess weight of packing is eliminated. But for any small shipment it forms a very cheap and convenient way, as the cost of a consular invoice, stamped paper in the custom house, custom house brokerage, etc., will pay the postage on several eleven pound packages. Interior freight, always a very expensive item is also avoided. For interior and Pacific coast points, all parcels are routed via Panama, except from California.

Freight Shipments

Freight shipments are handled in three principal ways: First: By shipment of a unit order direct from manufacturer or exporter. There seems to be no particular class of goods to which this naturally applies unless perhaps heavy machines, automobiles, etc. The size of the shipment, delay in assembling a mixed shipment or any number of other reasons may determine the question. Second: By assembled shipments. Often importers wish to make purchases direct from several individual manufacturers or sellers with instructions to send to some broker or forwarding agent at some convenient point in the United States. Invoices and shipping papers are sent as well and when all deliveries are made, the consular papers, insurance and other documents are drawn and all the goods are despatched under one shipment.

When this method is used, care must be had to make the delivery at the specified date. A delay of a few days may mean the delay of embarkation or else the necessity of splitting the shipment with the consequent extra set of consular invoices and other shipping documents and generally as added storage charge. This method does not necessarily mean that the assembling or forwarding agent will undertake the account for the importer. The agent seldom if ever acts as a banking factor. The account is handled directly between the importer and manufacturer or seller. The forwarding agent often is one of the several exporters or sellers, who undertakes this work in connection with his own fractional part of the consignment making a nominal charge for the work of assembling and forwarding the shipment.

Third: The third method of purchase and shipment is through commission agents located at convenient points of shipment in the foreign country. In cases of this kind the agent undertakes the purchase, assembling and shipment of the complete order, charging a fixed percentage for his services. This method has many points in its favor, such as close touch with prevailing market conditions, possibility of purchase in large quantity with resulting price advantages, etc. For Pacific coast deliveries, this method is the most popular in this country, while on the Atlantic side, a majority of the shipments are those assembled by forwarding agents. There are no strictly wholesale houses in all Honduras. All dealers are general dealers and even those which supply the smaller stores are also retailers themselves.

Packing

The subject of packing has been discussed so persistently and so exhaustively, that repetition may seem unnecessary. The ocean freights to Honduras are based largely on cubic displacement and the customs tariffs of the country are assessed on the gross weight of the shipment with but very few exceptions, so it follows that the packing of the goods must be to the end of securing both minimum weight and minimum displacement. At the same time, it must be remembered that in packing for the interior, (especially Pacific coast freight where the port handling is more than ordinarily severe) safety for the goods must not be sacrificed for saving in customs charges.

Many pages could be written on the subject of packing to secure these ends and many instances of failure to observe the same quoted, but there is one general rule which if followed out to the letter will solve the problem for American exporters, and that is to always request that the Honduras importer state the manner in which he desires his goods packed and to follow out the instructions to the letter. Many firms here do specify the manner of packing with the stipulation that the American exporter will stand the cost of excess freight and customs charges for failure to comply with instructions.

Packing for domestic trade and packing for foreign shipment are two different things and the more the importer becomes impressed with this fact, the more friendly will become his relations with the foreign importer. On invoices from European houses there is generally found an item of charges to cover the cost of packing. The importer does not look with disfavor upon this charge if he gets something for his money. Possibly American houses would do well to use more care in packing and make a separate charge for the service. High prices with superior packing may dominate low prices and poor packing. Conditions of goods upon arrival becomes an important factor in competition. It is not uncommon for glassware to arrive at coast towns with breakage running up to twelve or fifteen percent, as against an average breakage in German shipments of two percent, while for interior points the breakage is very much higher and window glass for Tegucigalpa often arrives with half the contents broken and in extreme cases not a single whole light remaining in a box. It must be remembered that not only freight charges apply to the broken articles as well as to that part of the shipment which reaches destination in good condition, but the import duty is levied on gross weight, including the damaged articles as well as the sound ones.

The packer should learn everything possible concerning the physical conditions of the district for which he is packing and then use common sense. Among other things do not use second hand packing cases. *Make the shipment as compact as possible.* The importer does not like to pay cubic freight charge for empty and waste space. If necessary, build boxes, crates and cases to measurement to fit the size of the shipment. It is unfortunate that the man in the packing room is unable to view the results of his work when the package arrives at destination. Many good points might be picked up by inspecting incoming shipments from European countries although the details of such packing do not necessarily determine the details of packing necessary for Honduras shipments.

Rules might be formulated to place in the packing room but even if these rules were considered by the man doing the work, they might at times become misleading. No hard and fast rules can well be determined upon for even one district of a country and packing for export becomes quite a study. Consider, for example, the journey of a single package sent by freight to Tegucigalpa. Loaded first, we will say, in New York, unloaded at Colon, trans-shipped by railroad or lighter to Panama City, loaded again into the hold of a ship, unloaded again by reckless stevedores at Amapala into a lighter and carried ashore on men's backs from the lighters, dumped down on the beach and later taken into the custom house and opened up for custom's inspection, dumped again into a lighter and carried twenty-five miles in an open boat to the mainland and dumped on a mud flat, thence to the warehouse and in due season loaded on a two wheeled ox cart or on mule back and taken a six day journey over a mountain road until it finally reaches Tegucigalpa, an average time of sixty days from New York. Here the case may have to be broken up for mule back transportation, as all roads to the interior are mule trails only. In addition to the actual handling, it has had to endure the extreme heat of Panama, with probable tropical rains, exposure to sun and ocean spray.

The conditions for a given market should therefore be studied thoroughly and it is worse than is advised to turn the actual packing over to the uninitiated or the thoughtless. It is money well spent to place a well paid man in charge of the packing for the foreign market, (one who would give the subject very close study and who understands taking instructions) then insist on thorough inspection during the work. As a rule, the "bale" system prevails for all articles which can be so packed, and it is well to bear in mind that articles not more than three feet long or fourteen inches in diameter and weighing one hundred to one hundred and twenty-five pounds, or divisors thereof, are available for ultimate shipment by pack mules. Bales must be tightly compressed and contents properly arranged with the bands so protected that they will neither cut nor rust the contents. Former complaints of insufficient press work on textiles by American mills are much less common now than in times past, so that American bales are now as compact as those from European houses.

In no part of Honduras are goods such as shoes, shirts, clothing, sacks, etc, received in packing cases in their original paste-board boxes as is customary in the United States. Even on the north coast, it has been tried out and found less satisfactory than to supply the display boxes (if requested) of the collapsible sort, apart from the goods themselves. Even the fact that goods sent in original packages are more easily unpacked, stored, displayed and kept in better shape, does not offset the increased ocean freights and custom charges.

It may be well to again bring up the subject of packing of mixed articles. By this is meant the danger of having articles carrying low tariff assessed at the higher tariff of articles in the same package. If properly manifested with invoices carefully specifying the contents of each separate box, there is not much danger of customs' fines, but in general the practice should be avoided as far as reasonably convenient. An order for silverware for Honduras was accompanied by instructions to remove the silver from their display boxes, wrap in tissue and ship in bulk while the display boxes were to be shipped separately and apart. It is putting it very mildly to say that the importer was provoked, when the shipment arrived with the silver carefully wrapped in tissue, *but in their original packages,* so that he paid tariff duty of two pesos (76 cents) per pound on the boxes which otherwise would have cost but a fraction of a cent per pound.

Another kind of mixed packing was recently received at a mining camp in Honduras. The shippers had instructions to pack for mule back freighting. In his anxiety to get out boxes of proper weights, the packer evidently found himself with a quantity of glassware of say seventy five pounds, so to make up the other required fifty pounds, he added that amount of half inch machine bolts. The fragments of glassware and the bolts were well mixed long before arrival.

Marking

Superfluous marking should be avoided. Caution marks such as "This side up", "Fragile", etc. have doubtful value. Marks as to nature of the contents sometimes invite pilfering. Have the marks in plain letters. It is probable that a stencil with letters three inches high, in plain clear cut type and made with permanent paint, is the best for average use. The customer's shipping mark should appear clearly on each package and marking on one side should be sufficient. The use of tags should be discouraged, wherever it is possible to put the mark on the article, bale or box. Every package should bear a serial number and this number must conform to the number or numbering given in the invoice. Care should be taken that marking on bale goods does not penetrate to the contents, as in the case of textiles.

Terms of Payment and Credit

Credit conditions are slightly different in the northern and southern part of Honduras. On the north coast the market has come more directly under the influence of American methods while in the southern (Tegucigalpa) district the longer credits are supplied by having the orders placed through local banks or importing houses who advance the money on interest and enable the purchases to be made more or less on a cash basis. Of course there are select firms in both districts whose commercial rating is sufficient for all needs but even with such firms, unwillingness to offer more than ninety, sixty, or even thirty days credit need not handicap sales, provided the subject is handled in a reasonable and courteous manner. It is reasonable to suppose that such firms would take exception to demand for cash with order accompanied with strong undertone of suspicion or distrust.

Long term credits if granted, are only so in the cases of carefully selected houses. Such credits are not demanded so persistently as in former times. The drop in the value of the silver peso during the past year has been an object lesson to many merchants. A great quantity of merchandise had been sold to the "Haciendados" or farmers on credit when the value of the silver peso was 42 cents in gold. With the beginning of the European war the value of silver money started on a decided decline and many accounts were settled with pesos worth 35 cents or even as low as thirty three. The foreign accounts had to be settled in gold and with a prevailing high exchange rate. The merchant had no moratorium to ease his conscience as Honduras declared no such expedient. This has served as a strong object lesson for short term credits and long term credits have been cut down to a minimum. The good influence will naturally extend also to the future buying policies of the merchants.

Reasonable credits will always have to be extended in some cases, for after all, this is a matter of personal convenience. Where travelling representatives do not cover the field or where the firms seeking credit are not quoted in mercantile reports, the exporters can probably arrange to have the business conducted through local houses who exercise some of the banking functions and carry the account, receiving say six percent on the deferred payments.

On the north coast districts, a parallel might be drawn on the loans made to small and large planters and the financing of the cotton planter of the South. Generally the loan takes the form of a credit to be drawn against in merchandise. This account is balanced when the harvest is made. Often the payment is made in produce of one sort or another. This condition has been supported in the past by the willingness on the part of some houses (usually European) to carry accounts of the merchants for an extended period or until the planter can realize on his crop. Often a period of six, nine or even twelve months may intervene between shipment of the goods and the settlement of the account. It is quite true that the European exporter often is not a manufacturer, but rather a commission house just as some of the banks are now doing in Honduras. Thus the loan phase of the transaction becomes very evident and that this feature has been taken up by American capital recently becoming interested in Tegucigalpa banks is evidence that other means are beginning to be considered by the American exporter in his desire to assist in the work of financing "bona Fide" undertakings abroad. It may be said that in general, so far as Honduras is concerned, the much discussed foreign credit terms question has reached a satisfactory solution and that American products may be sold on substantially the terms in vogue at home.

Travelling Representation: Local Agents Catalogs

The north coast districts are visited at frequent and regular intervals by travelling salesmen from the United States but very few such salesmen cover the Tegucigalpa district. A very satisfactory automobile service now connects Tegucigalpa with the Pacific port and American firms should send their representatives to at least study the southern part of the country. German and English firms do this and the southern district consequently has a greater percentage of imports from Europe. In north coast towns and in Tegucigalpa, manufacturers agents and brokers offices are beginning to be established, so that travelling men may establish agents if the business warrants.

Travelling men must have at least a working knowledge of Spanish. A dinner jacket or evening dress is a desirable part of his baggage as there are often advantages to be gained by mixing socially. Their samples pay full duty as though entered for consumption, but on their departure from the country the same is refunded except the five percent in gold on the sum of the duties. No federal tax is exacted as a license to do business but the larger towns usually exact from five to ten dollars as a municipal tax, for each visit of a commercial traveller.

The first condition necessary to one entering this field of business is a spirit of willingness to meet conditions. New and better ways of doing business must not be pushed too bluntly. Some things may seem incorrect and foolish but it must be remembered that this trade has been a matter of growth and there has probably been a reason for doing things in the customs now pursued. Improved methods should and can be presented in a way that will not offend and no doubt they will be given fair consideration. Suggestions presented in a courteous manner are looked upon with far more favor than those presented in a blunt, cocksure manner. A good salesman, even in domestic sales often finds it necessary to present his point as a suggestion and there is even more reason to show this flexibility with the Latin-American. This is a point which cannot be emphasized too strongly, not only in personal sales work but in correspondence.

Where exporters do not care to send travelling men, combinations can often be effected by one salesman representing two or more non-competing lines. But failing in this, local agents may be appointed. On this score, American manufacturers frequently exercise poor judgement. A leading soap concern notified their Honduras customers who had been buying through New York agents that in future they could be supplied only through a newly appointed agent living in a small interior town of Honduras, remote from mails and transportation. Another extremely important food products company already doing a fine business in Honduras, elected to select as Honduras agent, a man whose lack of financial responsibility is so notorious that all the old customers would be driven away. At an interior mining camp one of the employees is Honduras agent for a number of very desirable lines, which established firms in the large towns would be glad to represent.

Exclusive agencies should not be given for the whole of Honduras. Until better transportation methods are provided, the north coast is as distinctly remote from the southern section as the Atlantic from the Pacific. It is much better to have an agent in each district. Generally speaking, such agencies should not be undertaken by merchants here, for the reason that most of the stores import a general line and will not purchase from competitors when they are short of stock. A merchant having the exclusive agency to an article would probably not reach outside of his own clientele. If an article of this description is required, other merchants will import through their New York or San Francisco agents and at the very start, frustrate the exclusive agency attempt. It would be well to study the field very closely before giving an exclusive representation for any one of the three consular districts and this becomes a greater study when the whole country is involved. There are few if any firms in Honduras who are in a position to properly display or push sales outside of their own immediate location.

In the line of catalogs and literature, American manufacturers lead the world but catalogs alone will not capture foreign trade. Consular officers in Honduras maintain perfect files of catalogs, indexed by name and by article and make every effort to have them consulted by the public yet the actual use made of these files is discouraging. Foreign trade is usually a contest between a catalog and a travelling man. Catalogs are seldom consulted except on old established lines of goods and new goods are seldom introduced except by the personal effort of some one, whether travelling representative or local agent. At present, the large sums expended in catalogs sent to Honduras do not produce adequate returns. Perhaps in certain lines at least, such as agricultural implements, if the catalogs were a little less elaborate, and, printed in Spanish, were sent direct to a selected list of names supplied by the consuls, the returns would be more satisfactory. Follow-up letters, in courteous Spanish, with as much of a personal tone as possible, might prove very satisfactory.

Conclusion

Honduras is a debtor nation. Despite the large exports of gold, silver, fruit and hides, the imports are now nearly double the amount of exports. The purchasing power of the country is small but growing. There are only 600 000 inhabitants in an area not any larger than the state of Louisiana of which one third is practically unexplored. It therefore does not at present offer a large field for the American exporter. But because it is one of the smallest and least developed of Latin American countries is no indication that it is unworthy of the best attention of American manufacturers. Because of the fact that the country has been more or less inaccessible, the Honduras people have not had the opportunity of advancement enjoyed by other nations and their wants are fewer. For this same reason, more proportional progress is possible, and is developing, than in many countries less favored, so that a proper appreciation of the commercial possibilities in the future will merit the serious study and attention of American exporters in general.

3 THE REGION AS AN EXPORT MARKET (1925)

From: U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *Caribbean Markets for American Goods: I. Central America*. By Hector Lazo, Chief, Caribbean Section, Latin American Division. Trade Information Bulletin No. 329, April, 1925, pp. 1-16.

INTRODUCTION

The Caribbean region, comprising the West Indies, Central America, Venezuela, and the Caribbean section of Colombia, is as much a distinctive trade area for the American manufacturer as Canada or Australia. This region or group of countries, while contiguous to the other countries of Latin America, has very little direct contact with them because of the fact that most of the established lines of water transport treat the Caribbean area as a separate unit. Steamers bound for Brazil and the River Plate do not enter the Caribbean ports, and steamers routed to the Caribbean rarely go farther south than the Venezuelan ports before returning to the United States or Europe. A travelling salesman covering Latin America will, of course, visit the Caribbean territory as well as the rest of South America, but it will mean a break in his journey and a transfer from one transportation system or group of steamship lines to another. Freight shipments from eastern and southern United States to this territory in practically every instance are made by steamers routed only to Caribbean ports. The growing trade of the Caribbean area with the Pacific ports of the United States is by the way of Colon in the Canal Zone as a port of transshipment, no direct routes from the west coast to the Caribbean Sea having yet been established.

The importance of the Caribbean countries is shown by our trade with them during 1924, which amounted to \$875 958 041, of which \$510 212 009 represented imports from and \$365 746 032 exports to them. In order of importance, Cuba ranks first, Porto Rico second, Colombia third, and the Central American group fourth.

This pamphlet, the first of a series covering Caribbean markets, is an analysis of Central America as a purchaser of American goods. For the convenience of the exporter planning a trip for himself or his representative a suggested salesman's route through Central America has been included. Further information on any specific points may be had by applying to the Bureau of Foreign and Domestic Commerce at Washington or to any of its district and cooperative offices throughout the country.

Julius Klein, Director

April, 1925

I. CENTRAL AMERICA

PURCHASING SEASONS

Central America, in common with the other countries making up the Caribbean group, is distinctly an agricultural region dominated by a small number of products. The success or failure of these crops influences to a marked degree the prosperity of the countries, and consequently the volume of trade. This is forcibly illustrated by the fact that coffee is responsible for over 75 per cent of the exports of Salvador, 35 per cent of the exports of Nicaragua, about 30 per cent of the exports of Costa Rica, and well over 75 per cent of the exports of Guatemala; sugar represents 12 per cent of Nicaragua's exports, 5 per cent of Salvador's, 7 or 8 per cent of Costa Rica's, and 5 per cent of Guatemala's. Bananas make up almost 10 per cent of Guatemala's exports, about 20 per cent of Nicaragua's, approximately 50 per cent of Costa Rica's, and from 65 to 70 per cent of those of Honduras.

It is therefore apparent that the harvest time and the crop-selling seasons will be the major purchasing seasons. Accordingly, it is not surprising to find that actual export figures from the United States to Central America denote two distinctly marked purchasing seasons. An analysis of our monthly exports for the 12-year period 1913 to 1924, inclusive, shows highest total exports for that period in the months of October and December, there being a marked falling off in February, March, and April, with distinctly higher figures, approximating the totals of the fall and winter months, in May and June, and again dropping off during the summer months of July and August.

The above analysis refers to total exports by values from the United States to all of Central America for the 12 years between 1913 and 1924. It is interesting to note that, despite wide variations in total yearly exports, there is a remarkable uniformity shown by general increases and decreases year by year according to the seasons indicated above. Coffee, which is the most important single product of Central America, is picked from August to December, and the crop is practically all shipped by June; the sugar season extends approximately from December to May, while bananas represent a more evenly divided all-year-round product, with the heaviest shipments taking place between April and September.

The extent to which the above-mentioned commodities enter into the commercial life of the country determines in a large measure the fluctuations in the monthly import trade of the particular country. For example, in Honduras, where coffee and sugar are but minor crops, the seasonal variations are much less noticeable than in the other Central American countries with the exception of Panama. In Honduras, in fact, a survey of several years shows heaviest importations from the United States in the first three months of the year –in anticipation of the banana crop, rather than after it has been harvested.

Guatemala and Salvador, on the other hand, show very pronounced increases in April, May, and June, dropping in the succeeding months of the summer but rising markedly in September and usually showing the greatest totals in November. Nicaragua also shows distinct increases in November, December, and January, November being the highest month and July and August usually the lowest, while Panama, because of the unique nature of its trade, shows an even level month by month, although a slight increase is observable during the last months of the year in anticipation of the tourist trade.

Statistical tables for a period of years bring out the fact that there is an almost identical variation in the exportation of principal commodities from the United States to Central America, coinciding in general with total seasonal shipments.

The great purchasing seasons in Central America are therefore those which immediately precede our greatest export period to that region, namely, January, February, March, July, August, and September.

HOW TO SELL TO CENTRAL AMERICA

Considering Central America as a unit, the usual method for large merchants is to do business directly with the manufacturer or exporter in the United States. This is by no means the sole method, however, as in many cases are effected through commission agents with sample displays. Direct dealings are the general rule with the larger merchants in practically all the Central American countries.

The main contact, however, should be made personally and not through printed matter. Central American merchants and importers, in common with so many others, have their mails crowded with papers, letters, and general advertising materials, much of it in defective Spanish, and even though these be hurriedly read through, as a general rule they do not open a market. Such printed matter is, however, valuable as follow-up material. The original contact, and one to be renewed periodically to be most effective, should be a personal sales trip undertaken by the export manager or a competent representative.

In selecting commercial travelers to represent the firm great care should be exercised to choose high-type men, who not only can understand the habits of the people but who have a command of Spanish. It is of great importance that such men be thoroughly posted on customs regulations and transportation conditions, as otherwise losses of time and merchandise may very well result.

As pointed out above, the greatest purchasing seasons in Central America –that is, the most appropriate seasons for selling trips through this region– are January to March, and July to September. This, of course, applies only to general exports, as there are certain commodities which, because of their very nature, are of value at seasons other than those mentioned above. This would be the case, for example, with sugar-milling machinery, importations of which would take place probably at the conclusion of the grinding season.

CANVASSING CENTRAL AMERICA

In the following proposed route, schedules and time-tables have been used which are the latest available at the time of writing. It should be remembered, however, that time-tables and fares are subject to change without notice, and the steamship and railroad companies should be consulted for verification and exact times of departure. All prices are given in United States currency, as payment for transportation charges and hotel bills can be made in practically all towns and cities mentioned in American dollars.

COMMERCIAL TRAVELERS' ROUTE COVERING CENTRAL AMERICA

Central America can, of course, be approached in several different ways. The following route is recommended as a feasible and practical way to cover the various countries, permitting the commercial traveler a sales tour through Mexico at the conclusion of his trip through Central America.

Sailings. From New York to Cristobal, Canal Zone: Vessels of the United Fruit Co. leave every Saturday at 11 a.m., going via Habana, Cuba, and arriving at Cristobal on the second Tuesday out. Among the other lines having sailings from New York to Cristobal are the Panama Railroad Steamship Line, the Grace Line, the South American Steamship Co., and the Pacific Steam Navigation Co.

In this connection it must be borne in mind that the start of the journey may equally be made from New Orleans, San Francisco, or Los Angeles. The start from New York has been chosen merely as being representative and convenient.

Cristobal (Colon), Panama. Samples possessing no commercial value are admitted free of duty, while others are admitted under bond; and samples must be reexported through the port of entry unless formal notification to the contrary is given. A license is required of travelers to do business in Panama, being approximately $25 for periods ranging from one to six months. Municipal licenses vary in length and cost.

The most important commercial cities in Panama are Colon and Panama City, the chief wholesale houses being located in these two centers. Panama City is reached from Colon via rail in about two hours and at small cost.

Hotels at Colon: The Washington, Grand Imperial, Royal, Astor. Rates vary from $3.50 to $7 a day. Hotels at Panama City: Tivoli, European plan, meals a la carte, rates, $3.50 and $4.50 a day; Hotel Central, American plan, $3.50 to $7 a day; Hotel Internacional, American plan $4 and $5.50 a day; and others. (The Washington Hotel at Colon and the Tivoli at Panama City are owned by the United States Government).

Cristobal to Port Limón, Costa Rica. United Fruit Co. vessels leave Cristobal Wednesday afternoon, arriving at Port Limon the following day. The fare is approximately $25.

Port Limón is the Atlantic terminus of the transcontinental railroad across Costa Rica. Samples of no commercial value are admitted under duties of approximately 2 centavos per pound (about cent United States currency), but samples with value must pay full duties, returnable under certain conditions. The customs inspector should be consulted. There is also a small duty on advertising matter. No Government license is required to do business in Costa Rica, but the various municipalities impose a license fee in varying amounts. Charges for baggage will necessarily depend upon the number of pieces and will be levied on total weight. The traveler should be prepared for rather high rates on this score.

The three important commercial centers in Costa Rica are Port Limon, San Jose (the capital), and Puntarenas (the Pacific port). Other cities can well be canvassed from these three centers, as desired. Port Limon has a small population, but is the center of the important fruit trade and the headquarters of an important commercial area. It is the chief port of the Republic.

Hotels in Port Limón: The Lodge (privately owned), Park, Londres, Caribe, and America. Rates vary from $3 to $6 a day, American plan.

Port Limón to San José. Daily trains leave Port Limon around 9 a. m. for a run of approximately 6 hours. The distance is slightly over 103 miles, and the fare about $2.50. San José is the capital of the country and the chief commercial center. Hotels in San José: Grand Hotel Francais, American plan, rates, $3.50 to $10 a day; Washington Hotel, American plan $3 to $8 a day; Europa, American plan, $3 to $5 a day; Continental, American plan, $1.50 a day. The larger wholesale houses have their headquarters in San Jose. The city also affords convenient headquarters for canvassing the near-by smaller cities. It should be remembered that the traveler is allowed only a small amount of baggage free on the railroad, the rest being payable at the rate of about 1 cent per pound.

San José to Puntarenas. Puntarenas is the Pacific coast terminus of the railroad and the Pacific port of the country. It is approximately 69 miles from San José, fare about $1.50; time required about six hours. Hotels at Puntarenas: Imparcial, Europa, and Victoria; rates range from $2.50 to $5 a day, American plan.

Puntarenas to Corinto, Nicaragua. The Pacific Mail Steamship Co. vessels of the New York-San Francisco route and the Kosmos Line of the Hamburg-Pacific coast service are the only two steamship lines with a regular service calling at Puntarenas. During the height of the coffee season many smaller vessels and tramp steamers call, and communications are comparatively frequent. The steamer from Puntarenas to Corinto takes approximately one day; fare, $35. In case sailings are to be delayed greatly, it may be found convenient to return to the Canal Zone and take a direct steamer to Corinto.

Corinto, Nicaragua. Samples of no commercial value are admitted free, others under bond or corresponding deposit. Hotels: Lupone, Boston, Europa. Rates from $2 to $5 a day, American plan. Not a great deal of purchasing is done at Corinto, and the traveler will want to leave soon for the interior cities, Managua and intermediate points. There are two daily trains from Corinto to Leon. The latter city and Granada are two other important points besides the capital, Managua. Both of these cities can be reached from the capital. These three centers usually supply the interior region.

Corinto to Managua. Distance approximately 87 miles, fare about $3. Trains leave daily from Corinto at 7 a. m., arriving at Managua at 1.20 p.m. First-class passengers are allowed 65 pounds of baggage, all excess being subject to regular baggage freight rates.

Hotels in Managua: Lupone, $4 and up per day; Aster, American plan, $3.50 and up per day; America, $3 and up per day. Other hotels are Central, Estrella, and Veleo. Hotels in León: Metropolitan, $4 a day, American plan; España, $3 a day; and Roma, $2.50 a day. Hotels in Granada: Alhambra and Versailles, $3.50 a day in both, American plan. Granada is reached from Managua in two hours by rail.

In canvassing Nicaragua it is important to note that the eastern or Caribbean coast of Nicaragua is practically inaccessible from the Pacific coast and should not be attempted until the salesman reaches the Atlantic coast of Guatemala and Honduras. It is possible to travel from Managua by roundabout methods to San Juan del Norte (or Greytown) via small steamers on the San Juan River, or by mule back over more or less defined paths. On the other hand, Bluefields, the most important city on the Caribbean coast, is covered with comparative ease from Ceiba and Trujillo, Honduras.

Corinto to Amapala, Honduras. Sailings every 8 days, Mexican States Line, or about every 22 days, Pacific Mail Steamship Co., sailings being available with greater frequency during the heavy shipping season.

Samples without commercial value are admitted free of duty into Honduras if weighing under 25 pounds. Samples with commercial value -that is, all those not defaced to make sale impossible- are admitted under full duty, refundable at reexportation and after the payment of a certain fixed amount of approximately 1 cent a pound. Municipal licenses are required in Honduras for varying lengths of time and on payment of stipulated fees.

Amapala, Honduras, is of little commercial importance to the traveler. He may be obliged, however, to spend a night or two awaiting the launch to the mainland. Hotels: Morazan and Palacios; rates from $3.50 to $5 a day, American plan. A launch conveys the traveler from Amapala to San Lorenzo on the mainland. Fare is $1.50 per person, baggage extra.

San Lorenzo (Amapala) to Tegucigalpa. The journey is made by automobile. Fare approximately $10 per person, or $65 for special car. The distance is 81 miles, and time required from 5 to 7 hours.

Tegucigalpa is the capital and most important commercial center in southern Honduras. Hotels: Agurcia, $4 per day, American plan; Ambos Mundos, $3 a day up. The chief wholesale houses are established in Tegucigalpa, and the trade of the interior in the southern half is done from Tegucigalpa.

From Tegucigalpa it is necessary to return to Amapala, as the communication with the northern coast is insufficient and impracticable for the commercial traveler.

Amapala to La Union, Salvador. Distance approximately 20 miles, launches and small steamers, although launches are to be preferred because of the shallow water, which makes steamer navigation slower and more circuitous. Fare, $8. Time, about two hours, by launch. Hotel in La Union: Italia.

Samples of no commercial value are admitted free into Salvador; samples with value under provisional deposit, returnable at reexportation, which does not have to be through original port of entry. A certified memorandum, however, should be obtained at the port of entry. Advertising matter is taxable at varying rates, and municipal licenses are required. The fee for such licenses varies. La Union is not a large purchasing center, but is conveniently located with respect to San Miguel.

La Union to San Miguel. Daily trains leave La Union at 6 a. m. and arrive at San Miguel at 8.25 a.m. Considerable distributing trade is done from San Miguel. Hotels in San Miguel: Hispano-Americano, $1.50 to $3 a day, with meals.

San Miguel to San Salvador. Distance, 107 miles. Daily trains leave San Miguel at 8.25 a.m. and arrive in San Salvador at 5 p.m. San Salvador is the capital of the Republic and the most important trade center. Many important wholesale houses have their headquarters in this city, and there is a large number of important retailers who do direct importing. Hotels in San Salvador: Nuevo Mundo, Astoria, Italia, Occidental. Rates from $2.50 to $4 and up, including meals.

From San Salvador it is possible to go by direct rail to Sonsonate, if desired, although the majority of the wholesale houses established there are branches of the larger ones in San Salvador.

San Salvador to Santa Ana. Santa Ana is the second largest city of the Republic and is a very important trade center. Large houses established there do a good deal of direct importing, and they are well worth cultivating. It is 48 miles distant from San Salvador on the Salvador Railway, with daily trains, the fare being approximately $2. Leading hotel: Florida, $1.50 to $3, with meals.

From Santa Ana the traveler will proceed to Guatemala City by either one of two routes. During the dry season, from November to May, it is much more preferable to go overland by auto; during the rainy season, May to October, the roads are not suitable for this traffic, and the traveler must return to Acajutla, thence by steamer to San Jose, Guatemala.

Santa Ana to Guatemala City. Overland, November to May. This trip is made daily, fare being approximately $25 and the time of the trip from 11 to 14 hours. Extra charge is made for baggage. When possible, this route is much to be preferred, as it avoids a return to Salvadorian ports, transshipping for a short sea trip, and again landing in Guatemalan ports, with a rail trip to Guatemala City.

At Guatemala City, baggage will be taken direct to the custom-house for clearance. Samples without commercial value are admitted free. Samples which have commercial value may be cleared under bond, good for two months.

Hotels in Guatemala City: Palace, $5 a day, with meals; Grace Gran Hotel, $5 a day, with meals; Iberia, $4, with meals; Continental, $3.50 a day, with meals.

Guatemala City is by far the most important trade center of the Republic, being the headquarters for the principal houses doing both wholesale and retail business. A large number of retailers do direct importing, and they are, as a rule, located in Guatemala City. During the rainy season it is necessary for the traveler to return to San Salvador from Santa Ana, thence to Acajutla for steamer connections.

San Salvador to Acajutla. Via the Salvador Railway, 65 miles distant. Daily trains with stop-overs at Sonsonate, the customs clearing house. Hotels in Acajutla: Occidental and Las Americas, rates from $3.50 up, American plan. Trains leave San Salvador at 7 in the morning, arriving in Acajutla in the early afternoon.

Acajutla to San José, Guatemala. Via Pacific Mail Steamship Line or the Mexican States Line. Trip takes about one day, fare $18. San Jose, Guatemala, is the most important Pacific coast port, but of no commercial value to the traveler. There are no hotels in the port proper, and the traveler will want to leave as soon as possible. If necessary to stay over night, Hotel Marina, in the town offers fair accommodations for $3 a day. The customhouse at San Jose is merely a transit customs for hand baggage only, trunks being cleared through the main customs at Guatemala City.

San José to Guatemala City. Train leaves daily at 8.45 a.m. for Escuintla, 28 miles distant. Escuintla is a fairly important commercial center and might be well worth a day's stop-over. Two daily trains leave Escuintla for Guatemala City, at 6 a.m., arriving at 10.15 a.m., and at 2.45 p.m., reaching Guatemala City at 5.25 p.m. The fare from San José to Escuintla is approximately $1 and from Escuintla to Guatemala City about $1.50.

Hotels in Escuintla: Ferrocarril and Central, $3 and $3.50 a day, American plan.

Guatemala City to Quezaltenango. Quezaltenango is the second largest city in the country. The trip is made by auto, daily, leaving Guatemala City. It is not especially recommended except in the dry season.

Hotels in Quezaltenango: Palace, European plan, $1 a day; Modelo, American plan, $3 a day. Some of the Guatemala City houses have branches in Quezaltenango, and the city is well canvassed from Guatemala City.

Guatemala City to Puerto Barrios. Trains leave Guatemala City daily at 7 a.m. Fare, $9.90, with $4 extra for parlor car, only hand baggage allowed free. A stop-over made at Zacapa for lunch. Arrive Puerto Barrios 6.40 p.m. Puerto Barrios is of no commercial importance except for fruit company commissary. Hotels: Hotel del Norte, $5 a day, American plan.

Puerto Barrios to North Coast of Honduras. Fortnightly service leaving Puerto Barrios for Puerto Cortéz, Tela, Puerto Castilla, and return to Puerto Barrios or direct to New Orleans. Puerto Barrios to Puerto Cortéz, fare, $20, can be done within 24 hours. Samples of no commercial value and weighing less than 25 pounds are admitted free. Samples with value must be covered by a deposit to the extent of duties. Advertising matter is dutiable. Principal business at Puerto Cortéz is done by importing retailers. A good deal of packing is done for the interior, and there is schooner connection with British Honduras, Guatemala, and the Honduran ports of Tela, Ceiba, and the Bay Islands. Hotels: Italia, Defevre. Rates from $3 to $5 per day, American plan.

Puerto Cortéz to San Pedro Sula. By the national railway, daily departures. San Pedro Sula is an up-to-date town and a very important trade center and distributing point for the north coast interior points. Hotels at San Pedro Sula: International, Washington, American, and New York.

Puerto Cortéz to Tela. Reached either by steamer or schooner in a one-day trip. Fare approximately $20. Tela may also be reached by railroad from Puerto Cortéz. A large fruit commissary has headquarters here and is worth attention. It is an important port. Hotels: Cabañas, $2.50 and $3.50 per day; Double Day, same rates; Balderach, $2 up.

Tela to La Ceiba. La Ceiba is one of the most important ports on the north coast. Hotels: Roma, and Italia, rates $4 per day, American plan. Both wholesale and retail business is large in Ceiba, with a large fruit company commissary located there.

La Ceiba to Trujillo (or Puerto Castilla). By steamer, fare approximately $20; fortnightly sailings and also coastwise schooner traffic. The business importance of Trujillo has diminished with the rise of Puerto Castilla, where a large fruit company commissary is well worth a visit. Hotels: Trujillo, Codina, and Steiner.

Direct sailings from Puerto Castilla or Trujillo to New York via Santiago, Cuba, or to Puerto Barrios, Guatemala, and thence to New Orleans. The salesman wishing to cover Cuba can proceed via Santiago, and those intending to cover Mexico can return to Puerto Barrios to make connections via New Orleans.

From Tela it is also possible to go to Cape Gracias, Nicaragua, and thence by schooner to Bluefields, and from Bluefields direct to New Orleans.

CURRENCIES

In virtually all Central American countries American currency circulates freely at the present time. On the Atlantic coast it preponderates and has practically caused the various native currencies to disappear. In interior cities it is convenient to have some native currency, and for this purpose any bank will exchange small amounts of American dollars. At the present time exchanges are practically stabilized. Following are the currencies in use in the various countries of Central America: Panama, United States dollar; Honduras, United States dollar and Honduran peso, 2 to the dollar; Salvador, United States dollar and colon, 2 to the dollar; Nicaragua, United States dollar and cordoba of equal value to dollar; Costa Rica, United States dollar and colon, 4 to the dollar; Guatemala, United States dollar and peso, 60 to the dollar.

PRINCIPAL BANKS

Costa Rica. Banco Internacional, Banco de Costa Rica, Mercantil de Costa Rica.

Guatemala. Banco Americano, Colombiano, Occidental, Internacional, Agrícola, Banco de Guatemala.

Honduras. Banco de Honduras, Banco Atlántida.

Nicaragua. National Bank of Nicaragua, Anglo-Central American Bank.

Panama. American Foreign Banking Corporation, Banco Nacional.

Salvador. Banco Salvadoreño, Occidental, Agrícola-Comercial.

AGENCIES AND REPRESENTATIVES

The advisability of appointing an exclusive agent in Central America is one which must be decided by the exporter, taking into careful consideration the volume of business done. The appointment of agencies and representatives has not developed to the extent found in Mexico and Cuba, as the volume of transactions has not warranted the expenditures of office upkeep and the many incidental outlays connected with such agencies. In some cases representative commission agents have been given an agency in connection with various other agencies they hold, and it is only in comparatively rare cases that there will be found in Central America an agent or representative exclusively devoted to one commodity. Accordingly, as pointed out above, the most successful method to do business with Central America is through the personal trip of a competent home representative, who will establish his contacts.

ADVERTISING IN CENTRAL AMERICA

As elsewhere, advertising plays an important part in any sales campaign in Central America. The most suitable method depends to a large extent upon the commodity to be advertised.

The most common method pursued thus far has been advertising through the daily press in the various countries. The press reaches practically all the buying public and the method is quite effective.

An important factor, which must not be overlooked, however, is the fact that American magazines circulate to a very considerable extent in central America, and that all advertisements are examined with care. It might therefore be worth while to so word advertisements that they will be international in their appeal.

One very effective advertising method, and one too often overlooked by the American exporter, is the accompaniment of appropriate advertising matter with each purchase. In this category should be mentioned, for example, tin tongs accompanying each box of fancy crackers; tin, wooden, or paper-pulp utensils accompanying similar commodities as an aid to service; prizes or similar advertising matter inclosed in sealed packages, etc. Depending upon the commodity handled, however, the exporter should determine the most effective method of advertising.

FOREIGN COMPETITION IN CENTRAL AMERICA

The United States stands in a commanding position in Central America's import trade in practically all commodities and supplies approximately 70 per cent of all merchandise imported into those countries. Nevertheless, foreign competition is active and growing since the close of the European war, and it should not be discounted by the American exporter. It should be remembered that European nationals have for years been established in those countries, that prominent plantation owners and merchants are either European born or direct descendants of Europeans, and that contacts with Europe were of long and satisfactory standing prior to the war.

Furthermore, there are certain commodities which have a long-standing reputation in those markets. Thus, for example, English textile fabrics have a reputation for low price consistent with quality, and British competition to American trade is keenest in the textile line; French perfumes, toilet waters, and toilet soaps are known in every town and hamlet; Japanese and Chinese silks are not only cheaper but widely known; German hardware tools, and drugs have long been known throughout Central America. The following tables (I.3.1, pages 1 and 2) show imports into the various countries of Central America by principal countries of origin. All values are in United States dollars.

Table I.3.1

VALUE OF IMPORTS 1913-1923

(In United States dollars)

Into Guatemala

Countries	1913	1919	1920	1921	1922	1923
United States	5 053 060	10 212 957	11 796 510	8 177 442	6 644 449	6 519 630
United Kingdom	1 650 387	2 548 012	3 906 779	2 289 047	1 599 131	1 665 643
Germany	2 043 329	---	760 326	1 240 360	1 199 910	1 302 267
France	402 025	306 808	501 995	480 143	355 678	307 148
Italy	125 316	53 040	79 134	114 977	46 183	a
Spain	111 475	146 522	179 091	128 330	131 154	a
China and Japan	305 151	289 801	409 241	194 103	221 496	a
All other	371 577	658 725	711 387	992 036	553 659	1 046 093
Total	**10 062 320**	**14 215 865**	**18 344 463**	**13 616 438**	**10 751 660**	**10 840 781**

Into Salvador

Countries	1913	1919[b]	1920	1921	1922	1923
United States	2 491 146	9 063 595	7 783 180	5 901 244	4 878 137	5 352 984
United Kingdom	1 603 846	1 610 005	1 926 577	1 228 292	1 230 294	1 512 763
Germany	713 855	---	370 221	215 131	150 717	455 702
France	418 111	232 938	482 391	363 183	214 227	310 314
Italy	224 827	---	71 614	72 110	80 952	112 842
Japan	87 615	486 013	632 794	166 240	294 092	328 396
China	56 889	---	122 743	33 292	25 405	46 112
All other	577 455	3 565 645	1 238 850	489 002	1 639 086	651 344
Total	**6 173 744**	**14 958 196**	**12 628 370**	**8 468 494**	**8 521 910**	**8 770 457**

Into Honduras
(Fiscal year ending July 31)

Countries	1914	1919[c]	1920	1921	1922	1923
United States	5 262 043	6 500 000	11 246 758	14 029 063	10 857 419	12 016 219
United Kingdom	459 762	300 000 c	800 000 c	1 396 025	553 523	626 405
Germany	521 837	---	18 000 c	318 052	548 602	816 679
France	141 597	30 000 c	60 000 c	281 047	234 619	245 844
Italy	42 941	---	---	181 636	53 125	93 963
Spain	33 901	---	---	105 313	71 755	76 253
All other	162 849	---	---	411 564	485 216	466 874
Total	**6 624 930**	**6 931 376**	**12 860 762**	**16 722 700**	**12 804 259**	**14 342 237**

Table I.3.1 (concluded)

Countries	1913	1919	1920	1921	1922	1923
			Into Nicaragua			
United States	2 722 385	6 687 712	11 247 589	3 857 202	4 127 205	5 509 254
United Kingdom	998 564	689 721	1 634 624	654 426	485 498	873 173
Germany	1 887 698	24	145 014	101 047	73 966	230 519
France	1 763 186	146 330	220 958	199 816	77 887	98 648
Italy	98 169	38 838	47 644	27 268	21 088	75 081
Spain	2 759	33 190	120 087	34 015	17 181	21 361
All other	239 286	316 838	448 473	436 128	320 680	461 396
Total	**7 712 047**	**7 912 653**	**13 864 389**	**5 309 902**	**5 123 505**	**7 269 432**

Countries	1913	1919	1920	1921	1922	1923
			Into Costa Rica			
United States	4 467 620	5 891 361	11 657 757	5 132 441	5 100 554	5 772 826
United Kingdom	1 289 739	570 298	3 179 228	1 554 310	1 170 898	1 531 076
Germany	1 340 981	15 634	8 001 912	187 918	357 195	636 588
France	387 356	73 622	579 908	225 438	156 259	199 541
Italy	170 228	20 522	527 843	120 974	69 439	148 890
Spain	158 937	102 473	326 863	170 428	177 444	119 121
All other	869 248	844 079	3 096 486	1 786 293	1 310 795	1 377 799
Total	**8 684 109**	**7 517 989**	**22 369 997**	**9 177 802**	**8 342 584**	**9 785 841**

[a] Figures unavailable.
[b] Incomplete.
[c] Estimated.

Taking Salvador as a typical Central American market and analyzing three years of commodity imports into that country, we find that the United States leads as a supplier of foodstuffs and practically all manufactured goods except perfumery and cosmetics, wines, laces and embroideries, paper manufactures, china and pottery, and woolen and silk manufactures.

Great Britain leads in laces and embroideries, jute bags, and affords the United States the greatest and most active competition in all textiles, particularly cotton and woolen goods, and in iron and steel machinery.

France leads in perfumes and cosmetics and competes actively in drugs and chemicals, wines, glassware, silk manufactures, paper goods, and machinery.

Spain holds a commanding position as a supplier of wines but does not offer any serious competition to American goods as a whole.

Germany competes in all lines of hardware and machinery, electrical goods, but particularly in paper and paper products.

Italy competes in wines and to some extent in textiles and textile manufactures.

Japan holds first place as a supplier of silk manufactures. China-ware and pottery in considerable quantities are also shipped from Japan to Central America.

Similarly, in Nicaragua, the United States leads all other nations in everything but liquors, wines, jute bags, crude and refined petroleum, newsprint paper, and a few small items such as refined sugar and cotton thread.

British competition is again apparent and most prominently in plain woven, twilled, and other cotton manufactures, leading in cotton yarns and thread. British competition is also active in the importation into Nicaragua of earthenware, porcelain and pottery, jute bags and cloths (Great Britain leads in this), firearms, confectionery, preserves and canned fruits, hats, caps, and such manufactures as domestic ware and utensils, iron and steel manufactures, agricultural machinery, etc.

Germany is a prominent competitor in Nicaragua in all iron and steel manufactures, particularly tools, hardware, scientific instruments, cutlery, domestic wares and utensils, cement plates and other jewelry, electrical machinery and appliances, paints, pigments, colors, and varnishes, toys, paper manufactures, and particularly in aluminum manufactures (in which Germany holds first place), malt beverages, chemicals and drugs, etc.

French competition, although apparent in many lines is not serious except in the conventional and accepted lines of perfumes and toilet soaps, wines and distilled liquors (French wines lead all others), scientific instruments, silk, and silk manufactures.

Italian wines are prominent imports into Nicaragua, but otherwise Italian goods in only small quantities enter the country.

Japanese activities in Nicaragua are more limited than in some of the other countries, like Guatemala, Salvador, and Panama. Japan sends some metals, some cotton manufactures, small quantities of glassware, and manufactures of leather, offering, as elsewhere in Central America, the greatest competition in manufactures of silk, both cloths and clothing.

Thus we find foreign competition in Central America active and general, but, except in a few lines, not seriously menacing the supremacy of the United States.

AMERICAN EXPORTS TO CENTRAL AMERICA

Generally speaking, American exports to Central America have shown a tendency to increase in the last 10 years. However, Central America's dependence on a limited number of crops, and the fact that acreage is not being increased materially, restricts to a very marked degree Central America's purchasing power. Even in extremely prosperous years the per capita imports of the various countries is comparatively low. Nevertheless Central America offers an increasingly important field for investment, and with increased investments and production there will follow increased purchases abroad. The United States, because of its geographic proximity and the prominence attained by American goods, stands in a commanding position with respect to Central America and should share materially in any increase of trade of that region with the outside world.

The following table (I.3.2) shows American exports to the Central American counties, with the exception of Panama, for the period 1910-1924, inclusive. Panama is not listed because a great proportion of our exports is destined for the Canal Zone proper, whereas Panama's imports from the United States have already been listed above.

Table I.3.2

VALUE OF UNITED STATES EXPORTS TO CENTRAL AMERICA, 1910-1924

(In United States dollars)

Year	Guatemala	Honduras	Nicaragua	Salvador	Costa Rica	Total (including Panama)
1910	1 959 246	1 605 493	1 690 792	1 316 957	3 050 510	30 219 369
1911	2 431 769	2 126 014	2 475 792	2 100 713	3 410 376	33 475 583
1912	2 519 052	2 461 269	2 486 878	2 421 284	3 647 187	37 083 539
1913	3 658 587	3 168 762	2 925 807	2 389 971	3 514 908	40 220 282
1914	3 601 813	4 873 512	2 629 034	2 155 138	3 501 386	39 439 117
1915	2 769 270	5 004 443	2 087 678	2 101 966	2 413 318	33 585 728
1916	3 848 030	4 609 415	3 169 104	3 048 340	3 568 206	41 703 906
1917	5 386 277	5 692 554	4 533 613	4 392 244	3 984 854	52 517 749
1918	5 563 493	4 618 129	4 377 688	3 479 332	1 903 224	43 582 982
1919	8 391 535	7 691 928	6 694 597	5 934 418	4 920 724	58 570 911
1920	10 202 620	15 361 919	9 542 964	8 148 018	9 777 625	89 777 438
1921	6 091 660	11 673 985	3 628 068	4 546 734	4 053 937	55 084 516
1922	5 459 720	9 959 284	4 116 709	4 850 781	4 040 766	44 791 244
1923	6 314 254	11 256 928	4 989 709	5 214 250	4 835 166	56 196 693
1924	8 823 542	9 100 974	6 250 499	6 491 955	5 975 384	64 843 901

It will be observed that our total exports to Central America for 1924 were more than double those for 1910. Proportionate and even greater increases are shown for all the countries except Costa Rica and Panama. Honduras shows an increase of approximately 400 per cent in the period 1910-1924; Guatemala of some 350 per cent; Nicaragua about 270 per cent; Salvador 390 per cent; Costa Rica 95 per cent; and Panama including the Canal Zone about 28 per cent.

REGIONAL ADVANTAGES OF THE UNITED STATES

A survey of several years of exporting from the United States to Central America shows our export trade to those countries to be dominated by two principal shipping points -New York and New Orleans particularly New York. This is true even in the case of Salvador which country has no Atlantic seaboard and must receive its New York shipments either via the north (Atlantic) coast of Guatemala or through the Panama Canal. Taking the last four years of exporting for which full figures are available the following table (I.3.3) shows the percentage of the total exports to each one of the countries shipped through the various customs districts:

Table I.3.3
PERCENTAGE OF SHIPMENTS BY CUSTOMS DISTRICTS FROM THE UNITED STATES TO CENTRAL AMERICA, 1920-1923

Customs district	Costa Rica	Guatemala	Honduras	Nicaragua	Panama	Salvador
Massachusetts	1.5	a	a	a	a	a
New York	70.0	55.0	29.0	50.0	60.0	64.0
Maryland	a	a	a	a	1.0	3.0
Virginia	a	a	a	a	4.0	a
New Orleans	21.0	31.0	66.0	85.0	16.0	4.0
Los Angeles	1.0	a	1.0	1.0	3.0	2.5
San Francisco	4.1	10.0	2.0	10.0	8.0	21.0
Oregon	a	a	a	a	4.0	1.5

[a] Less than 1 per cent.

The preponderance of shipments from New York and New Orleans is obviously due to extensive transportation facilities as well as to the fact that a very large proportion of the goods imported into Central America are in a large measure manufactured in eastern United States.

GENERAL RECOMMENDATIONS FOR SHIPMENTS TO CENTRAL AMERICA

Advertising matter. When sending advertising matter to Central America it is worth while to investigate first and ascertain the amount of duties the various classes of material pay in the different countries.

Shipment of goods. It is important to remember that Central America has a general revenue tariff based to some extent on the value of the article but to a far greater extent on the gross weight of the shipment. It therefore is important to pack goods in the lightest manner possible consistent with safety.

Mixed goods consignments. In the case of consignments of mixed goods great care must be taken to indicate clearly the quantity and quality of the separate articles of such mixed consignments because otherwise the entire consignment will be assessed at the rate chargeable to the most valuable portion of its contents. If willful omission is made of the mention of the various goods the shipper is liable to a fine in certain cases. Whenever the Central American merchant makes specific recommendations on the point it is important to follow them and there should be a thorough understanding in the matter between shipper and customer.

Routing of goods. It is most important to route the merchandise properly. Goods intended for Tegucigalpa Honduras particularly heavy goods should be routed via Amapala, and not via the north coast ports. Similarly, goods intended for Managua, Nicaragua, should be shipped via Corinto on the Pacific and not the Atlantic ports, as in both cases communication is very difficult and costly and in certain instances impossible.

Language of correspondence and advertising matter. One of the greatest complaints brought against American exporters is the use of defective, meaningless, and in some cases ludicrous language, as a result of poorly translated correspondence and advertising material. In the first place, correspondence, catalogues, etc., should be in correct Spanish. However, it is better to send a correct English letter than a Spanish letter poorly written. Incorrect use of language is an indication of carelessness which may lead the Latin American merchant to conclude that he is not considered as a client valuable enough to merit the greatest care and attention. The same applies to the language of catalogues and all advertisements, and this work should be intrusted to a capable and accurate translator. Instances of this sort of shortcoming are reported almost daily, with considerable losses to the American exporter.

Honoring the claims of clients. In perhaps too many instances claims of merchants on account of shipments which have not been made according to specifications, or upon which some other legitimate claim is in order, have been ignored or disallowed by the American exporter. This will not only result in failure of repeat orders, but will create a great deal of antagonism and lack of confidence. If the market is worth cultivating, it is worth holding. Possibility of claims should be reduced to a minimum, as adjustment of such is rarely sufficient to overcome the prejudice aroused.

Extension of credits. Promiscuous extension of credits should not be indulged. While it is a fact that the majority of the Central American merchants have met and are meeting their obligations, in no case should shipments be made to new clients until their credit ability and general reputation have been investigated fully. It must be remembered that the cost of protesting drafts is very high, in addition to being a very slow, long-drawn-out process, and often results in nothing. The question of credit in export selling should be as conservatively treated as it is in domestic trade.

The fact that American business, which acquired a very large share of Central America's trade during the war, has been able to hold it in practically all lines is proof of the fact that aggressive and proper cultivation of Central American markets must necessarily *Honoring the claims of clients.* In perhaps too many instances claims of merchants on account of shipments which have not been made according to specifications, or upon which some other legitimate claim is in order, have been ignored or disallowed by the American exporter.

4. AUTOMOTIVE SALES SURVEY, GUATEMALA (1932)

From: Automotive Sales Survey for First Half of 1932 (In answer to questionnaire No. 321); Special Report (Unnumbered) submitted by Assistant J. E. Dyer, Assistant Trade Commissioner, Guatemala, Guatemala, September 17, 1932; Reports of the Commercial Attaché in Guatemala, 1928-35, Records of the Department of Commerce, Record Group 151; N.A.

FOREWORD

Every automotive dealer in this territory has been called on so that we could form a comprehensive and accurate picture of the market conditions during the first six months of 1932. The net result of the investigation only confirmed our pre-conceived opinion that the automotive market is practically non-existent at this time. It has been impossible to secure exact figures on the number of units sold in the various classes and categories. Dealers are not inclined to divulge this information as it would show to what extent their sales have declined and as a result tend to weaken their credit standing, both personally and in business.

Government statistics are not yet available on imports and it will in all probability be some months before figures can be secured. The Customhouse is very much behind on their statistical data as the classified lists for the calendar year 1931 have not been published. The 1931 imports will have to be published before anything can be done on the 1932 figures.

Under present conditions it is practically impossible to make an automotive report containing information of other than a negative nature. Due to lack of statistics and the usual informative material we are forced to submit the present report as running comments on matters of interest rather than adhering to the questionnaire.

IN ANSWER TO THE QUESTIONNAIRE

General Comments

During the halcyon days of 1927-1928 a fair average price for coffee can be said to have been $19.00 to $20.00 a quintal. The average price, to the producer, for the 1931-1932 crop will not exceed $7.00 a quintal. As the entire economic structure of the country is built on its production and sale of coffee it will be readily seen that this has been materially shaken through the drop in market value. The growers have made many economies and in some cases have been able to bring their cost of production down to a point when they are at least able to meet expenses and in a few cases to actually show a small profit. Some of the methods of economizing are of doubtful nature, however, as the maintenance of plantations and buildings is being neglected in many instances. While practices of this kind are sometimes necessary they are apt to prove expensive in the long run.

Although the growers continue to carry on the reduction in the amount of money they put in circulation has caused severe curtailment in all merchandising and general business activities. These some doubtful economies and general retrenchments have extended into almost all fields of business, the automotive being no exception.

OUTLOOK FOR ENSUING PERIOD

Prospects for sales during the remainder of this year are dismal to say the least. It is firmly believed that the only turnover that can be looked for will be in the lower medium and the low price models. Up to 1930 Guatemala was not a good market for cheap automobiles. One of the things noticed by most new comers was the surprising proportion of high priced cars. The trend since that time has taken the demand through all classes to its present low level.

Many owners of expensive cars have placed them in storage as they cannot afford to pay the operating and maintenance expenses. Some of these are turning to small cheap cars while others are doing without personal transportation. Another factor which has influenced the market is the street work that has been done in the last two years. Within this period many of the principal business streets have been paved making it possible to ride in light cars with much more comfort than was possible formerly. During the time that all streets were still cobble or flagstone the riding qualities of heavy cars as against the light models was far superior. The apparent difference tends to diminish, however, with road and street improvement.

Stocks of new cars have fallen almost to the vanishing point. In fact there are some dealers who do not have even a single model for demonstration purposes, and are attempting to make sales from printed literature. Other dealers have one or two on their floors and the largest stock we have been able to locate was six cars, two of which were hangovers from the 1931 models.

A few trucks were sold during the first three or four months of this year. There were in most cases chassis only and were destined for bus service with locally made bodies. Sales were practically nil the last two months, and will probably remain at the same level until late November or December when some improvement might take place.

Motorcycle sales, if any, have been so small that these may be disregarded. No prospects for improvement in the near future can be seen at this time.

Sales of service appliances are expected to be small as the field has been well covered. In fact present garage and service station equipment is thought to be far in excess of the requirements.

The turnover in replacement parts has not come up to expectations. It had been supposed that this branch of the trade would show an actual increase due to the number of old models which have been kept in service. Sales, although far from reaching the looked for volume have not declined to the extent of affiliated lines.

Dealers inform us that owners are doing everything possible to postpone the day when parts must be replaced. Formerly battered fenders gave way to new ones. Now they are straightened, patched and painted until they will no longer hold together. Noisy differentials and transmissions are left to run until the last crash and grind has been squeezed from them. Pistons are allowed to slap and valves blow by until there is insufficient compression to run the cars, and when this point is reached many of them are laid up with the hope that the day will eventually come when their owners havesufficient means to have them overhauled and placed in service again.

5. MONTHLY BUSINESS REPORT ON GUATEMALA (1933)

From: Monthly Business Report; Economic and Trade Notes No. 16; Submitted by George Curtis Peck, Commercial Attaché, Guatemala, Guatemala, January 24, 1933; Reports of the Commercial Attaché in Guatemala, 1928-1935; Records of the Department of Commerce, Record Group 151; N.A.

MONTHLY BUSINESS REPORT

FORWORD: There is gloom in Guatemala as they meet the current *año*, for the *vista's muy mala* and the country *hace daño*; and the only chap charlante whom we've known to cut a caper is the guy *negociante* -see remarks, our caption, "PAPER". So, with *lengua* quite unguarded, if on *tela* or *tabaco*, all our contacts' talk is larded with "*Caramba*!" and "*Carajo*!"

El cafe has hit the bottom; *los guineos* droop and drizzle; *carreteras*? haven't got'em; *el comercio's* a fizzle. *No hay* lack of woman's wailing; *falta mucho* sound statistics; and the presidential failing is *piensa en ballistics*.

Not a *crédito* is flowing; not a *deudor* is *listo*; not a *quetzal* paid that's owing by the government- *no pisto*.[1]

So we're filing this *informe* more or less *salvar* our faces; *ya* we're thinking *cuán enorme UNO NUEVE TREINTA TRES* is.

ELECTRICAL: Kilowatt-hour consumption of electrical current in Guatemala City decreased nearly seventeen per cent in 1932 compared with 1931 (Actual K-h for publication, was 16 285 247 and 13 951 601). The three largest individual consumers of current are the Brewery, the Novella Cement Company, and the Mariscal Water Supply Company. The Brewery output for the year is reported to have been 50 per cent below normal. Due to an almost cessation of construction the cement plant output decreased lamentably, while the amount of current used by the water company recorded a slight decrease. A consumers' strike early in the year also reduced the amount of current used. Following the strike a reduction in the cost of current to consumers was granted. The Empresa Guatemalteca de Electricidad does not look for any appreciable increase in current consumption for 1933. Preferred stock dividends are being paid, but payment on common stock has been discontinued.

DRUGS AND CHEMICALS: Dealers in drugs and chemicals report 1932 as an extremely bad year. Sales are said to have been only some 30 to 20% of the volume of previous good years. Heretofore, when business was brisk, the tendency was toward overstocking. Latterly, however, stocks have been allowed to decrease until now many of the larger dealers are considerably understocked. This would normally be taken to indicate renewed activity in buying. Unfortunately this does not hold true at present, as replacement supplies are purchased in extremely small lots -from hand to mouth- and even so, the dealers are finding themselves hard pressed to make payment.

It is feared that, as a result of the recent legislation governing the importation and handling of drugs, medicinal products and pharmaceutical specialties, the American manufacturer is in danger of losing ground in this market. The Germans, America's chief rival in the drug and chemical field, appear more willing to comply with any and all legal requirements as to the registration of their products, and do this without protest, in many instances -at an actual monetary loss- but they are firmly entrenched. No detail is too small to receive their promptest and most scrupulous attention. In this respect the American exporter is inclined to be more lax, and in the present case this attitude may cost American drug and chemical exporters the supremacy, which they have heretofore held, in this line in Guatemala.

PAPER: As a direct result of the Government's strenuous efforts to cope with the Cigarette Paper situation by means of a general tightening up on the importation of all kinds of paper which could conceivably be used in the making of Cigarettes, we are informed by one of the principal paper dealers in this city that his sales of high-grade American Toilet Paper have recently increased by some 2 000 per cent. Toilet Paper having so far apparently escaped the vigilance of the Authorities.

[1] Guatemalan colloquialism for cash.

In this connection it may be noted that both the roll and block Toilet Paper are equally in demand. Requests have been received, by the dealer mentioned above, that he endeavor to obtain block Toilet Paper without punched holes, such as are often made in this kind of paper for hanging on hooks.

PAINTS: Only one firm in Guatemala City, handling paints, appears to have maintained sales at about normal (Leon Guttman). All the others report poor business. Stocks on hand of ready-mixed paints are more than sufficient to meet immediate requirements. Two or three firms report almost no movement in the last six months. The situation is due to lack of construction and postponement of repainting on the part of owners of buildings the rentals of which have markedly decreased and in some instances are uncollectible.

Ready-mixed paints for interior and exterior use, 12-14 pounds to the gallon, and retailing at from $1.15 to $1.50 a gallon, and cement paints, continue to fill the demand. Orders are being placed this month for cement paints and bitumen plastics for use on corrugated iron roofing, to be used before the arrival of the rainy season.

AGRICULTURAL MACHINERY: The market for agricultural machinery is practically at a standstill. Prices of agricultural products are so low that farmers are unable to buy new machinery, and are having to patch up their old implements or go without. Another important factor in this connection is that wages have decreased to such an extent that it proves cheaper to employ manual labor than machinery. In this connection it may be noted that not only have wage rates been lowered, but gasoline has shown a steady increase in price during the past several years due to additional taxes. Furthermore, and as a direct result of cheap labor, machinery and implements are lying idle on many farms and may be bought for a mere song.

Still another reason for the extremely depressed condition of the market is that many farmers have abandoned large tracts of their cultivation on account of the very limited market for their produce, and are merely raising enough to give them a living since any surplus is so often sold at a loss.

IRON-STEEL HARDWARE: In addition to the abnormally depressed state of the market, American goods in the iron-steel hardware lines are being subjected to the keenest competition from European sources. Belgian iron and steel products particularly are taking advantage of the present exchange rate, and as they quote Pounds Sterling they are able to undersell American products and, for the present at least, practically control the market for these commodities.

A large proportion of the shelf hardware entering this market from foreign sources is manufactured by American branch factories abroad, which taking advantage of cheap labor, low freight rates, and the exchange, can underquote the American home factory's prices in this market.

Hardware dealers are feeling the pinch probably more than dealers in other lines as they are so situated that they must carry large stocks of slow moving but expensive articles. Many of the dealers complain that they are unable to move merchandise which they bought several years ago, as the prices they can obtain today are considerably lower than the cost of the articles when they were bought.

COFFEE: According to information secured from our best contacts in the coffee exporting business, Guatemala's 1931-1932 coffee exports ending September 1932 amounted to 88 063 450 lbs. Monthly shipments are as follows:

December 1932 coffee exports amounted to 93 498 sacks or 13 375 085 lbs., of which 59 252 sacks went to Europe and 34 246 sacks were consigned to the U.S. Comparative figures for last year were: Total shipments 99 416 sacks; Europe 81 586; and U.S. 17 830. For the first three months of the 1932/1933 crop, namely October, November, December, the shipments amounted to 203 812 sacks. Of this Europe took 119 513 sacks as against 84 299 sacks shipped to the U.S.

Table I.5.1
GUATEMALA: COFFEE EXPORTS, 1931-1932

		Lbs.
1931	October	726 480
	November	6 202 460
	December	14 172 070
1932	January	14 996 960
	February	14 537 830
	March	12 345 990
	April	10 137 350
	May	7 794 500
	June	3 508 995
	July	1 632 310
	August	1 074 690
	September	933 815
	Total	**88 063 450**

The new crop has started off very well as to quantity as compared with last year, the figures for which are as follows: Total shipments during October, November, and December 1931: 147 693 sacks; Europe took 123 711 sacks of this total, and the U.S. took 23 982. It will be noted that the U.S. is taking a much higher percentage of the whole so far this year. This we believe can be attributed to the Brazilian trouble, and as this now appears to have eased up somewhat, it is highly problematical whether the U.S. will continue to take so much of Guatemala's crop in the new year.

TOBACCO: The Tabacalera Nacional (British American Tobacco Co.) reports cigarette production off 75% in volume and 50 per cent in value for 1932 compared with normal years. This was in part due to increased taxes but chiefly to depressed conditions. The company for the past six months, has been using a monthly average a little short of 20 000 pounds of tobacco classified as follows:

Table I.5.2
BRITISH AMERICAN TOBACCO COMPANY: MONTHLY AVERAGE USE OF TOBACCO, FIRST SIX MONTHS OF 1932

	Lbs.
American:	
Virginia	1 800
Burley	200
Turkish	60
Native (so-called) about 50% Honduran	17 500
Total	**19 560**

Stocks on hand at present of native tobacco are sufficient for two and one-half years; imported, four months, at present rate of production. Indications and expectations are that the company's production for 1933 will be 20 per cent below that for 1932 unless some unforeseen change for the better occurs.

PROFESSIONAL: The professional gentry of Guatemala have suffered, in common with commercial and industrial interests as a result of the depression. Dentists and doctors report 1932 business as being from 20 to 25% of that done in normal times. One of the leading dentists in Guatemala City states that his business in December netted him but $12.00.

Lawyers say there is considerable business available if one wants to sue bankrupts and collect no fees. The technical professions are particularly hard hit because of lack of construction and other activities requiring their services. With the exception of two or three who specialize on army uniforms, tailors are barely existing.

In the departments business is reported to be almost at a standstill. Two firms have moved from Quezaltenango to Guatemala City. The Retalhuleu Electric Company has accounts long overdue from the municipality.

6. ECONOMIC AND FINANCIAL SITUATION OF COSTA RICA (1932)

From: Economic and Financial Situation of Costa Rica; Despatch No. 1 148 from Legation of the United States of America San José, Costa Rica, to Secretary of State, Washington, October 17, 1932; 818.51/546; Central Decimal Files 1930-39, RG 59; N.A.

LEGATION OF THE UNITED STATES OF AMERICA

San José, Costa Rica
October 17, 1932

ECONOMIC AND FINANCIAL SITUATION OF COSTA RICA

The Honorable
The Secretary of State
Washington

Sir:

I have the honor to forward herewith a comprehensive and detailed memorandum prepared by Mr. Werlich, Secretary of this Legation, on October 14, 1932, in respect of the economic and financial situation of Costa Rica. The purpose of this memorandum is to give a faithful picture of conditions as they are today. No attempt has been made to discuss the commercial situation of the country, the latter being in the scope of the Consular establishment at this capital.

Respectfully yours,

(signed)

CHARLES C. EBERHARDT

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Enclosure.
1. Memorandum.
McCW/BZ

American Legation,
San José, Costa Rica,
October 14, 1932

MEMORANDUM

ECONOMIC AND FINANCIAL SITUATION OF COSTA RICA

It is unsatisfactory to make any comparisons with other countries when discussing the financial and economic situation of Costa Rica. This statement is based on the peculiar social organization of the Republic, a country of small proprietors where the standard of living is fairly low and where climatic conditions are such as to reduce the essential comforts to a minimum. Moreover, it is dangerous to deal at any length with official figures. Published official statistics are always far behind and when obtained by request are generally incomplete; voted budgets are rarely permanent or effective. The demands of the populace vary according to income –luxuries, the most common are a $12 hat or a pair of store shoes for a barefooted peon– are seized upon avidly or foregone without murmur.

It is estimated that governmental income will amount to ¢20 000 000 during the present calendar year, whereas expenditures, exclusive of the service on the foreign debt, will nearly equal that amount. A moratorium, or at least a three-year deferment has been made effective on one important foreign bond issue (American 7%, 1926 - $7 284 000) and a similar operation is now being concluded for another important issue (British 5%, 1911 - approximately $7 000 000). It is estimated that the national indebtedness amounts to $31 579 000 (foreign $24 330 000, domestic $7 249 000) for the country's 500 000 inhabitants, or $63.16 per capita and that the Government's present annual interest charges are $1 230 000.

Costa Rican foreign commerce for recent years is as follows:

Table I.6.1
COSTA RICA: FOREIGN TRADE, 1930-1932

	Imports	Exports
1930	$10 846 600	$16 333 100
1931	8 689 900	15 042 000
1932 (estimated)	7 000 000	12 500 000

In foreign trade, Costa Rica was very prosperous for a number of years –until the end of 1929– when the world economic depression had its reaction. Coffee (Costa Rica's most important export item) prices declined and purchases slowed up. Banana shipments declined rapidly due to exhaustion of the soil-and decreased purchasing power in former markets, as well as to tariff barriers in Europe; the world's cacao market has gone to pieces. The outlook for an improvement in export receipts is not bright. The demand for local coffee, a high-priced product, has failed through European depression with a corresponding decline in national income as well as in the governmental revenue from the $1.50 per bag (70 kilos) export tax.

The cheaper grades of Costa Rican coffee have just been subject to a mild boom through a demand from the United States. This demand is due to the diminished Colombian exports and possibly to some extent to the general upping of coffee prices in the United States through the São Paolo revolution of the last few months. However, Costa Rica was only able to replace Colombia due to the low levels to which its best grades of coffee had been forced through depression. Whether Costa Rican coffee can hold its recent position in the American market is doubtful; and, with today's purchasing power in Germany and Great Britain, it is questionable whether the high grade coffees will be able to command sales even at further reduced prices.

It cannot be said that export prospects for Costa Rica appear bright for the next few years; no reason occurs for an improvement in the banana market or the coffee market,and in fact it is probable that coffee prices will go even lower. If Costa Rica can dispose of its agricultural products abroad, regardless of the price, there will be some margin of profit. Coffee plantation workers up to 1930 and in some cases through 1931 received from 60 to 75 U.S. cents a day, and plantation owners left the management of the affairs in the hands of overseers. Today, the laborer gets along without discomfort on 33 cents a day and the owner administers the estate.

During coffee boom days, farms were bought, through mortgage loans with the governmental banks, at high prices; city houses were acquired under the same scheme. It is probable that only in rare cases will these purchasers be able to earn sufficient profit on their holdings to maintain the services on their mortgages and, that therefore, in spite of past or future mortgage facilities such as semi-moratoria, many of these holdings will revert to the Government banks in lieu of funds.

The present currency circulation of the Government is slightly under ₡26 000 000 of which ₡22 816 000 are paper issues of the Banco Internacional, and the feasibility of further increases seems questionable.

Economic and financial morale has been improved slightly since the inauguration of the Ricardo Jiménez regime during the past month of May. President Jiménez has surrounded himself with some capable assistants, such as Minister of Finance Carlos Brenes (Ortiz). The latter is not an experienced financier, but he has a hard-headed determination which, coupled with the personal ascendancy of the President, injects confidence into the country. This confidence has been bolstered, temporarily at least, by the successful negotiations for a three-year suspension of services on the American 1926, 7% issue, and the prospects of a similar suspension on the British 1911, 5% bond issue.

President Jiménez has not, as yet, effected the drastic governmental economy which had been expected of him; on the other hand, he has succeeded so far in staving off further major raids on the Treasury, such as extensive public works programs. Finance Minister Brenes is using the savings effected through the suspension on the American loan for cleaning up minor obligations, such as the dollar advances by foreign banks and services on smaller bonded obligations.

The Costa Rican bankers and exporters have not made the way too smooth for the Government or for the country's credit. They refuse to make available locally their gold credits from abroad at the "pegged" exchange rate established by the National Exchange Control Board. The country and the Government constantly face a gold shortage which might be alleviated if valuta holders were willing to place exchange at the country's disposal. Active steps are now being initiated by the banks whereby the sway of the Control Board will be lessened in the belief that gold assets will then be made available.

At the beginning of this memorandum mention was made of the social element. No concern need be felt for the welfare of the average Costa Rican. On the other hand, the future for the finances of the Government cannot be bright for many years, and it would seem that even with the most perfect financial administration, the securities issued or guaranteed by the Costa Rican State are quoted today far above their true value.

(signed)

McCENEY WERLICH
Secretary of Legation

McCW/BZ

C. 1945-1960: **The Postwar Era**

7. FINANCIAL SITUATION OF NICARAGUA (1947)

From: Financial Situation in Nicaragua - Report by IMF Mission; Office Memorandum, U.S. Department of State to CPA: Mr. Reid, Mr. Barber and ARA: Mr. Woodward, Mr. Daniels from CPA: Mr. Heins; December 12, 1947; 817.51/12-1247 CS/A; Central Decimal Files 1945-49, RG 59; N.A.

CONFIDENTIAL Declassified NARA

Office Memorandum UNITED STATES GOVERNMENT

DATE: March 16, 1949

TO: CPA: Mr. Reid,
Mr. Barber
ARA: Mr. Woodward
Mr. Daniels
FROM: CPA: Mr. Heins

SUBJECT : Financial Situation in Nicaragua - Report by IMF Mission

The attached correspondence from Managua relates to the study made by a Mission from the International Monetary Fund which was in Nicaragua from February 2 to February 25.

The Mission claims to have found evidence of irregular and dishonest practices by high Nicaraguan officials. It has made specific recommendations to the Nicaraguan officials with respect to action to be taken in order to bring some order out of the present chaos. The situation is allegedly so serious that the Fund's representatives found it necessary to be brutally frank with the Nicaraguans. They apparently found Ambassador Sevilla Sacasa less able or less interested in the problem than the other Nicaraguans with whom it was discussed.

Nicaragua's general financial situation has been growing steadily worse during the past several years. With no slackening of imports and the current very poor coffee crop, it has now reached a very critical stage. About two years ago the government obtained a well secured loan of $4 000 000 from the Bank of America. In October 1948 it arranged a $500 000 credit from the International Monetary Fund to be repaid by May 1949, and also obtained a contingent promise for $500 000 additional credit to be extended shortly. The first credit is still outstanding and the second credit did not materialize because Nicaragua did not take remedial measures satisfactory to the Fund.

It is understood the IMF Mission has made the following recommendations:

1. Immediate steps should be taken to balance the national budget and to stop the deficit financing of the government's operations..

2. All deposits made by importers against approved import permits should be transferred to the Issue Department of the National Bank of Nicaragua and should be frozen.

3. No further expansion in the credit being granted by national banking institutions of Nicaragua.

4. That import permits hereafter be authorized only with official exchange, to a monthly total of not exceeding in the neighborhood of $800 000. That imports be classified as essential, non-essential, or luxury. That the Import and Exchange Control Board be completely reorganized.

Although by March 4 Nicaragua had made no over-all decision concerning the Mission's recommendations, certain isolated steps had been taken. Press announcements on March 3 stated it would be necessary to curtail government expenditures. Similarly, statements on February 28 and March 2, announced (1) a change in the approving agency for applications for import permits and exchange; (2) no further import permits would be issued on an importer's own fund basis; and (3) no further permits of any kind would be issued pending the completion of a careful study of the whole problem of the balance of payments.

CONFIDENTIAL

ARA:CPA:FGHeins:paf

8. THE INTERNATIONAL MONETARY FUND VISITS NICARAGUA (1953)

From: Consultation of International Monetary Fund Officials with the Government of Nicaragua; Foreign Service Despatch No. 79 from AmEmbassy, Managua to the Department of State, Washington, August 19, 1953; 817.10/8-1953; Central Decimal Files 1950-54, RG 59; N.A.

Air Pouch **UNCLASSIFIED**

FOREIGN SERVICE DESPATCH

FROM:	AmEmbassy, Managua	Desp. No. 79
TO:	THE DEPARTMENT OF STATE, WASHINGTON	August 19, 1953
REF:	CERP, October 22, 1952, Section D-6	
SUBJECT:	Consultation of International Monetary Fund Officials with the Government of Nicaragua.	

In accordance with Article XIV of the IMF statutes (which provides that member countries which maintain exchange restrictions incompatible with the IMF Agreement shall consult each year with the IMF for a review of such restrictions) a group of IMF officials arrived at Managua last week and held discussions with key financial authorities of this country. Nicaraguan officials who participated in the talks were the Minister of Economy, Dr. Jesus **Sanchez** R.; the Minister of Finance, Dr. Rafael **Huezo**; and the Superintendent of Banks, Dr. Luis **Cantarero**. Dr. Enrique **Delgado**, executive director of the IMF who happened to be in Nicaragua at the time, also participated in the consultations. The IMF delegation included Luis Eduardo Laso, Chief of the Latin-American Division of the IMF, and Messrs. Albert Mattera and Edison Zayas, both economists.

A review was made of Nicaragua's financial-economic situation of the year gone by, and it is understood that the following conclusions emanated from the discussions:

1. The international reserves of Nicaragua have experienced a satisfactory rise during the past two years. If the rate of increase prevails, reserves soon will reach a level to assure the country a stable currency without resorting to a system of preferential exchange rates, exchange surcharges (**recargos cambiarios**), or prior deposit of cordoba equivalents with import license applications.

2. Nicaragua has been able to operate on a balanced budget despite increased payments for an expanded public works program and other economic development projects. With planned fiscal reform measures and placing in effect the new customs tariff rates now under study, the current equilibrium of the nation's receipts and payments should be maintained without the necessity of resorting to a system of preferential exchange rates for international payments nor the system of exchange surcharges now in effect.

3. With adequate international reserves and a balanced budget, the value of the Nicaraguan cordoba in foreign markets can be maintained through a continued and discreet credit policy in which the banks grant commercial credits within limits of the country's possibilities. At the same time, an effort should be made to channel savings for purposes of increased productivity. Only so long as commercial credit is maintained within adequate limits will it be possible to eliminate gradually the requirement of prior deposit on payments for imports.

4. Plans which the Government of Nicaragua has formulated on foreign exchange matters adequately consider the above-described situation.

In view of the foregoing, recommendations to the government relating to its exchange policies, in synthesis, were as follows:

1) When drafting the 1954/55 national budget, payments in foreign currencies should be calculated at a uniform rate. The uniform rate should also apply to private, commercial, industrial, and agricultural transactions.

2) Expedite completion of the revision to the customs tariff so that exchange surcharges (**recargos cambiarios**) may be eliminated gradually. This will enable the calculation of customs duties at a single exchange rate to be established.[1]

3) In accordance with this governmental program, the 1953/54 national budget shall be the last budget which contemplates a system of preferential exchange rates for government transactions.

4) The government, at the earliest possible date, shall draft provisions for the regulation of commercial credit towards maintaining an equilibrium in its balance of payments, and the stabilization of its exchange.

Though it refers to a "loss of sovereignty over its financial affairs", the government newspaper "Novedades" in an editorial of August 18, 1953, lauds the work of the IMF stating that an examination of the country's financial situation by impartial and technical persons completely disassociated with internal politics is highly beneficial. The editorial adds that "the IMF in its conclusions, implicitly endorses the system of exchange restrictions, surcharges, etc. heretofore in effect". A forecast is made of the "dawn of a new era" in the nation's exchange policies.

Reference is made also to the fact that the aloofness of local capital to develop the nation's productivity is not exclusively a Nicaraguan fault but a Latin American problem in general. An ECLA report is cited as a basis for the statement.

For the Ambassador:

James Maish, Jr.
Economic Officer

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[1]There is considerable speculation in Nicaragua as to what the single exchange rate may be—ranging from 7 to 8 cordobas to the dollar. The announced possible single rate has had a quieting effect on curb market dollar *vis-à-vis* cordoba rates which on August 19, 1953 was reported at 7.50/US$1.00.

9. A SURVEY OF ECONOMIC CONDITIONS AND POLICIES (1956)

From: U.S. Department of Commerce, Bureau of Foreign Commerce, American Republics Division, *Investment in Central America: Basic Information for United States Businessmen*. Study prepared by firm of Albert O. Hirschman and George Kalmanoff, Economic Consultants. (Bogotá, Colombia, December 1956), pp. 11-27 and 35-37.

CHAPTER II The Land and the People

GEOGRAPHY AND CLIMATE

The five countries of Central America comprise an area of 170,258 miles, nearly one-tenth larger than the State of California. In length, this body of land from the northern corner of Guatemala to the southern tip of Costa Rica covers a distance of almost 900 miles, but its width from any point on the Pacific coast to the Caribbean never exceeds 230 miles and narrows to as little as 70 miles in Costa Rica. Guatemala City is situated roughly due south from New Orleans and St. Louis, and San José, Costa Rica, is due south from Detroit.

Nicaragua is the largest of the five countries and Honduras and Guatemala, which are about equal in size, rank next. The area of each country is as follows, in square miles: Nicaragua, 57 143; Honduras, 43 277; Guatemala, 42 085; Costa Rica, 19 695; and El Salvador, 8 058.

Costa Rica is less than one-half as large as Guatemala, and El Salvador, one of the world's smallest countries, is less than one-half as large as Costa Rica. El Salvador alone of the five countries does not have an outlet to both the Pacific and the Atlantic Oceans. Guatemala's Caribbean coastline is very short and Honduras has only a narrow Pacific outlet; Nicaragua and Costa Rica have long coastlines on both oceans.

The entire area is traversed by rugged mountain chains descending from Mexico. These mountains rise abruptly from a relatively narrow Pacific coastal plain, from which they are set off by a great number of volcanoes -about 100 major ones, many of which are active- extending the entire distance from Guatemala to Costa Rica. Toward the Caribbean the mountains descend much more gradually and give way to large river valleys, particularly in the region extending from eastern Honduras to Costa Rica. Guatemala, El Salvador, and Costa Rica have broad plateaus, but in Honduras and Nicaragua the mountains are so rugged as to leave only small stretches of level land, except for the tropical plains bordering on the sea.

Central America lies in the tropical zone at a latitude between 8 and 18 degrees north of the Equator. Consequently, temperatures are determined primarily by elevation above sea level, and month-to-month variations in average daily temperatures are small. It is hot the year around in the low-lying coastal areas and river valleys; pleasantly warm during the day and cool at night at elevations between 3 000 and 6 000 feet, the altitude at which Guatemala City, Tegucigalpa, and San José are situated; and progressively colder at higher elevations. The zones in which these three types of climate prevail are commonly known, respectively, as "tierra caliente" (warm lands), "tierra templada" (temperate lands), and "tierra fría" (cold lands).

Because of the even temperatures throughout the year, the seasons are designated by variations in rainfall. The dry season or "verano" (summer) extends from November through April and the rainy season or "invierno" (winter) from May through October. These seasons are quite pronounced on the Pacific coastal plains and the adjoining mountain areas, where virtually no rains fall during the summer months. Rainfall is much heavier and much more evenly distributed throughout the year all along the Caribbean coast.

As a result of these climatic conditions, the principal centers of economic activity and population are situated closer to the Pacific Ocean than to the coastal plain itself, but more generally they are found on the high plateaus which lie immediately beyond this plain; as a matter of fact, the pleasant and healthful climate of these plateaus, often referred to as "eternal spring," has in some areas led to an excessive concentration of population in limited areas and to a neglect of opportunities in the warmer zones.

The potentialities of the rich volcanic soils of the Pacific coastal plain for large-scale mechanized agriculture have only recently been exploited in multiplying the output of cotton, a crop that needs a long rain-free growing season and is therefore particularly suited to the climatic conditions found in that section. With irrigation a great number of other tropical crops can be grown in the region, as is evidenced by the fact that several successful plantation ventures have been started by foreign capital.

Because of the heat, heavy rainfall, and constant humidity, combined with generally poorer soils, prevailing along the Caribbean, it has been more difficult to incorporate the Atlantic coastal plains and river valleys into the national economies, and over wide areas the only important activity is the exploitation of tropical rain forests for their lumber resources. In several regions, however, banana and other plantations have been developed successfully. For example, Honduras' economically most active area is located near the Caribbean Sea, in the Sula Valley.

POPULATION

The total population of the five Central American countries amounted to nearly 8 million people in 1950, when a general population census was taken in all of the Americas. Because of the rapid natural increase in population, the five countries registered an approximate total of 9.1 million people at the end of 1954 and are likely to have 10 million in 1957 (see table I.9.1).

Table I.9.1

POPULATION AND RATE OF INCREASE, BY COUNTRIES

Country	1950 census (thousands)	End of 1954 [a] (thousands)	Annual rate of increase [b] (percent)	Inhabitants per square mile 1950
Guatemala	2 788	3 191	3.0	66.2
El Salvador	1 856	2 158	3.4	230.3
Honduras	1 428	1 605	2.9	33.0
Nicaragua	1 057	1 223	3.3	18.5
Costa Rica	801	933	3.5	40.7
Total	**7 930**	**9 110**	**3.1**	**46.6**

[a] Estimated.
[b] Average 1950-54.

Growth

An exceptionally rapid rate of population increase is one of the outstanding characteristics common to all five countries of Central America, with Costa Rica, El Salvador, and Nicaragua having a slightly higher rate than Guatemala and Honduras. The average annual increase for the area of more than 3 percent is one of the highest in the world. The average rate for Latin America as a whole is about 2.5 percent and the rates are substantially lower in other underdeveloped areas, as well as in industrial countries. In the United States the rate has averaged about 1.5 percent in recent years.

The rapid growth in population has been caused by a decline in mortality resulting from better health and sanitation, and a continuing high birth rate. Thus far no country has experienced a decline in the birthrate. For the immediate future, it may be assumed that the rate of increase will at least be maintained at the present level, since there is still considerable room for a reduction in mortality rates. This would mean that the population of the area would double in 23 years and would total about 20 million people in 1980.

Distribution and Density

The population decreases from country to country from north to south. Guatemala is the most populous country, with more than 3 million people, followed by El Salvador with about 2 million. Honduras has a population of more than 1.5 million, Nicaragua about 1.25 million, and Costa Rica slightly less than 1 million.

With respect to population density, El Salvador ranks first, in 1950 having had 230 people per square mile of territory, one of the highest figures in the world. The average density of population of the other four countries is quite low, ranging from 66 inhabitants per square mile in Guatemala to 18.5 in Nicaragua.

In evaluating these ratios, however, one must not forget that large areas of the countries are virtually uninhabited. For example, in Guatemala, the Province of Petén, which comprises one-third of the country's total area, has only about 20 000 people. Similarly, in Honduras, the northeastern departments comprising the region known as Mosquitia account for more than 40 percent of the national territory but have less than 10 percent of the population. In Nicaragua, the whole eastern two-thirds of the country is thinly populated; and in Costa Rica, large tracts of territory along the Atlantic and the Pacific, as well as along the country's northern border with Nicaragua, are sparsely populated.

Most of the uninhabited regions are low-lying and covered with tropical forest, and boats and airplanes are the only means of transportation. As in other tropical countries of Latin America, the population has had a tendency to concentrate in the highlands, because of the pleasant climate and the lower incidence of disease. Heavy concentrations of population are thus found in the Guatemalan highlands, which range from 3 000 to 7 000 feet, and on the central plateau of Costa Rica, which averages about 4 000 feet in altitude. In El Salvador, most of the people live in areas some 2 000 feet above sea level.

An important variation of this tendency is found in Nicaragua, where the highest concentration of population is in the country's western plains, almost at sea level. Similarly, in Honduras, considerable agricultural and commercial, and some industrial, activity has developed in the low-lying Sula Valley in the country's northwest. This is a relatively recent development, however, and most of the rural population still live at higher elevations; and the country's capital is also located at a higher altitude.

In view of the rapid population growth and the high densities in the highland areas, one of the principal tasks of the Central American countries is to pen up for colonization and settlement some of the large areas in the tropical lowlands. Experience already has proved that these regions are capable of yielding rich crops, not only in bananas, but also in sugarcane, African palm, cacao, abacá, and tropical fruits.

Races, Language, and Literacy

Racially, Central America offers many interesting contrasts. In most of the area, particularly in El Salvador, Honduras, and Nicaragua, the native Indian population was absorbed by the Spanish conquerors through intermarriage, resulting in a fairly homogenous "mestizo" population whose language is Spanish. In Guatemala, however, large native Indian groups have maintained themselves in isolation from Western influences and more than one-half of the country's population still follows its old customs, speaks a variety of Indian dialects, dresses in colorful tribal costumes, and has little contact with the outside world. Costa Rica's people have a relatively minor admixture of Indian blood since the country was sparsely populated at the time of the Spanish conquest.

The racial picture is further complicated by the presence on the Caribbean coast all along Central America of many Negroes who were brought in from the islands in the Caribbean during the early development of the banana plantations and railroads. Their language is mostly English, partly because they come from the British West Indies and partly because of the long domination by Great Britain of long stretches of Central America's Caribbean coastline.

The native language of the largest segment of Central America's population is Spanish, but a considerable percentage of this population cannot read or write. Illiteracy among persons over 10 years of age is 50 percent or higher in all of the countries except Costa Rica, which has made primary education widely available and has been able to reduce illiteracy to the comparatively low figure of 20 percent.

Costa Rica's efforts to provide education have been aided materially by the fact that it has a high concentration of population in a small area with good communications. Illiteracy is particularly high in the remote mountainous areas where subsistence agriculture prevails. In these regions, illiteracy reflects not only inadequate educational opportunities, but also poor transportation facilities and depressed economic conditions in general.

Urban Centers

Among the capitals of the five countries, Guatemala City, with more than 300 000 inhabitants, is the largest. Tegucigalpa, the capital of Honduras, is the smallest, with less than 100 000. Between these extremes are San Salvador with more than 200 000 people and Managua (Nicaragua) and greater San José (Costa Rica) with about 150 000 each. The capitals are the administrative, political, and cultural centers of their respective countries. They are also the principal centers of commerce, industry, and transportation, except for Tegucigalpa, which competes with San Pedro Sula as an economic center in Honduras.

In general, there are few important towns other than the capitals. Since the economies of all five countries are predominantly agricultural, the percentage of the population living in cities and towns is low. If we include all towns with more than 2 500 inhabitants we find that both Nicaragua and Costa Rica are about 27 percent urban and that El Salvador and Guatemala have the next highest percentage of urban population, followed by Honduras with only 16 percent (see Table I.9.2). The statistics for towns with more than 10 000 inhabitants confirm that Nicaragua and Costa Rica are relatively the most urbanized and Honduras the least urbanized of the five countries.

Table I.9.2
URBAN POPULATION, BY COUNTRIES, 1950

Country	Towns with more than 10 000 inhabitants		Towns with more than 2 500 inhabitants	
	Number of inhabitants (thousands)	Percent of total population	Number of inhabitants (thousands)	Percent of total population
Guatemala	350	12.5	630	22.6
El Salvador	321	17.3	478	25.8
Honduras	135	9.5	224	15.7
Nicaragua	201	19.0	289	27.4
Costa Rica	150	18.8	220	27.5

Guatemala's percentage is relatively high on the basis of towns of more than 2 500 inhabitants only because of the agglomeration of its Indian population in many small highland towns. The fact that urbanization in El Salvador is not higher than in the other countries, in spite of its high population density, indicates considerable overpopulation in rural areas.

OCCUPATIONS AND INCOME

The occupational distribution of the population shows a similar, but not identical, trend in all five countries. Everywhere agriculture occupies more than one-half of the economically active population, but the percentage varies from barely more than one-half in Costa Rica, to approximately two-thirds in El Salvador and Nicaragua, almost 75 percent in Guatemala, and more than 80 percent in Honduras. Industry occupies about 12 percent of the economically active population in all of the countries except Honduras, where its share of the total is only about 6 percent.

The percentage of persons occupied in other activities, such as building, commerce, transportation, Government, and services, varies considerably from country to country. Here, Costa Rica appears to be far in the lead, followed by El Salvador, Nicaragua, Guatemala, and Honduras, in that order.

Occupational distribution of the population and national income are presented, by principal economic sectors, in Table I.9.3. These statistics show for all countries a far lower contribution of agriculture to the national income than might be expected on the basis of the occupational statistics. This situation is due to the low productivity of agriculture as compared with such pursuits as industry, commerce, and service.

Table I.9.3
DISTRIBUTION OF ECONOMICALLY ACTIVE POPULATION[a] AND NATIONAL INCOME,[b] BY COUNTRIES AND ECONOMIC SECTORS
(In percentages)

	Agriculture	Manufacturing	Commerce	Transport and communications	Other	Total
Guatemala						
Population	73.1	12.7	3.1	.6	10.5	100.0
Income	45.5	20.5	8.5	5.0	20.5	100.0
El Salvador						
Population	63.2	11.4	5.5	1.5	18.4	100.0
Income	44.9	14.5	17.5	2.1	21.0	100.0
Honduras						
Population	83.1	5.8	1.3	1.1	8.7	100.0
Income	52.5	9.3	8.6	6.0	23.6	100.0
Nicaragua						
Population	67.7	11.4	4.6	1.9	14.4	100.0
Income	40.5	14.1	10.5	3.6	31.3	100.0
Costa Rica						
Population	54.7	11.0	7.9	3.5	22.9	100.0
Income	44.4	12.9	11.8	4.9	26.0	100.0

[a] Population data are on basis of 1950 census except for Guatemala for which only 1940 data are available.
[b] National income data are derived from information in the chapters on individual countries.

The discrepancy is particularly high in Honduras, where the 83-percent sector of the economically active population engaged in agriculture apparently produces only 53 percent of the total product. It is much smaller in Costa Rica, where 55 percent of the people are engaged in agriculture and account for as much as 44 percent of the national output.

The national product figures are not completely reliable because of the inadequate statistical information from which they were computed. However, these large differences permit the conclusion that in Honduras the productivity of the farmer is particularly low, whereas in Costa Rica the situation in this respect is far better. Agricultural productivity in the other three countries is between these two extremes, but rather closer to that of Honduras.

A comparison of total national income figures country by country is even more hazardous since, in spite of their proximity, substantial differences exist in the purchasing power of money in the respective countries. Table I.9.4 presents the best available estimates of the national income of the five countries. In spite of their limitations the per capita figures show the depressed average level of living characteristic of the underdeveloped countries. They show that, in this respect also, Costa Rica is in the lead and Honduras last, with the other countries between the extremes, but rather closer to Honduras. In chapter III the comparative position of the five countries with respect to standards of living and purchasing power is more closely evaluated, with the help of a series of consumption and import statistics, for the purpose of defining as nearly as possible the size of each country's market.

Table I.9.4
NATIONAL INCOME TOTAL AND PER CAPITA BY COUNTRIES

Country	National currency[a] (millions)	United States dollars (millions)	Dollars per capita
Guatemala[b]	558	558	180
El Salvador[c]	809	324	175
Honduras[b]	499	250	160
Nicaragua[d]	1 500	214	170
Costa Rica[c]	1 169	176	225

[a] Guatemala quetzal (1 quetzal equals $1); El Salvador colón (2.50 colones equal $1); Honduras lempira (2 lempiras equal $1); Nicaragua córdoba (7 córdobas equal $1); and Costa Rica colón (6.65 colones equal $1).
[b] 1953.
[c] 1950.
[d] 1955.

CHAPTER III Basic Economic Conditions

TRANSPORTATION

Adequate transportation is one of the most important prerequisites for the economic development of any area. The Central American countries have faced considerable natural and other obstacles in solving their transportation problems. Among the natural obstacles are the rugged topography of the area and the heavy rainfall prevailing in many sections. Moreover, the whole process of planning, building, and maintaining a modern highway, railway, or airport requires not only large outlays, but also a fairly high level of administrative efficiency and stability.

These factors help to explain Central America's lag with respect to this basic segment of the economy– in the entire area, for example there are only about 6 500 miles of all-weather roads and no more than 6 500 miles of all-weather roads and no more than 75 000 automotive vehicles or about 120 persons for each vehicle. Nevertheless, substantial progress is being achieved in transportation. Existing highways are being improved and new ones are being built with the help of international loans and technical assistance; railways are being rehabilitated; and better port facilities are being constructed. Each of the five countries now has a first-class international airport, domestic airlines have gained considerable importance as a means of connecting previously inaccessible settlements with the Provincial or National capitals. The problems of the area as a whole have been thoroughly analyzed by United Nations technical missions and joint action by the five countries to solve some of their common transportation problems may be anticipated.

The transportation systems of the individual Central American countries are dealt with in considerable detail in the country chapters. This part, therefore, will deal only with the regional aspects and the principal comparative characteristics of the transportation systems.

Railroads

The railroads consist of a number of purely national systems, the one exception being the International Railways of Central America (IRCA), whose El Salvador and Guatemala divisions are interconnected. By this means, El Salvador, which has no outlet on the Atlantic, gains access to the Guatemalan port of Barrios on the Caribbean for its import and export traffic.

Most of the railroads in Central America were built at the beginning of the 20th century by the fruit companies themselves or by groups of foreign investors closely connected with these companies. Table I.9.5 shows that more than one-half of the total mileage serves exclusively banana and other plantations. Moreover, a substantial number of the public-service railroads, such as the IRCA line in Guatemala, the Ferrocarril Nacional de Honduras, and the Northern Railway of Costa Rica, are affiliated with, or administered by, the fruit companies through long-term concession contracts with the Governments.

The nature of the banana trade, with requires close and exact timing in bringing the fruit to port and in loading it aboard ship, has led the fruit companies also to build and operate the ports which are the terminals of the rail lines. Railways other than those of the fruit companies have also constructed terminal ports, such as the British-owned El Salvador Railway Co., Ltd., which operates the port of Acajutla, and the Government-owned Ferrocarril del Pacífico of Nicaragua, which operates the ports of Corinto and Puerto Morazán.

Table I.9.5

CENTRAL AMERICAN RAILROADS, 1953

(Length in miles)

Railroad	Public service	Plantation lines	Ports operated railroads
Five countries, total	**1 400**	**1 506**	
Guatemala, total	**539**	**180**	
IRCA, Guatemala Division	510	---	Barrios and San José
Ferrocarril Verapaz	29	---	
United Fruit	---	180	
El Salvador, total	**383**	---	
IRCA, El Salvador Division	283	---	Cutuco
El Salvador Railway Co., Ltd.	100	---	Acajutla
Honduras, total	**63**	**725**	
Ferrocarril Nacional de Honduras	63	---	
Tela Railroad Co.	---	389	Cortés and Tela
Standard Fruit Co.	---	336	La Ceiba
Nicaragua, total	**217**	---	
Ferrocarril del Pacífico de Nicaragua	217	---	Corinto and Morazán
Costa Rica, total	**198**	**601**	
Ferrocarril Eléctrico al Pacífico	82	---	Puntarenas
Northern Railway	116	209	Limón
Compañía Bananera de Costa Rica	---	392	Quepos and Golfito

Consequently, the railroads have long been in a very strong position, since, with their exclusive access to the port areas, all foreign trade had to move by rail. In recent years, however, this situation has tended to change. In Guatemala the port of Santo Tomás, which is to be connected with the capital by a modern highway, was built by the Government specifically to compete with the IRCA-controlled Puerto Barrios. Other countries are using, or are planning to use, less expensive means to achieve the same end by building highways toward existing ports, such as Acajutla in El Salvador, Puerto Cortés in Honduras, San Juan del Sur and Corinto in Nicaragua, and Puntarenas in Costa Rica.

When these alternative means of moving exports and imports will have been completed, the railroads may encounter heavy competition from motor transport. Some of them, such as the Ferrocarril Eléctrico al Pacífico of Costa Rica, have recently undertaken large-scale modernization programs, primarily through the purchase of new locomotives and rolling stock.

Because of the mountainous terrain and the short hauls, rail transportation is probably uneconomic in comparison with motor transport, and no further extension of the railroad network is anticipated except for plantation purposes. Nevertheless, the existing railroads are likely to remain for many years an essential part of Central America's transportation system, connecting as they do the principal economic regions of each country and all capitals, except Tegucigalpa, with the Atlantic and Pacific seaboards.

Highways

In 1953, Central America had approximately 13 000 miles of roads, less than one-half of which could be considered as all-weather roads (see Table I.9.6). The best road network is found in El Salvador, which has by far the highest density of roads per square mile of territory, a high proportion of paved roads, and an excellent maintenance system. Honduras' highway system is the poorest, large and economically important parts of the country being virtually inaccessible except by oxcart, mule, or airplane. Costa Rica's highway network on the central plateau rivals that of El Salvador in excellence, but little progress has been made in penetrating into other areas.

Table I.9.6
CENTRAL AMERICAN HIGHWAYS, 1953
(In miles)

Country	All-weather roads			Dry-weather roads	All roads
	Paved	Unpaved	Total		
Guatemala	205	2 504	2 709	1 348	4 057
El Salvador	373	559	932	3 853	4 785
Honduras	---	976	976	99	1 075 [a]
Nicaragua	188	417	605	1 019	1 624
Costa Rica	497	621	1 118	436	1 554
Total	**1 263**	**5 077**	**6 340**	**6 755**	**13 095**

[a] By 1955 Honduras was reported to have increased its total highway length to 1 400 miles of which 20 were paved.

The most important artery for Central America as a whole, as well as for most of the countries individually, is the Inter-American Highway, which is now completed as an all-weather road and, in addition, is paved to the extent of 34 percent of its length of 1 204 miles, between western Guatemala and southeastern Costa Rica. The two remaining gaps in the highway are between Mexico and Guatemala on one end and between Costa Rica and Panama on the other. The highway thus connects the five Central American capitals, all of which lie on it except Tegucigalpa, which, however, can be reached by a good connecting road.

For the time being, the importance of the highway as a route for internal commerce outweighs its international significance. In Guatemala, El Salvador, Nicaragua, and Costa Rica, the highway crosses the economically most active regions. This is not so in Honduras, however, where the principal highway route is the one connecting the Sula Valley in the north with Tegucigalpa and with the Inter-American Highway, which crosses the country at its narrow southern end.

A substantial investment effort is presently under way in most of Central America to build new highway mileage. Both Guatemala and Nicaragua are building highways that will connect the capitals with points on the Caribbean (Santo Tomás in Guatemala and the river port of Rama in Nicaragua). El Salvador and Guatemala have undertaken the construction of a modern highway paralleling the Pacific coast to open up their Pacific coastal plain, whose economic potential is still largely untapped. Honduras also has been making progress and is planning considerable further additions to its presently quite inadequate road network. Nicaragua has been building modern highways to connect the principal towns on its fertile western plains. Costa Rica, after having completed the Inter-American Highway up to the Nicaraguan border, is now undertaking to build the remaining 134-mile stretch to the border with Panama.

All of these construction projects have been financed to a large extent through loans from the International Bank for Reconstruction and Development, $40 million of the total loans of $64 million thus far made available to Guatemala, El Salvador, Honduras, and Nicaragua having been for highway construction.[1]

The United States Government has been making a very important contribution by financing two-thirds of the cost of the Inter-American Highway, the Central American countries adding the remaining one-third as well as providing the required right of way. In 1955, the United States Congress appropriated a total of almost $65 million in accordance with a program to accelerate completion within a 3-year period of the Inter-American Highway down to the Panama Canal. On several occasions, loans from the Export-Import Bank of Washington have enabled these countries to put up their share of the cost, as in the case of a recent 9.5 million credit to Costa Rica for this purpose.

[1] No International Bank loans have yet been made to Costa Rica.

The conditions of motor transport reflect those of the highways. As can be seen from Table I.9.7, Costa Rica and El Salvador, which, relatively, have the best highway networks, also have more motor vehicles in relation to population than do the other countries; and in Honduras, where the road system is the least adequate, the number of persons per motor vehicle is the largest. The table also shows that, with the good export earnings of recent years, and the prospect for more and improved highways, all countries have sharply increased their stocks of motor vehicles. Total vehicle numbers may well be around 75 000 at present.

Table I.9.7
AUTOMOTIVE VEHICLES--REGISTRATION AT VARIOUS DATES AND IMPORTS IN 1953, BY COUNTRIES

Country	Automotive vehicles registered			Imports 1953	
	Total number of automotive vehicles [a]	Trucks and buses [a]	Persons per vehicle [a]	Number	Value (thousands of dollars)
Guatemala	16 704	6 876	185	2 494	4 965
El Salvador	15 253	4 702	137	1 668	4 298
Honduras	7 074	2 358 [b]	234	1 669	3 331
Nicaragua	8 200 [c]	2 604	154	1 433	2 334
Costa Rica	10 585	4 065	82	1 969	3 932
Total	**57 816**	**20 605**	**158**	**9 233**	**18 860**

[a] 1953 data for Guatemala and El Salvador, 1955 data for Honduras and Nicaragua, and 1952 data for Costa Rica.
[b] Estimated.
[c] Includes an estimated 1 100 official cars.

Almost one-third of all the vehicles are trucks, which are most commonly owner operated; only in Honduras and Nicaragua are there companies operating five or more trucks on specific routes.

Most of the motor vehicles are concentrated in the capitals, all of which also have adequate bus and taxi services.

Modern service stations are available in the capitals and in the larger towns, as well as at various points along the Inter-American Highway.

Inland Water Transport

Inland water transport is of little importance in Central America. The only two significant inland water routes are on Nicaragua's two big lakes, which are connected by the Tipitapa River, and in Guatemala, from the Polochic River via Lake Izabal and the Dulce River to the Caribbean. However, in the Caribbean lowlands the rivers are the only means of surface transportation and often can accommodate small steamers as well as the traditional dugout canoe. Once the road from Nicaragua's capital to the river port of Rama is completed, traffic on the Escondido River, which empties into the Atlantic, will be of more than purely local importance.

Seaports and Maritime Traffic

The international seaborne traffic of the five countries is serviced by 9 ports on the Pacific Ocean and 8 on the Atlantic.[2]

So many ports have developed not only because of the long coastlines, but also because each country has built its own ports with little regard for those of its neighbors. For instance, the Salvadoran port of Cutuco could efficiently serve southern Honduras, but Honduras has preferred to build up its own port of Amapala only 11 miles from Cutuco. Furthermore, the fact that the railroads have obtained exclusive rights to operate certain ports has led to the sponsoring of competing ports, such as Santo Tomás, in Guatemala, and La Libertad in El Salvador.

[2]On the Pacific are the following: Champerico and San José in Guatemala; Acajutla, La Libertad, and Cutuco in El Salvador; Amapala in Honduras; Corinto and San Juan del Sur in Nicaragua; and Puntarenas in Costa Rica. On the Atlantic are Puerto Barrios and Santo Tomás in Guatemala; Puerto Cortés, Tela, and La Ceiba in Honduras; Puerto Cabezas and El Bluff in Nicaragua; and Limón in Costa Rica.

In general, because of the dispersal of efforts and lack of forward planning, facilities are often inadequate in spite of the large number of ports.

As shown by Table I.9.8, the most important port of the area is Puerto Barrios in Guatemala, which carries part of El Salvador's import and export traffic. All of the other ports serve exclusively their own country, despite the fact that Puerto Cortés, Acajutla, Cutuco, and San Juan del Sur could serve neighboring countries as well. Several shipping lines call regularly at the ports of the area –particularly along the Pacific, where the Grace, Independence, and United Fruit Lines operate– and maintain interconnection among the various ports.

Table I.9.8

TRAFFIC OF PRINCIPAL CENTRAL AMERICAN SEAPORTS[a], 1953

(Quantity in metric tons; value in thousands of dollars)

Port	Imports		Exports	
	Quantity	Value	Quantity	Value
All Pacific ports	854 857	114 112	236 025	149 482
All Atlantic ports	630 475	126 147	737 762	165 656
Total	**1 485 332**	**240 259**	**973 787**	**315 138**
Guatemala:				
Champerico (Pacific)	5 283	684	6 710	7 270
San José (Pacific)	217 635	15 483	11 511	10 392
Puerto Barrios (Atlantic)	190 351	44 367	241 433	68 027
El Salvador:				
Acajutla (Pacific)	46 988	2 719	22 873	24 828
La Libertad (Pacific)	99 989	18 814	12 206	14 807
Cutuco (Pacific)	140 563	12 100	44 568	40 242
Honduras:				
Amapala (Pacific)	29 801	5 805	9 721	3 586
Puerto Cortés (Atlantic)	113 306	22 069	178 342	28 176
Tela (Atlantic)	112 229	11 775	116 312	13 838
La Ceiba (Atlantic)	60 025	6 190	86 483	13 124
Nicaragua:				
Corinto (Pacific)	128 904	27 295	80 622	22 345
San Juan del Sur (Pacific)	19 275	6 831	33 468	17 494
Puerto Cabezas (Atlantic)	12 837	2 393	45 287	2 157
El Bluff (Atlantic)	4 993	869	19 753	1 512
Costa Rica:				
Puntarenas (Pacific)	166 419	24 381	14 346	8 518
Limón (Atlantic)	136 734	38 494	50 152	38 822

[a]Except Costa Rica for which 1954 figures are given.

There is little such connection among the Atlantic ports, which are visited principally by the boats of the fruit companies. Nicaragua alone has established its own shipping line, the Mamenic (Marina Mercante Nicaragüense), which maintains regular service between several Central American ports and the United States and Europe, offering to the Pacific ports of the area the convenience of shipments via the Atlantic to the United States and Europe without transhipment at Panama.

Airports and Airlines

With the recent completion of El Coco airport near San José, each Central American country now has an international airport close to its capital which can accommodate large international carriers.

The most important international carrier of passengers and cargo is Pan American Airways, followed by Taca International Airways and Royal Dutch Airlines (KLM). Each country, except El Salvador, has one or several local companies engaged principally in local transport. Several of these companies have been formed with the help of financial and technical assistance from Pan American Airways. The local companies have developed some international flights to neighboring countries or to the United States, but their principal service is to connect the capitals with the outlying Provinces within each country.

In view of poor surface transportation facilities, domestic air transport is of great importance in spite of generally short hauls. It is well developed in Honduras, Guatemala, and Costa Rica, but in Nicaragua it serves principally the needs of gold-mining companies established in the north-eastern part of the country. Because of El Salvador's smallness and good road transport conditions, this country has had no need to establish internal air transport services.

ELECTRIC POWER

Central America's power facilities also have expanded slowly, largely owing to the same factors which have handicapped development of transportation. This lag is illustrated by the fact that the area as a whole has only about 200 000 kilowatts of generating capacity.

Power shortages are being overcome, however, through the construction of new hydroelectric or thermal stations with the aid of foreign private investment or international loans. As with transportation, technical missions of the United Nations have thoroughly studied the power-shortage problems and the five countries may be expected to take joint action with respect to certain of their common difficulties.

Electric power capacity installed throughout Central America amounted to 193,512 kilowatts at the end of 1954, which represented an availability of only 21 watts per capita compared with about 600 in the United States. If only the capacity of public-service facilities is considered, the ratio is even lower -16 watts per capita. About one-fourth of the total capacity consists of plants for private use by the fruit companies, manufacturing establishments, and railroads.

To alleviate this power shortage, all of the countries are giving great emphasis in their development programs to the expansion of power capacity and are taking active steps to this end. In 1954 alone, about 46 500 kilowatts were added to existing capacity in the area, which was an increase of almost one-third. Projects planned, under construction, and to be completed within the next 2 to 3 years total at least another 86 800 kilowatts. Simultaneously, longer range planning for the utilization, for electric power, of the substantial hydraulic resources in the area is actively going forward.

The comparative position of the individual countries with respect to power supply is indicated in Tables I.9.9 and I.9.10. Of the five countries Costa Rica is the best endowed but, because of rapidly increasing demand, it has been experiencing recurrent power shortages, only recently alleviated by the installation of new capacity. Power rates are very low in Costa Rica, where most of the facilities are hydroelectric.

Table I.9.9

ESTIMATED ELECTRIC POWER CAPACITY INSTALLED IN CENTRAL AMERICA, TOTAL AND PER CAPITA, END OF 1954

Country	Public service	Private plants	Total	Capacity per capita: Total	Capacity per capita: Public service only
	(kilowatts)			(watts)	
Guatemala	28 033	8 458	36 491	11	9
El Salvador	50 717	20 000	70 717	34	24
Honduras	3 765	14 247	18 012	12	2
Nicaragua	13 292	[a]	13 292	12	12
Costa Rica	53 000	2 000	55 000	59	57
Total	**148 807**	**44 705**	**193 512**	**21**	**16**

[a] Negligible.

Table I.9.10
SOME CHARACTERISTICS OF ELECTRIC POWER SUPPLY IN THE CENTRAL AMERICAN CAPITAL CITIES, 1953

City	Watts installed per capita	Kilowatt-hours generated during the year per capita	Average rate (U.S. cents per kilowatt-hour)
Guatemala City	53	252	3.6
San Salvador	45	231	3.6
Tegucigalpa	22	86	16.2
Managua	47	170	4.4
San José	90	447	1.3

El Salvador is in second place as a result of the addition of a 30 000-kilowatt plant on the Lempa River in 1954. This plant more than doubled existing public-service facilities, and made El Salvador the only country in the area with readily available power. The new facilities have made possible a lowering of power rates by about 10 percent, but rates are still not quite as low as those in Costa Rica.

The remaining three countries, Guatemala, Nicaragua, and Honduras, all are poorly endowed with power, but Honduras clearly is in the worst position. Power is very expensive in Honduras, since it is all thermal and the costs of imported fuel are very high, particularly because of transportation difficulties. The situation in the urban centers in the northwestern part of the country is much better than in Tegucigalpa, power availability per capita being considerably greater and the rates lower in those centers.

With this notable exception of Honduras, power facilities in Central America generally are concentrated in and around the capital cities, which are the regions of greatest economic development. A somewhat greater dispersion, however, is found in the small country of El Salvador, where there do not exist the vast stretches of undeveloped terrain characteristic of the other countries.

Private foreign investment in public power facilities is important in three of the countries-Guatemala, El Salvador, and Costa Rica. The principal power companies in Guatemala and Costa Rica are subsidiaries of the American and Foreign Power Co., and in El Salvador the principal company is a subsidiary of the Canadian International Power Co. Following the recent decision of the Guatemalan Government to leave power development in private hands, the American and Foreign Power Co. subsidiary in that country is planning a substantial investment program to expand generating capacity.

In El Salvador and Costa Rica, the major expansions of generating capacity are being carried out by public bodies, but the additional power is to be distributed through the existing private companies. In Nicaragua, the major power facilities long have been owned and operated by the Government. This is true also of public power facilities in Honduras, where, however, such facilities are much less important than the plants for private use, which also sell some of their power to the public. The presently planned expansion of power production in Honduras well be undertaken by a public agency.

Much foreign financial and technical assistance is being used by the Central American countries in carrying out their power development programs. In Guatemala, aside from the investments planned by the American and Foreign Power Co., a United States consulting and engineering firm was employed to lay out a program of development, and its report was presented in the latter part of 1955. The International Bank has loaned $12.5 million to El Salvador for power and almost $8 million to Nicaragua, and it is studying the possibility of assisting Honduras in this field. In Costa Rica the Export-Import Bank has loaned a total of $3.5 million for power to the private power company and to the Instituto Costarricense de Electricidad of the Costa Rican Government.

With respect to the power supply of the individual countries, Guatemala is now suffering from a shortage, reflected in plans announced by some of the country's leading industries to install their own plants rather than await the additional power to be installed by the power company.

In El Salvador, the installation of 30 000 kilowatts of hydroelectric facilities in 1954 is to be followed by another 15 000-kilowatt unit in 1956. The consequent availability of power is expected to lead to abandonment of the large number of private industrial power plants that were installed during periods of shortage.

In Honduras, the development of public power facilities is an important aspect of the planning activities of the newly created National Economic Council (Consejo Nacional de Economía).

Most of Nicaragua's present power capacity was installed in the past 10 years. The installation of a 3 000-kilowatt thermal plant in Managua in 1954 is to be followed by a 30 000-kilowatt thermal plant, to be completed by the end of 1957, which will give an adequate supply to the capital and nearby region for some years. The substantial hydroelectric potential of the country is being explored for longer range planning.

In Costa Rica the private power company added 10 000 thermal kilowatts in 1954; the Government agency concerned with power is installing a unit of 11 800 kilowatts, distribution of the power to be effected through the private company. Both projects were assisted by Export-Import Bank credits. Simultaneously, the public agency has been constructing since 1954 a 30 000-kilowatt hydroelectric plant financed with Government revenues and local borrowing.

AGRICULTURE

Agriculture is of basic importance in all five of the Central American countries, occupying from 55 percent of the economically active population in Costa Rica to 83 percent in Honduras and providing the livelihood of about two-thirds of the area's population. Moreover, the export of agricultural commodities accounts for almost all of the foreign exchange earnings of the area and thereby makes an essential contribution to the financing of economic development, which could not proceed without large-scale imports of raw materials, vehicles, machinery, and equipment.

Knowledge about Central American agriculture has been increased by censuses which were conducted in all five countries between 1950 and 1952. These censuses contain information on land use, number and size of farms, and acreage and value of principal crops. The censuses covered only the parts of the national territories under well-defined ownership, omitting large tracts of land, such as the Petén in Guatemala and areas in northeastern Honduras and eastern Nicaragua and in the Costa Rican lowlands, which are still largely inaccessible and covered with jungle.

Table I.9.11 shows that only 6 percent of the total area of the five countries is being cropped. Among the five countries, El Salvador has the most intensively cultivated land and Nicaragua has the greatest reserve of untapped land resources.

Table I.9.11
BASIC PATTERNS OF LAND USE, BY COUNTRIES
(In thousands of acres)

Country	Total area (used and unused)	Area covered by agricultural censuses	
		Total	In annual or permanent crops
Guatemala	26 934	9 052	2 670
El Salvador	5 157	3 776	1 345
Honduras	27 697	6 195	1 164
Nicaragua	34 348	5 849	1 025
Costa Rica	12 605	4 477	578
Total	**106 741**	**29 349**	**6 782**

With the exception of Nicaragua, the Central American countries have a common agricultural pattern. The traditional regions of settlement are the hills, high plateaus, and highlands at elevations of 2 000 feet and higher, and in these areas peasant (subsistence) farming, based on corn and beans, has long been carried on. With the emergence of coffee as a valuable commercial crop, the most fertile lands in the zones lying at an elevation of 2 000 to 5 000 feet have been devoted to this crop and, because of the investment required and the long waiting period until the trees bear fruit, a large portion of the coffee crop is produced by medium-sized and large farms.

Very large landholders predominate in the outlying areas close to the Pacific Ocean and the Caribbean Sea. Important banana and other fruit plantations have been developed here by foreign capital. Otherwise, to the extent that these lands are used at all, they are usually devoted to extensive cattle grazing. Recently, however, the pressure of population has led to a more intensive utilization of these areas, particularly along the Pacific Ocean, where soils are excellent and rainfall is not excessive. In this region, the cultivation of cotton, sugarcane, and essential-oil grasses has been developed successfully by El Salvador and Guatemala, and the raising of cattle is becoming a more intensive operation in those countries, as well as in Costa Rica.

Nicaragua differs from the other countries in that its principal agricultural zone and its centers of population have always been on the country's large flatlands along the Pacific Ocean and around its two big lakes. However, full utilization of the potential wealth of these fertile lands is of recent origin, beginning with the large-scale cultivation of sugarcane, rice, sesame, and, principally, cotton.

For purposes of discussion, the principal crops of Central America may be classified by the three types of agricultural activity mentioned in the preceding paragraphs, namely, peasant farming, the raising of commercial crops and livestock (particularly cattle), and the growing of tropical fruits on large plantations.

Peasant Farming

Throughout the settled regions of Central America, corn and beans are grown on small plots and form the basic diet of the people other than the Costa Ricans, many of whom prefer wheat bread to corn tortillas. In dryer climates, sorghum replaces corn and, in the wetter and warmer areas, yucca and rice are important. Bananas and plantains also are staples in the domestic diet and are grown virtually everywhere except at altitudes above 5 000 feet. Sugarcane is cultivated by small farmers for making "panela," a brown sugar cake which is a popular food staple. Cane for refining into white sugar and bananas for export are grown on large farms or plantations.

The peasants customarily also grow some fruits and vegetables, such as papaya and avocado, and raise some pigs and chickens. However, they give little attention to care or feeding, with the result that egg and meat production is low and of poor quality.

On the whole, Central America is self-sufficient with respect to its basic food needs, except in periods of severe drought, such as occurred in 1955. Wheat, which in the tropics can be cultivated economically only in high, level regions, such as the highlands of Guatemala, represents the larger item among imported foodstuffs; other imported items are numerous food specialties and most of the canned foods consumed. The popular diet is deficient in meat, milk, eggs, and such protective foods as fruit and vegetables.

El Salvador, with its large population relative to its size, and despite a more intensive agriculture, tends to experience shortages in some of the dietary staples, such as corn and beans, which normally can be supplied from surpluses available in Honduras and Nicaragua. In recent years Costa Rica has been able to increase substantially its output of basic food crops and it has been entering export markets to a small extent.

Peasant farming in Central American agriculture is, on the whole, markedly inefficient. Erosion and lack of communications are serious problems. Important needs, particularly in view of the rapid population increase, are more efficient land use, increased application of fertilizer, improved seeds and equipment, and better farm management in general. Considerable efforts are being made in all of these fields as a result of technical assistance activities, among which those of the cooperative "Servicios" established by the United States Government's International Cooperation Administration are outstanding. The Costa Rican example shows that much can be accomplished by efficient agricultural credit and extension systems and the provision of storage facilities, and by other policies designed to protect the peasant against undue fluctuations in farm prices.

Commercial Crops and Livestock

Coffee. Coffee is by far the most important commercial crop of Central America. The total production of the five countries amounts to more than 3 million bags, representing approximately 10 percent of world production. The area ranks third among the large producers, after Brazil and Colombia; the latter account for some 45 percent and 20 percent of world production, respectively. The Central American coffees all belong to the mild variety, are of generally excellent quality, and are used for blending purposes. They command a premium in the international coffee markets, Costa Rican grades being considered as particularly outstanding.

As can be seen from Table I.9.12, Guatemala and El Salvador are the largest producers, with about 1 million bags each. Costa Rica follows, with about 500 000 bags. Nicaraguan and Honduran coffee production is less important, but has made exceptionally rapid strides in recent years under the stimulus of high prices. Even in those countries proceeds from coffee exports accounted in 1953 for 39 percent and 18 percent, respectively, of total export earning. In Guatemala and El Salvador, coffee is of outstanding importance in foreign trade since it constitutes 77 percent and 85 percent, respectively, of exports.

Table I.9.12
CENTRAL AMERICAN COFFEE PRODUCTION, 1944-1948 (AVERAGES), 1949-1953 (AVERAGES), AND 1954-1955
(In thousands of bags)

Country	Annual average 1944-48	Annual average 1949-53	1954	1955
Guatemala	969	1 032	953[a]	892[a]
El Salvador	993	1 248	920	1 200
Honduras	160	229	b	b
Nicaragua	232	316	360	410
Costa Rica	380	358	390	563

Note: Data correspond to crop years i.e. production shown for 1955 relates to crop year 1954-55.
[a] Exports only.
[b] Data are not available.

The volcanic soils of Central America and the mild temperatures prevailing at altitudes between 2 000 and 5 000 feet provide excellent growing conditions for coffee. The principal areas of cultivation are on the Pacific slopes of the mountain chain traversing Guatemala and El Salvador, on small highland areas between Lake Managua and Lake Nicaragua, and on the central plateau in Costa Rica.

All five countries have trade associations which are making efforts to improve quality and raise output per acre by providing technical assistance to growers. These trade associations are members of the FEDECAME (Federación Cafetalera Centro América-México-El Caribe) which has its headquarters at San Salvador. In addition to the Central American countries, Mexico, Cuba, Haiti, and the Dominican Republic are members of this federation, which represents the interests of its members in the Pan-American Coffee Bureau.

Because of the importance of coffee to the Central American economy, the rapid development of the Central American countries in the past few years can be traced in large part to the increase in the world price of coffee since 1949. The fluctuations in the price of this commodity since 1954 have in turn caused serious problems, because of the resulting uncertainties as to the availability of foreign exchange.

Cotton. Some cotton has long been grown in Central America, but this crop has achieved real importance only in recent years, during which production has expanded rapidly, principally in Nicaragua but also in Guatemala and El Salvador. In Nicaragua, cotton replaced coffee as the principal export in 1955, as ever larger tracts of its Pacific flatlands were being sown to cotton. The Pacific coast, with its excellent soils and complete absence of rainfall from December through March, provides superior growing conditions. In all three countries, the rise in cotton prices during the Korean conflict sparked the increase in cultivation. However, the expansion continued even after prices receded, since cultivation remained profitable, particularly with the use of modern methods of insect control, such as air spraying. In El Salvador very high yields in cotton have been achieved through such methods and the intensive use of fertilizer. Machine picking was introduced in Nicaragua because of labor shortage. Yields are high throughout Central America (see Table I.9.13).

Table I.9.13
CENTRAL AMERICAN COTTON PRODUCTION, 1949-1950, 1953-1954 AND 1954-1955
(In thousands of bales of 500 pounds)

Country	1949-1950	1953-1954	1954-1955
Guatemala	3	26	39
El Salvador	30	56	88
Nicaragua	29	84	206

Note: Production in Honduras and Costa Rica is not significant.

The successful growing of cotton has demonstrated the great value of the Pacific lowlands, which previously had been left largely uncultivated. As a by product of the cotton boom, large quantities of cottonseed have become available and have led to an expansion of the vegetable oil industry, and cottonseed cake is used in the production of animal feed concentrates.

Sugarcane. Sugarcane that is refined into white sugar rather than into panela customarily is grown on relatively large farms whose owners also control the refineries. In general, production has kept up with rapidly rising consumption, and Nicaragua, whose San Antonio refinery is the largest in Central America, has recently achieved exportable surpluses of about $1 million a year. Many refineries of the area are handicapped by inadequate equipment and small size.

Other crops. Commercial crops of lesser importance include sesame and rice in Nicaragua, citronella and lemongrass in Guatemala, and hard fibers on plantations in Guatemala, El Salvador,and Costa Rica. All of these crops are largely exported either direct or as processed goods, such as essential oils (citronella and lemongrass) and coffee bags (henequen).

Livestock. Cattle raising is an important and traditional part of the agricultural economy of the five countries and is done primarily by the large landowners. In Central America, as elsewhere in Latin America, large tracts of fertile level land are devoted to grazing while food crops are raised by the peasants on eroded hillsides. This situation in itself indicates a poor use of resources, but the management of the cattle herds customarily has been wasteful and inefficient also -calf mortality has been high and the animals have been poorly fed and infested with ticks and disease. As a result, in spite of relatively high cattle numbers, meat production has been low throughout the area and milk production inadequate. The total number of cattle and the number per capita in the five countries in specific years are as follows:

Table I.9.14

CENTRAL AMERICA: TOTAL AND PER CAPITA NUMBER OF CATTLE, 1950-1954

	Total (thousands)	Units per capita
Guatemala (1950)	903	0.32
El Salvador (1950)	810	.43
Honduras (1952)	1 152	.76
Nicaragua (1952)	1 182	1.03
Costa Rica (1954)	762	.83

In all five countries considerable effort has been made in recent years to correct this situation. Pedigreed animals have been imported, largely from the United States, to be crossed with the local "criollo" breeds, and pastures and ranch management have been improved; animal feed concentrates have been made available to the dairy farmer; and both quantity and quality of meat and milk for consumption are being improved by the construction of modern slaughterhouses and pasteurizing plants. Costa Rica has been particularly successful in developing an efficient dairy industry on the high plateau surrounding San José; and Nicaragua is currently making a considerable effort in the same field. In all countries, the raising of beef cattle is being expanded in the tropical zones.

Of the five countries, Guatemala and El Salvador have the smallest number of cattle in relation to population, and both import animals, usually on the hoof, from Honduras and Nicaragua. Costa Rica, whose cattle population has shown important increases in recent years, has developed a surplus which it has been exporting by boat to South American and Caribbean countries.

With respect to poultry, a recent venture in modern chicken farming, for which 1-day-old chicks are imported from the United States, has met with great success in Costa Rica.

The Fruit Plantations

Aside from coffee, bananas are the principal export crop of Central America. Bananas for export are cultivated exclusively in the coastal areas on large plantations which have been established in Guatemala, Honduras, and Costa Rica by United States capital. The principal grower is the United Fruit Co., which controls two plantations in Guatemala (one near the Pacific and another near the Atlantic Ocean), three in Costa Rica (one on the Atlantic Ocean and two on the Pacific coast), and a large one in Honduras near the Atlantic. The Standard Fruit and Steamship Co. has developed plantation areas in Guatemala and Honduras. No plantations have been established in El Salvador. In Nicaragua, banana plantations of the Standard Fruit and Steamship Co. had to be abandoned because of plant disease, and United Fruit Co. operations are of minor importance.

The fruit companies play a vital role in the economies of Guatemala, Honduras, and Costa Rica. They contribute importantly to foreign-exchange earnings and Government revenue, employ and train large numbers of workers, and have equipped previously undeveloped tropical areas with ports, railroads, schools, hospitals, and other community facilities.

The impact of the fruit companies is most marked in Honduras, whose economically most active region, the Sula Valley, has developed around the plantations. In Guatemala and Costa Rica, on the other hand, the operations of the companies have remained rather isolated, as the economies of the two countries have maintained their center of gravity in the highlands. However, in those countries, and particularly in Costa Rica, the pioneering efforts of the fruit companies in the tropical lowlands are promoting the use of these vast zones for agriculture by local farmers.

Because of the complete lack of facilities in the regions where the plantations were established, the companies had to make substantial investments in communications, public utilities including transportation, and housing.

The companies started their operations in Central America during the early part of this century by means of special long-term concession contracts with the National Governments involved. These contracts generally covered the subjects of taxation, exemption from import duties on equipment and supplies needed from abroad, export duties, permission to operate internal communication systems and to establish police functions, and similar matters.

Recently a tendency has begun to replace these special concessions by general legislation, and the National Governments are gradually asserting their right to control basic functions, such as police, schools, and hospitals. This process has gone farthest in Costa Rica, which, in 1954, negotiated an increase, from 15 percent to 30, in the income-tax rate to which the United Fruit Co. is subject. The pattern set by this treaty has since been followed in Honduras, and also in Guatemala after a change in regime made possible an amicable settlement of the many disputes that had been fostered, prior to 1954, by the Communist-influenced governments then in power in that country.

Plantation production of bananas for export has fluctuated widely. Recent average annual production in Honduras has been 13 million stems, compared with 11 million in Costa Rica and 7 million in Guatemala. The Honduran crop dropped sharply in 1954-1955, as a result of the severe floods which constitute only one of the hazards to which banana production is exposed. Other even more serious dangers are the sigatoka and Panama diseases, which have forced the companies to undertake costly disease-control programs and, in exceptionally severe cases of the Panama disease, to abandon whole areas already under cultivation.

This latter development has contributed to a diversification in the companies' activities which lately has become noticeable. As the Panama disease attacks only bananas, the companies have experimented on the abandoned lands with other plants, such as cacao and African oil palm, with good success in both cases. Cacao growing has been particularly successful in Costa Rica, where it has been taken up by many local farmers with the help of nursery stock and technical advice made available by the United Fruit Co.

Since World War II, another activity of the fruit companies has been growing of abacá, under contract with the United States Government, to provide an alternative source of supply of this raw material, which had been exclusively imported from the Philippines. With the post-war recovery of the Philippines, the future of this crop is somewhat in doubt; however, acreage is being maintained. The fruit companies also have pioneered in the raising of large and high-quality cattle herds in the tropical lowlands.

Opportunities in Agriculture

The fruit companies have proved that Central America presents numerous investment opportunities in agriculture. Still available are many areas in the tropical zones of the Central American countries where fruit, cacao, and oleaginous plants can be grown and where cattle can be raised. Such ventures require substantial outlays, much experience, and willingness to take considerable risk-although to a lesser extent than some decades ago.

Each Central American country possesses vast areas that are at present largely unexploited and that appear promising for future agricultural development, particularly in view of the highway development program. The Pacific plains of Guatemala and El Salvador have already been mentioned; in Guatemala, the huge territory of the Petén and the Polochic Valley west of Lake Izabal await development.

In Honduras, the Aguán Valley in the northeast is considered by several observers to have great agricultural possibilities; in Nicaragua, the road that is being built from Managua to Rama, a river port close to the Atlantic Ocean, will make it possible to test the large eastern part of the country for its agricultural potential. In Costa Rica, cattle raising and food growing may be expanded considerably on the Nicoya Peninsula as well as in other sections of the country outside of the well-developed central plateau.

Foreign capital might help also to develop certain types of agricultural production which have been neglected in otherwise developed areas, for example, the growing of fruits and vegetables of uniform good quality for both direct consumption and canning. A second investment possibility may well be the establishment of efficient dairy farming for the purpose of producing quality butter and cheeses.

United States has participated, to a very minor extent, in the Nicaraguan cotton boom. Possibly an opportunity exists for the investment of capital to expand cotton cultivation and finance cotton gins, particularly in Costa Rica and Honduras, where cotton is not yet a significant crop. There also appears to be a need for modernization in the sugar industry. Finally, in spite of the output of the hard fiber plantations of Guatemala and El Salvador, Central America suffers from a deficit of hard fiber for its large requirements of bags for coffee, sugar, and cotton. Probably the cultivation of kenaf could be introduced successfully.

In general, however, aside from large-scale ventures in the undeveloped regions, the best possibilities in the agricultural field appear to be in food processing and food marketing rather than in food production. With respect to marketing, for instance, the Central American capitals want to do away with the old-time public markets and adopt modern methods of food distribution, such as the supermarket. While developing ventures in food processing and marketing, the foreign investor may find it necessary, of course, to take a direct interest in growing the food he is to process or market.

Finally, in spite of its long coastlines on the Pacific Ocean and Caribbean Sea, Central America has done little to exploit its fisheries. This might be an excellent field for foreign capital to enter with a view to establishing fish-freezing and fish-canning plants, particularly along the Pacific Ocean.

FORESTRY

With the exception of El Salvador, which is a net importer of lumber, more than one-half of the territory of the Central American countries is covered by forests. In Honduras and Nicaragua lumbering, carried on mostly by foreign companies, is of considerable economic importance. The timber resources of Central America are located principally on the slopes of the mountains bordering the Caribbean Sea and in the valleys of the rivers that flow into the Atlantic Ocean. Many areas in this region are covered with tropical rain forests which contain numerous valuable hardwood species but which are often too heterogeneous and too difficult of access for economic exploitation. Nevertheless, the mahogany and cedar trade has long been established in Nicaragua and Honduras. Customarily, operations are carried on beside the rivers, which are the only means of communication and which are the only means of communication and which are also used for floating the logs to the ports of embarkation.

Exports of hardwood have become of minor significance, however, in comparison with the exploitation of pine stands, which are found in Honduras at elevations of over 1 000 feet and in northeastern Nicaragua at about sea level. This pine, which is of a good, clean quality, is in great demand in the Caribbean region and the United States for millwork. In Costa Rica, a tropical semihardwood tree, the cativo, has been exploited for similar purposes. Data on Central America's lumber trade are shown in Table I.9.15.

Table I.9.15

CENTRAL AMERICAN TRADE IN LUMBER, 1953

(Quantity in metric tons; value in thousands of dollars)

Country	Exports		Imports	
	Quantity	Value	Quantity	Value
Guatemala	3 707	596	n.a.	n.a.
El Salvador	22	23	18 415	761
Honduras	115 607	3 822	125	17
Nicaragua	82 372	3 942	159	59
Costa Rica	17 488	234	2 296	299
Total	**219 196**	**8 617**	**20 995**	**1 136**

Source: Food and Agriculture Organization of the United Nations *Informe sobre los Recursos Forestales y las Posibilidades de Producción de Celulosa y Papel en Centroamérica,* 1954 pages 216-223.
n.a. Data not available.

Forestry resources are subjected to serious waste in Central America because of the practice of clearing lands for cropping or pastures by means of uncontrolled fires and because of the cutting practices of many lumbering companies. All of the countries have become aware of the importance of preserving their forests in the interest of erosion and flood control and have lately established forestry legislation. A complete survey of the five countries' lumber resources was made under the auspices of the Central American Economic Cooperation Committee.

MINING

The principal mineral products of Central America are gold in Nicaragua, silver in Honduras, and small quantities of lead in Guatemala. Substantial untapped deposits of other minerals are believed to exist, however, and many mining claims are filed by prospectors each year, particularly in Honduras and Nicaragua.

A search for petroleum deposits in Costa Rica by the Union Oil Co. of California was reported to have met with success in January of 1956. Geologists have been optimistic about the prospect of finding oil in Guatemala, and after that country issued in mid-1955 a petroleum law that was designed to attract foreign capital, several oil companies started exploration activities. Explorations are also under way in Honduras. In view of the large and steadily increasing amount of foreign exchange ($21 million in 1953) which the five countries spend for gasoline and other petroleum products each year, the finding of petroleum deposits would be of major economic significance in the development of Central America.

MANUFACTURING

On the whole, manufacturing in Central America is little developed. According to the 1950 population censuses, manufacturing occupies only 11 to 12 percent of the economically active population in the various countries, except in Honduras, where only 6 percent of the people are employed in manufacturing. The pattern of industrialization has been similar in all five countries, namely, manufacturing has developed in connection with domestic output of certain agricultural commodities which must be processed before they can be marketed. For example, all of the countries have coffee mills and sugar refineries, and Guatemala, El Salvador, and Nicaragua have established a number of cotton gins. Similarly, tanneries and sawmills have been established to process locally available hides and timber.

Other industries have developed as a result of high transportation costs for the imported products. In this category are beer, soft drinks, and construction materials, such as bricks and cement blocks and, in some countries, cement itself. Consumer goods industries that have grown up because of the protection afforded by customs duties or because of the low cost of local labor and other factors include textiles, the garment and shoe industries, cigarettes and matches, furniture, and pharmaceuticals.

This is approximately the extent of industrialization in Central America, manufacturing having been handicapped by transportation difficulties and electric power shortages and by the smallness of the individual national markets. Moreover, all of the countries, except Costa Rica, have suffered because of the lack of primary education for their people, despite the fact that, in general, the local workers have been found to be intelligent and relatively easy to train for industrial employment.

Available information about each country's industry has been increased considerably with the industrial censuses which have been conducted since 1950. Unfortunately the definitions and coverage of the censuses have varied so widely from country to country that comparisons would be hazardous.[3] For this reason, no attempt is made here to compare or total the industrial establishments of the five countries according to such characteristics as number of firms or workers, or gross or net value of production.

[3]For instance, the Guatemalan census covered all industrial establishments with three or more workers; the Salvadoran covered all whose annual production exceeded the value of 1 000 colones; and the Honduran covered establishments with five or more workers. Nicaragua conducts an annual survey of its principal industrial establishments. The Costa Rican census attempted to cover all establishments irrespective of the number of their workers or the value of their productrion.

A few generalizations may be made, however, with respect to the comparative development of industry in each of the five countries. There is little doubt, for instance, that industry is least developed in Honduras, where the official development institute had to promote the establishment of such elementary facilities as coffee and rice mills, which, in the other countries, have long been financed by private capital. El Salvador, on the other hand, has the most advanced industrialization, probably largely because of population pressures.

Costa Rica is most noteworthy for its progress in food processing, and Nicaragua for the rapid strides made recently, particularly in various industries that process cotton and its byproducts. Guatemala's industrial development has been hampered by the reluctance of investors to commit new funds during the years prior to the change in regime in 1954, but it may now be expected to gather new impetus.

The location of industry is preponderantly in and around the capitals. There are exceptions, however. In Honduras some of the larger factories have been established in San Pedro Sula rather than in Tegucigalpa, primarily because of the better transportation and electric power facilities in the former city. In Guatemala, the town of Quezaltenango is important as a textile center. Santa Ana and San Miguel in El Salvador and León and Granada in Nicaragua are secondary industrial centers. Virtually all of Costa Rica's industry is concentrated on the central plateau, but some firms are located in the Provinces of Alajuela, Cartago, and Heredia rather than in or immediately around the capital.

Development of Specific Industries

A basic area for industrialization in any country is the processing of locally grown foodstuffs and agricultural raw materials. The traditional Central American industrial establishments in this field are coffee, sugar, and rice mills, soap factories using locally available fats and oils, and bag factories using the henequen fiber. Interesting advances have been made in recent years through the expansion or establishment of vegetable oil and margarine factories.

All five capitals today have milk-pasteurizing plants, developed for the most part as the result of cooperatives formed by the dairy farmers. Powdered-milk plants also have been established, often with the help of the United Nations International Children's Emergency Fund (UNICEF). The dairy industry is most highly developed in Costa Rica, and Nicaragua is currently making significant efforts in the same field under the auspices of its National Development Institute (Instituto Nacional de Fomento).

Food canning is almost nonexistent, except for two small establishments in Costa Rica. However, the production of concentrates for the feeding of animals (mostly cattle and chickens) has made great progress in recent years, frequently with help from the official development institutes. In El Salvador, a soluble coffee plant is being established as a joint United States-Salvadoran venture. A similar plant is being planned in Guatemala.

The beverage industry is probably the most fully developed in Central America. Each country has one or several breweries which satisfy domestic consumption, and many soft-drink and bottling plants. All of the countries also have a liquor industry which, in spite of the generally poor quality of the product, makes an important contribution to fiscal revenues, either through heavy consumption taxes or because it is run as a Government monopoly.

Another industry which virtually satisfies domestic consumption is the cigarette and cigar industry. Cigars are produced in many small establishments, but each country has only one or at most two cigarette factories. Firms controlled by the British-American Tobacco Co. account for most of the output.

In contrast with the beverage and tobacco industries, the growth of the textile industry has been slow and the industry is far from covering the area's needs, as is shown by the high value of piece goods imports in all five countries. El Salvador has the largest capacity and the production of its cotton mills covers a relatively wide range of materials; nevertheless, its industry is in need of modernization. Nicaragua has recently acquired a large textile factory through purchase of a cotton textile mill, as a unit, in the United States. In general, the textile plants produce cotton cloth of low and medium quality, such as work cloth, bagging, and similar materials. Ample opportunities exist for the production of finer materials and for the introduction of artificial fibers, such as rayon.

The apparel and shoe industries are relatively well developed, but traditionally they have been operated on a small scale. This was particularly true of the shoe industry, whose output was almost totally produced in artisan shops. Today, however, mechanized shoe factories exist in several of the countries, and a fairly large one with a capacity of up to 1,000 pairs of shoes per day has recently been established in El Salvador with technical and some financial assistance for a United States shoe concern. There is a large future market for shoes in all of the Central American countries, since a sizable percentage of the people still go barefoot.

Cement manufacture is the heaviest industry thus far introduced into Central America. Guatemala, El Salvador, and Nicaragua have their own cement factories and all three have been expanding their capacities. In Honduras and Costa Rica the advisability of establishing cement factories has been under study. In the meantime, it appears probable that Nicaragua's plant, as a result of its recent expansion, will have a capacity in excess of its domestic market so that it may be able to supply part of the needs of its two neighbors.

Among the woodworking industries, all of the countries have a number of sawmills of varying sizes. Wooden furniture is also produced throughout Central America, for the most part in small establishments. Two plywood factories were established recently, one in the Lake Izabal region in Guatemala and the other at Puerto Castilla in Honduras. The output of these factories is in part exported to Cuba and other Caribbean islands.

The chemical industry is not highly developed. In addition to soap and candles, each country produces matches and several have mixing plants for fertilizers. Pharmaceutical laboratories have been established successfully in several countries.

An important industrial activity is the servicing and repairing of tractors, trucks, cars, and other imported mechanical and electrical equipment. In addition, the shops engaged in this activity are regular training centers for mechanics and electricians, and thereby fulfill an important general need. Of particular significance in this field is the aircraft repair and maintenance enterprise, SALA, established in Costa Rica.

Investment Opportunities

Industrialization in an area such as Central America has many promising possibilities, but there are many pitfalls which can be avoided only by careful advance planning that takes into account all of the relevant technical, economic, and financial factors. Several recent unsuccessful, or only partly successful, ventures have emphasized the need for such planning.

The most promising investment opportunities in manufacturing in Central America, under conditions of independent industrial development of each country, appear to be in food processing, textiles, cement (in Honduras and Costa Rica), and simple chemicals, as well as in some of the other industries which have been reviewed. Possibly also there is sufficient demand in some of the countries to warrant the initiation of metalworking industries. Much progress can also be made in the construction materials industries. It may be expected that the Central American Research Institute for Industry, being established in Guatemala City, will develop a "shelf" of industrial projects suitable for exploitation by private investors.

A much greater scope for industrialization exists if the five countries could be considered as one unit. In view of the free trade treaties presently in force between El Salvador and the other four countries, some industries that would be set up in El Salvador would automatically enjoy free access to all of Central America. With freedom from customs duties and other artificial obstacles, many industries could be established which at present are precluded because of the small size of each individual country's market. Among such industries are glass, tires, paints and varnishes, and various chemicals and the assembling of cars, trucks, and appliances. The first project for a joint Central American venture in the industrial field involves the setting up of a pulp and paper factory in Honduras.

GENERAL ECONOMIC PLANNING

In line with a worldwide trend, the Governments of the Central American Republics have increasingly felt that they have important responsibilities in promoting the economic development of their countries. In addition to encouraging private investment, both domestic and foreign, through fiscal and monetary policies in general as well as through specific incentive legislation, they have been undertaking or sponsoring investment in transportation, electric power, certain types of banking, low-cost housing, and other economic activities where private initiative is lagging.

In the course of undertaking these activities, some of the Governments have become convinced that they needed a general economic planning committee which, at the highest governmental level, would see to it that official programs and policies are properly coordinated, that appropriate priorities are assigned to the various public works and other investment projects, and that the total development program can be financed without inflationary consequences.

The International Bank for Reconstruction and Development has taken a particular interest in the establishment of such general planning bodies and has stationed representatives -who also act as advisors to these committees-in the three countries in which they have been created, namely, Guatemala, Honduras, and Nicaragua. The committees are composed of the Cabinet Ministers dealing most prominently with economic affairs –the Ministers of Finance, Economy, Public Works, and Agriculture. The presidents of the central banks and the development institutes or banks generally are members also.

Costa Rica, where economic policy thus far has been formulated primarily in the Ministry of Finance and Economy, is also reported to be considering the establishment of a general economic planning committee. In El Salvador important measures of economic policy are customarily prepared by, or discussed with, the Minister of Economy. Similarly, in Nicaragua the Minister of Economy exerts significant influence in the making of economic policy, since the Planning Committee does not appear to be active.

In several countries, the central banks exercise great influence on economic polices, both because of their specific powers in the fields of money and credit and because they generally provide qualified personnel, as well as excellent information about the national economy.

SPECIAL DEVELOPMENT INSTITUTES

Guatemala, Honduras, and Nicaragua have created special agencies whose task is to promote and finance agricultural and industrial development. These development institutes generally have a banking section which makes credit available in certain fields inadequately covered by existing banking institutions; in addition, however, they are empowered to invest directly in agricultural and industrial projects of particular interest to the national economy.

The Guatemalan institute (Instituto de Fomento de la Producción, or INFOP) has confined itself almost entirely to credit activities. The Honduran agency (Banco Nacional de Fomento) has financed small but important projects in the field of food storage and processing, such as grain silos and coffee and rice mills. It has attempted to interest private capital in the establishment of plants for pasteurizing milk and for mixing animal feed. Currently of greatest interest to the Banco Nacional is a project involving the establishment of a cement factory.

The Nicaraguan institute (Instituto de Fomento Nacional), founded in 1953, has been more active than either the Guatemalan or the Honduran agencies in the promotion of agricultural and industrial projects. It has drawn up complete plans for expansion and modernization of the vegetable-oil, dairy, and soap industries, for the construction of a modern slaughterhouse, and for the importation of quality cattle, and has been active in several other fields. As a result of detailed planning of useful projects, it has been able to obtain for some of the projects the financial assistance of the International Bank for Reconstruction and Development.

In El Salvador, the establishment of a development institute has long been under consideration, and in December 1955 the Congress passed a bill providing for the organization of such an institute

(Instituto Salvadoreño de Fomento de la Producción). Despite the lack of such an agency, El Salvador has been fortunate in having a group of enterprising investors who are actively searching for, and stand ready to finance, new and promising ventures in agriculture and industry.

The Costa Rican Government thus far has found it unnecessary to establish a development institute for industry because of the close cooperation that exists between the nationalized banking system and the Industry Section of the Ministry of Agriculture and Industry. In agriculture, Costa Rica has set up a very powerful agency called the National Production Council (Consejo Nacional de la Producción). The original and still principal function of the Council is the prevention of undue fluctuations in farm prices and, to fulfill this function, it has undertaken many activities in food storage, processing, and distribution. Operations of the Council have contributed much to the increase in basic food crops, which has been one of the salient features of Costa Rican economic development in recent years.

On the whole, the development institutes have served a useful purpose. They have not interfered with private investment, but have supplemented and stimulated it. The principal criticism leveled at them is not that they have done too much, but rather that they have not fully justified the hopes placed in them. This inadequacy has been due in large part to the difficulty of assembling in each country a competent staff of engineers, agronomists,and economists able to develop and plan in detail individual investment projects. In this respect, the establishment in Guatemala of a joint Central American Research Institute for Industry may prove of great usefulness since, with its projected staff of United Nations experts, it may act as a common research center for the national institutes.

OTHER ECONOMIC ACTIVITIES

The extent to which the Central American Governments operate directly in certain branches of the economy has been increasing in recent years. In general, however, the Governments have confined such operations to well-defined areas where private initiative was lacking, and have attempted to carry out their new responsibilities through specially created autonomous agencies whose management would be removed from day-to-day politics.

The Government's responsibility for developing and maintaining an adequate transportation and communications system is recognized today throughout Central America. Construction and maintenance of highways are placed under the authority of the Ministries of Public Works. Railways, on the other hand, are owned and operated to a large extent by the foreign companies which built them. Guatemala's, El Salvador's, and Honduras' railway systems are almost entirely under private management. Of Costa Rica's two railways, one is operated privately and the other by the Government. Only Nicaragua's railway system is entirely under Government control. Since the ports are generally operated by the railroads, a large number of them are under private administration.

Domestic air transport is another field in which Government participation varies from country to country. In Guatemala, the Government-owned Aviateca has a monopoly (as has the Nicaraguan line, La Nica, in Nicaragua) in which the Government has a 20-percent interest. In Costa Rica and Honduras, the Governments have an interest in one of several existing companies providing domestic air transport. In all five countries, postal and domestic telegraph and telephone facilities are publicly owned and operated.

An important field in which the Governments have taken an increasingly active interest is electric power. The larger hydroelectric developments in El Salvador and Costa Rica are being carried out by public electric power development commissions, but distribution of the power is handled by private firms. The development of the Río Lindo project in Honduras will probably also be undertaken by the Government, and in Nicaragua the principal power company has long been publicly owned. Guatemala is the only country in which the larger part of power development continues to be handled by the dominant private power firm, which is a subsidiary of the American and Foreign Power Co.

The important role played by all five Governments in the banking structure has already been mentioned. In all of the countries except El Salvador the central banks are public institutions, and in all except Honduras Government owned or sponsored commercial or mortgage banks have long been the most important single lenders. Costa Rica, however, took the most spectacular step in this field by nationalizing its entire banking system in 1948. This nationalization applied to three commercial banks whose stockholders were indemnified through the issuance of 7-percent bonds in lieu of their shares. The nationalized banks have separate boards of directors whose members are appointed for fixed terms. Insurance also has been nationalized in Costa Rica since 1924.

The increasing responsibilities of the Governments for social welfare have resulted in the establishment of low-cost housing institutes in two of the countries-El Salvador, where the housing problem is particularly acute, and Costa Rica. In Guatemala, the INFOP has financed one low-cost housing development.

As a result of the expropriation of the property of German nationals during World War II, the Guatemalan Government owns and operates extensive areas of rich farmland on which about one-third of the country's coffee and sugar crops are grown.

Chapter II

UNITED STATES - CENTRAL AMERICAN COMMERCIAL RELATIONS

Documents in this chapter recount the inception, maturation and termination of trade agreements between the United States and Honduras, Costa Rica, Guatemala, and El Salvador.

A. THE RISE OF RECIPROCAL TRADE AGREEMENTS

1. EXPLORING POSSIBILITIES WITH HONDURAS AND GUATEMALA (1934)

From: Study of the Foreign Commerce of Honduras with Special Reference to the Possibility of Reciprocal Trade Agreements; Memorandum, Department of State; February 15, 1934; A/FU 611.1531/6; Central Decimal Files 1930-39, Record Group 59; National Archives and Records Administration.

MEMORANDUM

A careful study has been made of the foreign commerce of the Republics of Honduras and Guatemala with special reference to the possibility of a reciprocal trade treaty between each of those countries and the United States.

Both Honduras and Guatemala are agricultural countries. They have had very little industrial development, and their population is to a great extent primitive in their needs and ways of living. Both countries grow corn and other grains which are, with beans, the basic food of the native population. Cattle raising is also engaged in on a fairly large scale and supplies beef for food, and from the by-products are made shoes and various other leather goods, candles, etc. Because of climatic conditions, however, the native does not engage as extensively in hog raising, and in the past there has been a substantial movement of lard, hams and bacon from the United States to these two countries.

While the native production supplies the food demands of the lower class native for the most part, this is not true of the foreigners and upper classes. For this reason, there is a substantial importation of numerous American food products, both manufactured and unmanufactured. See statement attached to this memorandum, showing the exports of the United States to Guatemala and Honduras during the year 1932 (see Table II.1.1).

An examination of the exports of the United States to Guatemala and Honduras also shows that these two countries import practically everything that they need of a manufactured nature. As indicated above, with the exception of some shoe and textile manufacturing, a couple of breweries and the mining and newspaper enterprises, there is next to no industrial developments in these two countries. Whatever is done is pursued on a small scale and the materials, such as machine parts and all sorts of chemicals, are imported from abroad.

On the other hand, the economic structure of these two countries is based practically on two agricultural products –bananas and coffee, the former being by far the more important commodity in Honduras and coffee occupying the same position in Guatemala. Both of these commodities are admitted into the United States free of duty. Obviously, they cannot be grown in this country and can be said to compete only very remotely with home grown products. In addition, Honduras and Guatemala have available for export coconuts, cacao, mica, chicle, mahogany and other hard woods, and some castor oil and indigo. None of these products is found or can be grown in the United States, and therefore admitting them freely to the extent of American needs would impose no burden on local industry. The two countries also produce a substantial amount of gold and silver, the importation of which it may or may not be desirable to foster depending on future monetary policies.

The question arises as to what kind of a reciprocal trade treaty these two countries could make with the United States in view of the kind of commerce above outlined. It seems that the treaty should provide for the free importation into the United States of the coffee and bananas of these two countries without any restriction as to quantity, and if possible, of some of the secondary products also. Probably Honduras and Guatemala would be satisfied with the free importation of coffee and bananas only. On the other hand, as regards the exports of the United States to Honduras and Guatemala, it would seem that for the United States to be assured of any benefit from the treaty it must be given a percentage based on the proportion of the exports of these two countries which are sent to the United States. Ordinarily, in recent years Honduras has imported more from the United States than it exported to the same country. For instance, in 1932-33, 73.88% of the imports into Honduras came from the United States whereas only 67.74% of the exports went to that country. Total imports amounted to $5,957,931.99, of which the United States secured $4,644,491.64. The total exports amounted to 23,409,494.61 *lempiras, of* which the United States accounted for 19 342 594.43. For Guatemala, the total exports in 1932 were $10,660,735, of which $3,971,123, or less than 40%, went to the United States. The total imports amounted to $5,768,070, of which $2,980,402, or over 50%, came from the United States. A percentage arrangement would, therefore, not disturb existing commercial arrangements to any extent but would rather preserve to the United States its hold in these two markets. In fact, there is good reason to believe that the United States should be able to extend its markets in these two countries because they will need to import all kinds of manufactured and semi-manufactured products as they gradually develop industrially, and there is no reason why all these demands cannot be satisfactorily taken care of with United States products.

Honduras and Guatemala are dependent for financing their Governments to a great extent on customs revenues. For this reason they cannot stand any general reduction in customs duties. This applies especially to all sorts of manufactured and semi-manufactured industrial products. On the other hand, in recent years there has been some indiscriminate raising of customs duties on food products, both manufactured and unmanufactured, which, in fact, do not seem to have served their purpose of increasing revenues. These indiscriminate duties might be levelled off in the proposed trade treaty. To be specific, some reduction should be sought in the customs duty for importing such items as lard, ham, bacon, eggs (Honduras), flour, corn and wheat breakfast foods, canned fruits and vegetables, butter, condensed and evaporated milk, milk powders and other infants' foods, and fresh fruits such as apples and grapes. It is certain that with lower duties the importation of these products from the United States would be increased considerably and that the revenues from the Government from these sources would be increased. On the other hand, these reductions in duty would mean a more comfortable and less expensive living for the foreign and upper class portion of the population, and would thus constitute a factor in encouraging further development and investment by foreigners, the effect of which can only be appreciated by those who have lived in these countries.

Summarizing, it would seem feasible and desirable to negotiate reciprocal trade treaties between the United States and the Republic of Guatemala and Honduras respectively providing for:

1. The free importation into the United States of bananas and coffee from these two countries, and such miscellaneous products as cacao, coconuts, gold, mica, mahogany and hard woods, chicle, castor oil, indigo, etc., as may be agreed upon.
2. The allocation to the United States of a definite percentage of the total imports into these countries based on the percentage taken by the United States of their exports.
3. A reduction in the customs duties of certain manufactured and unmanufactured food products as explained in the memorandum.
4. A period of ten years with right to either party to terminate on one year's notice.

Table II.1.1

STATEMENT OF PRINCIPAL ARTICLES EXPORTED BY UNITED STATES TO THE REPUBLICS OF GUATEMALA AND HONDURAS DURING THE FISCAL YEAR 1932

	To Guatemala	To Honduras
Total domestic exports	$2 794 000.	$4 432 000.
Total foreign exports	26 000.	42 000.
Exports According to Principal Classification		
00 - Animals & animal products, edible	159 643.	243 383.
0 - Animals & animal products, inedible (except wool & hair)	128 083.	259 831.
1 - Vegetable food products & beverages	574 278.	499 252.
2 - Other vegetable products, except fibres & wood	87 310.	105 638.
3 - Textiles	660 268.	1 036 554.
4 - Wood & paper	71 595.	282 122.
5 - Non-metallic minerals	315 161.	439 077.
6 - Metals & manufactures, except machinery & vehicles	188 691.	444 502.
7 - Machinery & vehicles	276 094.	484 496.
8 - Chemicals & related products	188 385.	432 251.
9 - Miscellaneous	144 242.	204 472.

Domestic Exports by Economic Classes	Guatemala		Honduras	
	1931	1932	1931	1932
Crude materials	$128 621.	$78 890.	$46 122.	$25 679.
Crude foodstuffs	51 296.	52 331.	255 126.	194 481.
Manufactured foodstuffs	1 111 515.	681 590.	1 035 511.	548 154.
Semi-manufactures	623 836.	360 500.	655 631.	546 620.
Finished manufactures	3 220 948.	1 620 439.	3 918 883.	3 116 644.

Table II.1.2

STATEMENT OF IMPORTS FROM REPUBLICS OF GUATEMALA AND HONDURAS DURING THE FISCAL YEAR 1932

	Guatemala		Honduras	
	Free	Dutiable	Free	Dutiable
00 - Animals & animal products, edible	-	-	-	6.
0 - Animals & animal products, inedible (except wool & hair)	1 819.	7 135.	2 883.	295.
1 - Vegetable food products & beverages	4 417 931.	598.	8 720 484.	111 855.
2 - Other vegetable products, except fibres & wood	470.	48.	9 787.	1 422.
3 - Textiles	160.	153.	-	-
4 - Wood & paper	14 410.	493.	40.	1 866.
5 - Non-metallic minerals	-	-	-	70.
6 - Metals & manufactures, except machinery & vehicles	-	22.	-	48.
7 - Machinery & vehicles	-	100.	200.	70.
8 - Chemicals & related products	-	-	-	-
9 - Miscellaneous	58 045.	15.	155 185.	50.
Domestic Imports by Economic Classes				
Crude materials	11 722.	7 173.	12 710.	1 717.
Crude foodstuffs	4 417 931.	-	8 720 484.	102 246.
Manufactured foodstuffs	-	598.	-	9 615.
Semi-manufactures	4 667.	485.	-	1 887.
Finished manufactures	58 515.	308.	155 385.	217.

2. TARIFFS AND ORIGIN OF IMPORTS IN COSTA RICA (1934)

From: Proposed Commercial Treaty; Despatch No. 348 from Legation of the United States of America, San José, Costa Rica to Secretary of State, Washington; July 24, 1934; 611.1831/22 A/FU

LEGATION OF THE UNITED STATES OF AMERICA
San José, Costa Rica
July 24, 1934

PROPOSED COMMERCIAL TREATY

The Honorable
The Secretary of State
Washington

Sir:

Supplementing my Despatch No. 345 of yesterday, I have the honor to transmit herewith a detailed 1/ memorandum prepared by the American Consulate in San José covering the principal products exported by the United States to Costa Rica, and from it, it will be seen that the United States dominates the Costa Rican market in most important categories despite prevailing high duties. The products are classified with a view of determining the feasibility and desirability of obtaining tariff concessions thereon in the event a new commercial agreement between the two countries can be negotiated.

It will be noted that a number of the most important items in United States exports to Costa Rica conflict with this Government's protection policy for local agriculture and industry, whereas in the case of other items reductions in existing tariffs might conceivably benefit exportations from other countries (with most-favored-nation treaties with Costa Rica) more than those from the United States. On a number of other items, which the United States largely supplies to this country, existing import duties can scarcely with justice be qualified as high enough to restrict their market in Costa Rica. There thus remains a fairly narrow range of articles on which tariff reductions might possibly result in expanded sales for American exporters and which the Costa Rican Government might feel disposed to grant. The most important of these items have been indicated in the Consulate's memorandum attached hereto.

In my opinion the prevailing tariffs on flour, canned foodstuffs and fats are too high and a reduction therein would stimulate United States exports with a corresponding increase in Costa Rican revenues, but such a reduction collides head-on with the traditional protective tariff policy of the Government. In this same connection, I am enclosing a copy of a letter dated March 24, 1934, prepared at my request by Mr. T. P. Jamieson, Manager of the Agencia Unidas (Otis, McAllister & Company, of San Francisco), and which embodies his ideas on possible tariff reductions that might assist the United States in increasing sales in Costa Rica.*

In connection with Foreign Minister Gurdian's statement in his letter to me (enclosed with my despatch of yesterday) regarding the heavy balance in favor of the United States on foreign trade between Costa Rica and the United States during the five-year period 1929-1933, it is pointed out that most of that balance in favor of the United States was the result of one year, 1929, and that for the past two calendar years, 1932 and 1933, the trade balance has been in favor of Costa Rica. In 1932, the United States purchased ¢14 750 640 (¢4.40) from Costa Rica and sold ¢12 644 257, whereas in 1933, the figures were ¢16 785 062 and ¢13 773 560 (¢4.55), respectively.

May I take this opportunity of commending to the Department Consul Holler and Vice Consul Satterthwaite for their rapid and excellent compliance with the Department's telegram No. 29 of July 20, 1934.

Respectfully yours,

(signed)
Leo R. Sackl

Enclosure:
1. Memorandum by Consulate

631
LRS-EGT/82

*Letter not reproduced here, as it was not found with the original document.

AMERICAN CONSULATE

San José, Costa Rica, July 23, 1934

MEMORANDUM FOR LEGATION

(In compliance with the Department's telegram of July 20, 1934, to the American Legation, San José.)

In compiling the lists below, only articles were taken the imports of which are supplied over 50% by the United States and in quantities of over 25,000 colones per annum, unless it is believed that the article could be imported in larger quantities if the duties were lowered.

The articles are divided into four headings as follows:*

1. Articles not produced in Costa Rica and imported largely from the United States.
2. Articles which are imported largely from the United States, but which are produced in Costa Rica.
3. Articles imported largely from the United States which are not produced in Costa Rica and used in Costa Rican industry, as raw or semi-raw materials. (This is a sub-division of Section 1.)
4. Articles imported largely from the United States, some either produced in Costa Rica or competing with Costa Rican products, which on account of high duties, increase the price of the product to the consumer greatly.
5. List of articles taken from the other lists, on which it is believed there is the greatest possibility of securing reductions in the tariff.

It should be remembered at the outset, that the Custom Revenues are about 50% of the total revenues of the Costa Rican Government, and should they be reduced, some other method of securing revenue would have to be found.

(signed)

John E. Holler
American Consul

1. Original and four copies sent to mission

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LS/ML

*The material in Sections 1 and 2 of this document was condensed into two tables, which are located in the Statistical Appendix. References to import volume and import tariffs have been excluded. Sections 3 and 4 follow, and have also been abridged.

Section 3: ARTICLES WHICH ARE USED IN COSTA RICA INDUSTRY AND NOT MANUFACTURED LOCALLY

(For 1931 4.00 colones equal $1.00; for 1932 4.40 colones equal $1.00; and for 1933 4.55 colones equal $1.00)

Table II.2.1
COSTA RICA: ORIGIN OF IMPORTS OF BOTTLES, 1931

Origin	Value in Colones	Weight in kg
Germany	8 770.00	12 662 000
United States	11 658.40	22 732 000
England	54.00	96 000
Panama	36.00	11 500
Other countries	2.00	14 000
Total	**20 520.40**	**35 515 500**

The high duties on bottles of all kinds, added to the high freight rates, make them expensive to the bottlers, druggists, soft drink manufacturers and others. Since almost all of the bottles imported into Costa Rica are used in local industries of one kind or another, and since there is no local production, it is believed that the duty on them could be lowered to the benefit of Costa Rican Industry and exports from the United States.

Table II.2.2
COSTA RICA: ORIGIN OF IMPORTS OF PARAFFIN, 1933

Origin	Value in Colones	Weight in kg
Germany	477.00	408 000
United States	517 143.00	1 295 831 000
France	2 579.00	223 000
Holland	5 840.00	10 025 000
Total	**524 039.00**	**1 306 487 000**

Paraffin is also used in local industries, principally soap and candle manufacturing, both of which are relatively important locally. It is the opinion of this office that the soap and candle manufacturing industries could expand considerably if paraffin were placed on the free list. This would, of course, mean larger imports of this article from the United States.

Table II.2.3
COSTA RICA: ORIGIN OF IMPORTS OF ROSIN, 1932

Origin	Value in Colones	Weight in kg
Germany	622.00	630 000
United States	48 433.00	189 893 000
Holland	355.00	155 000
India	249.00	157 000
England	476.00	333 000
Panama	104.00	50 000
Total	**50 239.00**	**191 218 000**

Rosin is used in various local industries such as soap making, which could be expanded with lower or no import duties.

Table II.2.4
COSTA RICA: ORIGIN OF IMPORTS OF TALLOW, 1931

Origin	Value in Colones	Weight in kg
Germany	9 360.00	13 594 000
Canada	9 549.00	21 340 000
United States	21 546.00	55 662 000
England	3 564.00	6 166 000
Norway	3 471.00	8 198 000
Total	**47 490.00**	**47 490 000**

The same remarks apply to tallow as to paraffin.

Table II.2.5
COSTA RICA: ORIGIN OF MPORTS OF METAL BOTTLE TOPS, 1931

Origin	Value in Colones	Weight in kg
Germany	3 056.80	1 990 200
Belgium	592.00	400 000
Denmark	329.00	327 000
Spain	1 400.00	1 036 000
United States	25 866.94	19 713 400
Panama	14.32	7 200
Other countries	11.40	5 000
Total	**31 270.46**	**22 478 800**

The margin of profit in the soft drink business is small. The Consulate believes that a reduction or abolition of the duty on metal bottle tops would expand United States exports of them to Costa Rica considerably.

The Beer Industry also uses large quantities of bottle tops. Both the soft drink and beer industry is protected by high tariffs, and it may be that the protection could extend to include a reduction of the duties in necessary materials and supplies.

Table II.2.6
COSTA RICA: ORIGIN OF IMPORTS OF RUBBER HEELS AND SOLES, 1931

Origin	Value in Colones	Weight in kg
United States	23 227.82	10 691 900
Italy	4.00	700
Total	**23 231.82**	**10 692 600**

The remarks made about bottle tops also apply to rubber heels and soles, which are used in the highly protected shoe industry.

Section 4: ARTICLES IMPORTED LARGELY FROM THE UNITED STATES, SOME EITHER PRODUCED IN COSTA RICA OR COMPETING WITH COSTA RICAN PRODUCTS, WHICH ON ACCOUNT OF HIGH DUTIES, INCREASE THE PRICE OF THE PRODUCT TO THE CONSUMER GREATLY

(For 1931, 4.00 colones equal $1.00; for 1932, 4.40 colones equal $1.00; and for 1933, 4.55 colones equal $1.00)

Table II.2.7
COSTA RICA: ORIGIN OF IMPORTS OF WHEAT FLOUR, 1933

Origin	Value in Colones	Weight in kg
Germany	124.00	185 000
Canada	46 161.00	214 036 000
Spain	36.00	65 000
United States	1 935 317.00	8 364 688 200
Panama	9 166.00	15 274 700
Peru	24.00	82 000
Total	**1 990 828.00**	**8 594 330 900**

Wheat is not grown in Costa Rica in spite of the heavy duty on flour, for the simple reason that there is no land available for the economical production of it. Nevertheless, while the duties are admittedly of a protective nature, they constitute such an important source of revenue to the Government that in all probability it would be necessary to prove to the Government that a reduction in duties would increase the use of wheat flour to such an extent that the net revenue would not suffer. It is the opinion of the consulate that the Government by imposing high duties on wheat hopes to wean the people away from wheat to various food products grown in the country. The traditional food of the poor people has been rice, beans, and corn tortillas, all of which are native. For these two reasons, it is doubted greatly whether the Costa Rica Government would be willing to lower the duty on wheat flour.

Table II.2.8
COSTA RICA: ORIGIN OF IMPORTS OF LARD, 1933

Origin	Value in Colones	Weight in kg
Belgium	7 155.00	10 920 000
United States	1 083 759.00	1 473 369 000
Holland	61 609.00	89 254 000
Panama	492.00	220 900
Total	**1 153 015.00**	**1 573 763 900**

For years the Costa Rican Government has been attempting to foster the production of native lard, but even with the high duties now in force, considerable quantities of foreign, (United States), lard are imported. While it is quite apparent that from a purely economical point of view, lard can be produced much more cheaply in other countries more suited to the growing of hogs, where corn is cheaper and other conditions are more favorable, it is doubted whether the Costa Rican Government could be persuaded to lower the duties on lard.

The high duties on evaporated and condensed milk, except those types which are for babies which are free of duty, are to protect the native dairy industry, and quite probably the Costa Rica Government would not be willing to lower them. There are many sections of the country, in fact most of it, where fresh milk is often impossible to obtain. In these sections the children suffer from the shortage, and the duties on canned milk are so high as to put it out of reach of most of the population. It is quite possible that some arrangement could be made to admit canned milk free of duty or at lower duties for use in the sections where fresh milk is difficult or impossible to obtain.

Table II.2.9

COSTA RICA: ORIGIN OF IMPORTS OF EVAPORATED AND CONDENSED MILK, 1932

Origin	Value in Colones	Weight in kg
Germany	1 651.00	2 036 000
Denmark	13 960.00	19 927 000
United States	81 569.00	74 112 000
Holland	6 852.00	9 316 000
England	1 742.00	2 509 000
Norway	712.00	1 022 000
Panama	6 361.75	4 888 500
Other countries	34.13	32 000
Total	**112 827.88**	**113 842 500**

Table II.2.10

COSTA RICA: ORIGIN OF IMPORTS OF OATMEAL, 1932

Origin	Value in Colones	Weight in kg
Germany	2 081.00	2 840 000
United States	68 365.00	112 255 900
Holland	2 147.00	3 105 000
England	5 589.00	8 341 400
Panama	522.83	398 880
Other countries	15.40	24 000
Total	**78 720.23**	**126 965 100**

Table II.2.11

COSTA RICA: ORIGIN OF IMPORTS OF CANNED FOODSTUFFS (No date given)*

Origin	Value in Colones	Weight in kg
Germany	1 482.00	854 000
Argentina	1 441.00	1 143 000
Czechoslovakia	4.00	3 900
Chile	268.00	673 000
China	3 363.00	2 648 000
Denmark	1 047.00	485 000
Spain	1 698.00	1 794 000
United States	35 993.00	36 291 800
Finland	68.00	62 000
France	2 492.00	717 900
Holland	285.00	123 000
England	700.00	297 000
Italy	1 706.00	829 400
Japan	407.00	177 000
Mexico	6.00	3 600
Norway	367.00	6 900
Panama	5 016.11	2 784 200
Switzerland	97.00	33 700
Other countries	58.03	33 300
Total	**56 498.14**	**48 961 300**

*The original document did not specify a date for this category of imports.

There is no canning industry in Costa Rica, but canned foodstuffs are considered to compete with native fresh foods, for which reason the tremendously high duties are assessed. In addition, there is a feeling that only the rich use them, who can afford the high prices the duties necessitate. This of course, increases the revenue of the Government. While a decrease in the duties would benefit both the Costa Rican consumer and the American exporter, for the reasons mentioned, it is doubted whether the Government would be willing to lower the duties. The Consulate is preparing a list of canned goods which do not directly compete with native Costa Rican products, which will be forwarded as soon as possible. It may be that a reduction could be affected on some of these. According to many, however, food competes with other food, even if the particular kind does not compete with the same kind. That is, a can of pickled onion, not produced here, competes with fresh onions which are grown here.

Table II.2.12

COSTA RICA: ORIGIN OF IMPORTS OF CANDIES, 1932

Origin	Value in Colones	Weight in kg
Germany	1 934.00	696.200
Canada	1 820.00	544 600
Cuba	3.00	4 200
China	3.00	2 000
Spain	685.00	380 300
United States	72 392.00	25 917 100
France	1 802.00	936 500
Guatemala	6.00	5 500
Holland	843.00	309 900
Honduras	5.00	1 000
England	6 707.00	4 292 200
Italy	3 683.00	1 421 400
Jamaica	48.00	14 800
Nicaragua	3.00	1 800
Panama	468.41	88 000
Switzerland	625.00	140 600
Venezuela	13.00	3 200
Other countries	222.60	96 250
Total	**91 263.01**	**34 855 555**

In an effort to foment the local manufacture of cookies, candies, and other confections, very high duties have been placed on these articles. The result has been, with a very few exceptions, that the consumer suffers through increased cost in imported articles without an adequate and high quality local production to offset it. In spite of continued agitation, which in the past has been successful in raising the duty from time to time, there has recently been a swing to the point of view that the desire to protect local industry, though laudable, should not be carried to the point of strangling imports without supplying the commodity in question locally. Quite possibly, a reduction in the duties of these articles could be obtained, though to be successful it probably would have to be from the present one and two colones to fifty centimos per kilo.

Table II.2.13

COSTA RICA: ORIGIN OF IMPORTS OF TEXTILES, 1931, 1932, 1933

Origin	Value in Colones	Weight in kg
	COTTON SHIRTS: Imports for 1932	
Germany	1 497.00	104 700
Spain	2 607.00	595 000
United States	43 358.00	3 747 600
France	88.00	5 200
England	2 892.00	90 800
Italy	1 249.00	57 000
Japan	690.00	146 000
Nicaragua	43.00	74 600
Panama	473.42	61 000
El Salvador	24.00	1 100
Other countries	192.00	18 200
Total	**53 113.42**	**4 901 200**
	DRILL: Imports for 1933	
Germany	9 238.00	2 346 200
Belgium	15 606.00	3 320 000
United States	88 370.00	21 449 000
Holland	3 265.00	690 000
England	54 643.00	13 199 400
Italy	68 037.00	15 024 600
Japan	4 201.00	2 062 000
Panama	841.00	127 000
Other countries	35.00	7 200
Total	**244 236.00**	**58 225 400**
	BATTING: Imports for 1932	
Germany	1 395.00	414
Spain	4 323.00	1 178
United States	322 876.00	108 806
Holland	3 669.00	1 348
England	4 493.00	1 418
Italy	2 815.00	816
Japan	9 179.00	4 401
Sweden	374.00	1 182
Total	**349 124.00**	**119 608**
	COTTON FLANNEL: Imports for 1931	
Germany	100.00	36 000
United States	15 166.88	3 386 000
England	2 083.72	478 300
Japan	12 104.00	4 740 000
Panama	180.24	10 250
France	34.92	25 500
Total	**29 669.76**	**8 676 650**
	SHEETING: Imports for 1931	
Germany	224.25	20 900
Belgium	1 013.00	225 500
Spain	4 648.16	783 900
United States	1 591.24	274 800
France	2 518.58	229 000
England	2 250.30	358 300
Italy	307.50	19 200
Nicaragua	60.00	4 000
Panama	1 018.52	68 550
Total	**13 631.55**	**1 984 150**

Table II.2.13 (continued 1)

Origin	Value in Colones	Weight in kg
	COTTON THREAD: Imports for 1932	
Germany	3 506.00	382 500
Spain	503.00	73 500
United States	14 849.00	7 091 700
France	22 371.00	2 413 400
England	226 835.00	27 951 100
Italy	2 733.00	359 800
Other countries	9.00	400
Total	**270 806.00**	**38 272 400**
	CALICO: Imports for 1932	
Germany	204.00	12 500
United States	153 872.00	44 419 400
England	47 872.00	13 629 500
Japan	429.00	210 000
Panama	107.00	12 600
Other countries	45.00	10 000
Total	**202 529.00**	**58 294 000**
	WOOLEN GOODS: Imports for 1932	
Germany	5 159.00	627 900
Belgium	9 733.00	849 000
Ecuador	24.00	1 300
Spain	863.00	63 000
United States	3 446.00	400 500
France	27 254.00	1 646 200
England	140 175.00	11 428 100
Italy	58 265.00	5 208 400
Other countries	181.20	29 900
Total	**245 100.20**	**20 254 300**
	UNBLEACHED DOMESTIC: Imports for 1932	
United States	310 154.00	171 663 200
England	150.00	66 000
Japan	2 833.00	1 835 000
Panama	657.58	114 850
Other countries	23.00	41 000
Total	**313 817.58**	**173 718 050**
	COTTON HOSIERY: Imports for 1933	
Germany	77 688.00	3 212 500
Austria	3.00	200
Cuba	742.00	22 500
Czechoslovakia	2 569.00	57 300
China	498.00	118 000
Spain	126 912.00	7 223 300
United States	77 514.00	7 979 700
France	373.00	29 300
Holland	859.00	44 000
England	4 713.00	181 600
Italy	26 040.00	1 216 700
Jamaica	3.00	200
Japan	74 574.00	13 132 800
Panama	188.00	16 600
Sweden	2 240.00	120 000
Switzerland	182.00	8 800
Other countries	45.00	10 500
Total	**395 143.00**	**33 374 000**

Table II.2.13 (continued 2)

Origin	Value in Colones	Weight in kg
SILK HOSIERY: Imports for 1933		
Germany	1 150.00	45 700
Czechoslovakia	460.00	8 200
Spain	1 156.00	12 200
United States	27 877.00	619 800
England	283.00	4 700
Italy	62.00	1 200
Jamaica	4.00	100
Japan	2 510.00	85 000
Panama	109.00	4 400
Sweden	9.00	200
Switzerland	426.00	11 400
Other countries	223.00	12 600
Total	**34 269.00**	**805 500**
READY MADE COTTON CLOTHING: Imports for 1932		
Germany	2 208.00	197 900
Argentina	7.00	400
Belgium	1 954.00	208 800
Cuba	13.00	2 900
Czechoslovakia	3.00	800
China	26.00	1 200
Spain	2 560.00	264 600
United States	35 551.00	3 575 300
France	3 769.00	213 000
Guatemala	4.00	1 200
Holland	140.00	13 100
England	2 798.00	239 300
Italy	136.00	15 100
Jamaica	46.00	9 400
Japan	9 451.00	2 125 700
Mexico	10.00	200
Nicaragua	40.00	50 600
Panama	1 074.14	88 520
El Salvador	9.00	1 400
Switzerland	450.00	18 600
Other countries	772.29	139 900
Total	**61 031.43**	**7 257 920**
READY MADE COTTON AND SILK CLOTHING: Imports for 1932		
Spain	66.00	3 800
United States	709.00	29 200
France	255.00	3 800
Japan	6.00	700
Total	**1 036.00**	**37 500**

Table II.2.13 (concluded)

Origin	Value in Colones	Weight in kg
	COTTON CLOTH: Imports for 1932	
Germany	3 244.00	198 400
Cuba	10.00	3 000
Ecuador	5.00	300
Spain	9 148.00	1 724 000
United States	251 295.00	40 471 700
France	5 740.00	316 000
Holland	2 288.00	746 000
Honduras	4.00	1 000
England	214 466.00	39 203 700
Italy	4 690.00	949 500
Jamaica	4.00	1 300
Japan	1 985.00	797 000
Nicaragua	4.00	300
Panama	565.96	44 450
Switzerland	8 614.00	522 300
Other countries	1 144.12	81 100
Total	**503 207.08**	**85 060 650**
	SILK CLOTH: Imports for 1932	
Germany	7 457.00	242 500
Cuba	9.00	500
Ecuador	12.00	600
Spain	10 474.00	626 000
United States	187 315.00	10 429 000
France	32 477.00	2 023 900
Honduras	169.00	1 200
England	9 813.00	378 000
Italy	2 551.00	116 200
Jamaica	27.00	2 700
Japan	105 603.00	9 789 500
Nicaragua	28.00	2 200
Panama	1 523.27	67 600
Switzerland	30 923.00	1 386 000
Other countries	5 554.60	486 400
Total	393 935.87	25 522 300

Since there is a desire to protect the small but apparently prospering textile industry, and to help it grow to a point where it can produce all but fancy textiles, it is believed that there is very little possibility at present of securing a reduction in the duties on any textiles.

Section 5: POSSIBILITIES OF TARIFF REDUCTIONS

a. *SILK GOODS*: Silk goods are assessed a very high rate of duty, not to protect local industry, but as luxuries. Even a slight lowering of the import duty would increase consumption in the country, and, since there is a general feeling that the duty is too high, there is a possibility that a reduction of from 25% to 40% could be effected.

b. *CANNED ALIMENTARY PRODUCTS*: Canned fruits and vegetables, the majority of which have origin in the United States pay, what appears to be a very high rate of duty, i.e., Colones 0.75 per gross kilogram, plus extra charges which bring the net duties to as high as $6.20 per case (U.S. Currency). Should the rate of duty be reduced to approximately Colones 0.25 per gross kilogram, or $2.10 per case local consumption would undoubtedly increase.

c. *SUGAR*: The local sugar industry is so limited in production that it does not supply the entire needs of the country. However, a high import tariff is levied on sugar, tending to keep the price of this article of primary necessity at a high figure.

d. *FISH OIL*: The Japanese appear to have got control of this market in Costa Rica and the item in question pays a duty of approximately $0.03 1/2 per pound. Japanese oil is lower than that in the United States and could the rate of duty be reduced American firms could possibly regain their lost market locally in this commodity.

e. *GASOLINE AND KEROSENE*: The high local price of gasoline, controlled by the national monopoly on this product, makes the operation of automobiles prohibitive except for the very wealthy. The import duty of Colones 0.17 per kilogram, however, is not excessive, and the reduction should come from the monopoly and other taxing agencies. Should the price of gasoline be reduced the motor car market in Costa Rica would take a decided impetus, and the sale of American automotive machinery and accessories would be on the increase.

The Consulate is preparing a report on protection given to local Costa Rican industries, as well as complying with the second paragraph of the Department's telegraph of July 19, 1934, which called for a supplemental report on desirable changes in customs administration. Both of these reports will be forwarded at a subsequent date and as soon as the information can be obtained.

3. INDUSTRIAL PROTECTION IN EL SALVADOR (1935)

From: Salvadoran Protection of Local Industries; Despatch No. 10 from American Consulate General, San Salvador, El Salvador to Secretary of State, Washington; February 6, 1935; 611.1631/104 A-LS.

AMERICAN CONSULATE GENERAL

San Salvador, El Salvador, February 6, 1935

SUBJECT: Salvadoran Protection of Local Industries

THE HONORABLE

THE SECRETARY OF STATE

WASHINGHTON

SIR:

I have the honor to refer to the Department's airmail instruction to the American Legation at San Salvador No. 58 of December 21, 1934, without file number, regarding the projected Salvadoran-American Trade Agreement, with special reference to the phrase "Protection of Local Industries," which would list all industries that now enjoy tariff protection, specifying the extent of that protection both on the finished products and on raw materials, the kind and classes of commodities produced, effect of protection on importations, and giving figures on annual output, capital investment, et cetera" and to submit the available data-- largely a revision and amplification of the information provided in the Consulate General's report dated March 9, 1934, entitled "Manufacturing Developments in El Salvador" (Consulate File No. 610.1) except that the local manufacturing of cotton yarn, cotton piece goods and certain cotton finished articles (headshawls, bedspreads, and hosiery) was discussed in the Consulate General's despatch No. 663 of December 28, 1934, on the subject "Manufacture of textiles and hosiery in El Salvador" (Consulate File no. 868.11).

The following report covers all other Salvadoran manufacturing industries so far as data are available including some of the household handicrafts. It is thought that there may be other handicrafts in this area that may be protected by the Salvadoran tariff rather accidentally through the imposition of high import duties, principally for revenue purposes, but that their operations are conducted on a petty, fluctuating and only quasi-commercial scale so that for them information is not procurable-- nor necessarily of much direct concern for the projected Salvadoran-American trade negotiations.

Attention is invited to the fact that Vice Consul Joseph E. Maleady may be credited in major degree with the preparation of 4 commodity sections; namely those on Henequen Bags, Beer and Soft Drinks, Matches, and Ironware, out of the total of 18 commodity sections in the following despatch.

INTRODUCTION

Rate of Salvadoran Exchange

The Commercial rate of exchange today for Salvadoran currency (the Colon) is ¢2.49 3/4 per $1.00; that is $0.40 per ¢1.00.

Salvadoran Import Duties

Salvadoran import customs duties are levied in nominal American dollars but are payable in Salvadoran Colones at the officially-established reduced exchange rate of ¢2.20 per $1.00 ($0.45 per ¢1.00) which in effect gives a saving to local importers of roughly 12% below today's commercial exchange rate. The rates quoted in the following commodity sections of this report do not include the 1% surcharge that has been imposed until December 31, 1935, as a means to collect funds for the construction of the Salvadoran Stadium which was cited in the Consulate General's despatch No. 678 of January 15, 1935, on the subject "Salvadoran taxes on imports in addition to import duty" (Consulate File No. 631).

Salvadoran Import Statistics

For the import data utilized in the succeeding sections of this despatch reference is made to the Consulate General's despatch No. 584 of August 24, 1934, on the subject "Salvadoran Foreign Trade Statistics for 1933" (Consulate File No. 600) while conversions into American dollar equivalents have been made at $0.34 per Colon which was the average exchange rate for that year.

Salvadoran Preferential Trade Privileges and Burdens

The Salvadoran Tariff Book ("Tarifa de Aforos" a copy of which was forwarded to the Department for the Department of Commerce with the Consulate General's despatch No. 625 of October 16, 1934, Consulate File No. 020) contains the text of the several Salvadoran treaties or decrees granting special tariff exemptions:

1. The Salvadoran-Honduran Free Trade Treaty of February 28, 1918, on page 225.

2. The Salvador an reduced tariff schedule and notes (A, B and C) on pages 227-228 applicable to the other Central American countries; i.e., those less favored than Honduras.

3. The Salvadoran-French Treaty of January 15, 1902, on pages 229-232, inclusive.

4. The Salvadoran-Italian Treaty of March 19, 1934, on pages 233-235, inclusive.

5. The application of the French and Italian privileges to certain most-favored nations including the United States under the Salvadoran-American Treaty of September 5, 1930 (Treaty Series No. 827) on pages 237-241, inclusive.

The special preferences (Honduran, other Central American, French and Italian) commonly are not important to the Salvadoran protected industries but references have been made to them in the following commodity sections of this despatch where of any commercial importance. As regards the recent Salvadoran Preferential Import Tariff Law which went into effect by January 1, 1935, and was last discussed in the Consulate General's despatch No. 3 of January 26, 1935 (Consulate File No. 630) as well as in the Department's airmail instruction to the American Legation at San Salvador No. 66 of January 29, 1935, without file number, no mention has been made in the following commodity sections as they cover periods prior to its operation.

Salvadoran Export Taxes

None of these Salvadoran protected industries, except coffee –and recently sugar also– produces for export in any commercial volume so that the export tax schedules and notes from the Salvadoran Tariff Book on pages 219-222, inclusive, have not been discussed in detail in the following commodity sections for the other commodities except where of potential significance.

*The material which follows represents an edited version of the original text. Detailed references to tariff rates have been shortened to condense the document.

I. COFFEE

Coffee-growing, the principal industry of El Salvador, has been the mainstay of the country's economy since the middle of the last century. The Salvadoran Tariff prohibits the importation of coffee seeds and protects the local cultivators both for the raw products (coffee beans whether unwashed or washed) and the finished products (coffees prepared for table consumption). The industry furnishes almost all of the country's exports; it is practically the one "cash crop" producer. According to the Salvadoran Fiscal Agent Under the Loan Contract of 1922, the Salvadoran exports of this one commodity during the calendar year 1934 amounted to 49 865 734 kilos or about 109 704 615 American pounds equal to roughly 722 000 "bags" of about 152 American lbs. each and formed about 90% of the volume of total exports for the year. Its estimated value was around $8 600 000 or about 94% of the estimated total export value. The coffee-producers concentrate upon growth for export; the domestic consumption usually takes more than a tenth of the normal output. The crop must be sold in the world's competitive markets and has not been fostered by subsidies although assisted by the general Salvadoran Moratoria ameliorations for agricultural loans enacted since 1930; on the contrary, export customs taxes collected on it commonly supply about a fifth of the national government revenue.

A recent compilation of the coffee "beneficios" (coffee cleaning-washing-and preparing mills) in the republic made by the official coffee association showed 129 establishments. Most of them are owned by coffee planters but the number of planters is considerably larger than the number of mills, as many of them have not constructed their own mills; preferring to sell their crops to millers or to hire milling service. No definite figures for the total capital invested in the coffee industry in El Salvador are available but it may be estimated that milling investments have exceeded $3 500 000 and may be valued today at perhaps half that figure. A substantial share of the production is financed by short-term crop loans and land mortgages in which relatively large amounts of American and some European capital have been placed.

Locally-grown coffee constitutes all of the raw material consumed; the milling "plant capacity" may be expanded readily at low cost except for power installations; and it is sufficient to handle the largest crop yet produced as well as the largest that might be anticipated in the prospectively near future.

It may be of interest to The Country Committee on Trade Agreements with Central America to point out that the American market consumed about 24% of the Salvadoran coffee exports for the 1933/34 Season according to the Consulate General's invoice file and that local coffee brokers estimate that this percentage may be increased to 50/60% for the current annual "season" (1934/35).

Statistical Estimates for Salvadoran Coffee Industry

Coffee Mills:

1. Estimated number of coffee mills 129

2. Estimated total capital (mill structures and machinery alone; that is, excluding mill landsites and all plantation lands and buildings) $3 500 000

3. Employees .... Strictly seasonal

Production, Export, Consumption and Import of Coffee

4. Production statistics for the Salvadoran coffee industry may only be estimated from the known exports but it may be calculated that the total export of 695 560 bags for the 1933/34 "Season" (November 1, 1933, to October 31, 1934, inclusive. Reference: Report from the Consulate General dated November 7, 1934, entitled 'Salvadoran Coffee Exports for the Entire 1933/34 Season", Consulate File No. 861.33) indicated a production of perhaps 800 000 bags or about

60 000 short tons of 2 000 American lbs. each, as the total annual local consumption of coffee is estimated to be about 90 000/100 000 bags, while the value of this output may have been around $10 000 000. The local coffee-preparing industry does not import any coffee beans nor was there any importation of either raw or finished coffee for domestic consumption in 1933 according to the Salvadoran customs statistics.

Import Tariff On Coffee

[The] rate of about $0.21 per American gross pound provides a substantial tariff protection to Salvadoran coffee growers as it amounts to about 200% of the local retail market price for the common grades of ¢0.25 ($0.10) per Spanish lb. (1.014 American lbs.) converted at ¢2.49 3/4 per $1.00.

The importation of coffee plants and seeds into El Salvador is prohibited.

Export Tariff on Coffee

The Salvadoran export tariff on coffee shown in the schedules on page 219 and the Notes on pages 221-222 of the Salvadoran tariff book provides a basic export tax levy (unless shipped to Honduras under Note L) of $3.27 per 100 gross kilos for green milled coffee which has been reduced under Note E to $2.57 for the time during which the Salvadoran Mortgage Bank is keeping certain funds for agricultural development in this country. In this connection reference is made to the Consulate General's despatch No. 680 of January 16, 1935, on the subject "Text and translation of Salvadoran mortgage bank Law". This export tax is not paid in the same manner as are the import levies; it is payable through dollar export drafts for conversion into Salvadoran Colon exchange at the current rate. For the other types of coffee, equalization weights have been established expressing them in terms of green milled coffee; namely: under Note D that 200 lbs. of coffee in dry bean and under Note F. 120 lbs. of parchment coffee shall be taxed as100 lbs. of green milled coffee, while the exportation of ground o r toasted coffee from El Salvador under Note H can be made only with the authorization of the Salvadoran Coffee Protection Commission discussed in the Consulate General's despatch No. 551 of June 15, 1934, on the subject "Revision of Salvadoran coffee control law". In addition to the export customs duty there is the schedule on page 219 of the Salvadoran Tariff Book of petty export development taxes varying geographically but none as much as a tenth of an American cent per American pound.

This rate of $2.57 per 100 kilos or about $1.18 per quintal of 100 Spanish lbs. or about 101.4 American lbs. amounts to about 14% of the minimum current Salvadoran coffee export quotation of $8.50 for the "current unwashed" grade per quintal (based upon the recent export price range of $8.50 to $10.50 f.o.b. ship at local port of export, with export taxes and special taxes paid, per quintal or 2/3 of a bag of coffee weighing 1 1/2 quintals or about 152 American lbs).

II. SUGAR

The sugar mills in El Salvador produce refined cane sugar from sugar cane cultivated in this country. They operate under a quota restriction scheme for both production and sale which has been established and is supervised by the Salvadoran Government's Sugar Protection Board covering all of the sugar refineries in this republic and including import restrictions on sugar, sugar products, and sugar machinery. There is no local production of beet sugar while the Salvadoran protective import tariff rates exclude foreign sugar –whether cane or beet and whether raw or refined. A list of the 28 sugar mills now operating in this country was provided in the Consulate General's report of September 20, 1934, entitled "Sugar - El Salvador" and the latest quota in the Consulate General's despatch No. 630 of October 23, 1934, on the subject "Revised Salvadoran sugar quota for 1934/35" (both Consulate File No. 861.35). There also is some local manufacture of sugar products in sweet shops conducted on a petty scale but the output is unimportant and has been excluded from the following statistics except for tariff citation. In this connection reference is made to the Consulate General's despatch No. 432 of July 26, 1933, on the subject "Practical modification in sugar import restrictions" (Consulate File No. 861.35). The productive capacity of the local sugar refineries is about four times their present rate of output; a factor of interest to The Country Committee on Trade agreements with Central America because the Salvadoran sugar growers and refiners would welcome an opportunity to share in the American import sugar quota sales plan through the exportation of Salvadoran sugar. Attention is invited to the fact that the Salvadoran import tariff on sugar discussed later in this section might provide a convenient vehicle for sugar export disposal under a foreign quota grant at a price competitive with other sugar-producing countries but below Salvadoran sugar prices for internal consumption; in effect, at a dumping price.

Statistical Estimates for Salvadoran Sugar Manufacturing Industry

Sugar Mills

1. Cane sugar refineries now operating under the Salvadoran Sugar Quota Control 28
2. Estimated mill investment (total capital investment in buildings, machinery, etc.., but excluding land sites) $4 000 000
   This investment largely was made during the war andpost-war boom periods; today the upset value may not equal one-fourth of the estimate.

3. Employees .... Strictly seasonal

Production, Consumption and Exports of Sugar:

4. Present established annual production and domestic sales quota (annual "Season" of 1934/35) which is subject to potential increase for export by the Salvadoran Sugar Protection Board.

   (a) Volume (expressed in quintals of 100 Spanish lbs., or 101.4 American lbs. each) .... 240 101 quintals
   The volume equals approximately 12 200 short tons of 2 000 American lbs. each.
   (b) Estimated value calculated from the refineries' price to retailers for the various grades for the price range of ¢8.00 ($3.20) to ¢10.00 ($4.00) per quintal, as converted at ¢2.49 3/4 per $1.00, to average around $0.03 1/2 per American lb. or $70 00 per short ton for 12 000 short tons in the opinion of the representative local refiners) $840 000

5. Estimated plant capacity (annual production) for cane sugar:
   (a) Volume of about 1 000 000 quintals in short tons .... 50000 tons
   (b) Value $3 500 000
   (c) Percentage of plant capacity now being utilized 24%

   This plant capacity has been calculated from the potential cane sugar cultivation in this country– all of which could be handled by the existing refineries according to local refiners' estimates.

6. The estimated Salvadoran total annual consumption of sugar until recently has been about the same as the local production of refined cane sugar –about 12 000 short tons valued at $840 000 for 1934– as imports are negligible; in other words, the local production supplies almost 100% of the demand. This consumption because of the low average income is equal to only about 16 pounds of sugar per capita per annum based upon the total Salvadoran population of 1 493 826, according to the Census of 1931. However, during the past few months export sales of Salvadoran

sugar have been made –especially to adjacent Central American countries. According to the Salvadoran Fiscal Agency Under the Loan Contract of 1922, the total exports of Salvadoran sugar during the calendar year 1934 amounted to 1 024 855 kilos (2 254 681 American pounds or about 1 127 short tons). Value statistics for these shipments are not available yet. It is apparent that the local sugar refiners could produce from 30 000 to 35 000 tons of refined cane sugar for the American market over and above their output for (1) Salvadoran consumption and (2) for probably consumption of Salvadoran sugar in the other Central American countries –but probably only on a protected quota basis for sale in the United States.

7. The Salvadoran supply of raw material (sugar cane) for refined sugar is obtained entirely from locally-grown sugar.

Imports of Sugar and Sugar Products:

8. The following table (II.3.1) shows the imports of raw and refined sugar and sugar products (most confections) for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds:

Table II.3.1

EL SALVADOR: ORIGIN OF IMPORTS OF REFINED SUGAR AND SUGAR PRODUCTS, 1933

Finished products	Gross weight		Value	
(essentially noncompetitive)	Kilos	Pounds	Colones	Dollars
Raw or Refined Sugar				
United States	13 739	30 226	3 288	1 100
Italy	634	1 395	1 256	400
Germany	611	1344	312	100
Great Britain	31	68	25	--
Japan	2	4	1	--
Other countries	215	473	491	200
Total	**15 232**	**33 510**	**5 373**	**1 800**
Confectionery				
United States	16 289	35 836	34 495	11 800
Great Britain	5 848	12 866	5 992	2 000
Italy	2 410	5 302	5 389	1 800
France	1 840	4 048	3 303	1 100
Germany	1 024	2 253	1 245	400
Spain	503	1 107	775	300
Guatemala	7	15	8	-
Mexico	6	13	7	-
Other countries	279	614	315	100
Total	**28 206**	**62 054**	**51 529**	**17 500**

Import Tariff on Sugar and Sugar Products, Including Restrictions

9. According to the Salvadoran Tariff Book there is no Salvadoran tariff protection on raw sugar cane –obviously none is needed; the following items show the Salvadoran tariff protection on competitive finished products (refined sugar) and on the related sugar manufactures levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00).

(a) **Refined sugar**

Rate	
Nominal per 100 gross kilos	$35.00
Actual per 100 gross pounds	14.00

The actual rate of $0.14 per American gross lb. is equal to about 400% of the local refiners' present coverage price to retailers of around $0.03 1/2 per American lb.; the local production is classifiable for reference purposes under Item No. 212-7-01-003 for sugar cane with polarization of 96.40 degrees or more.

Under the Salvadoran-French Treaty cited in the Introduction of this despatch there is a special rate for sugar shown on page 230 of the Salvadoran Tariff Book of only $24.81 nominal per 100 gross kilos or actual $9.92 per 100 gross American pounds.

(b) **Import prohibitions on certain sugar products**

There are the following related prohibitions on sugar importation into El Salvador shown on pages 215 and 216 of the Salvadoran Tariff Book:

Caramel that may be employed in the fabrication of limitation wines.

Centrifugated sugar, loaf sugar, unrefined brown sugar and sugar in any other form for domestic use.

(c) **Import restrictions on sugar machinery**

Furthermore, the importation into El Salvador of machinery for the fabrication of brown sugar is prohibited while the importation into this country of parts and accessories for sugar manufacturing is restricted to the necessities of the existing mills and then only with the previous permit of the Salvadoran Sugar Protection Board-- as provided in two related notes on pages 215 and 216 of the Salvadoran Tariff Book reading as follows:

Machinery for the fabrication of brown sugar except the parts necessary for the existing mills with the previous permit of the Protection Commission.

Articles that can be imported only with a license from the appropriate authorities.

Parts and accessories for sugar manufacturing machinery.

(d) **Import restrictions on sugar products**

The Salvadoran tariff protection for the local petty sugar products is complicated by the following remaining item from the list on page 216 of the Salvadoran Tariff Book:

Articles that can be imported only with a license from the appropriate authorities

Honey, molasses, syrups, confectionery, jam, bonbons, chewing gum or any other sugar products.

However, this general semi-restriction has been discontinued in part by the exemptions shown on page 315 as follows:

Articles that do not need a permit from the Sugar Protection Commission for its importation on page 315. In the following schedule for subsection (e) of sugar products specific references have been made to the exemptions for each item thereof cited in the list on page 315 while the remaining exemptions follow the schedule as subsection (f).

(e) **Sugar products:**

Rate:

Nominal per 100 gross kilos	$51.40
Actual per 100 gross pounds	20.56

Although it is not practicable to determine the rate of protection enjoyed by the local petty fabricators of sugar products, it obviously is high.

(f) **Additional exemption on other products containing sugar.**

There are the other exemptions shown on page 315 of the Salvadoran Tariff Book from the import restrictions on sugar that relate to the possible sugar content of articles not made principally from sugar; namely:

Under the Salvadoran-French Treaty cited in the Introduction of this despatch there is a special rate for bonbons, drops, chocolate and other sugar sweets (bombones, pastillas, chocolate) shown on page 230 of the Salvadoran Tariff Book of only $29.29 nominal per 100 gross kilos or actual $11.72 per 100 gross American pounds.

Sugar Export Charges:

There is no Salvadoran export tax on sugar as provided in the schedule on page 219 other than the petty road taxes indicated by Note C on page 220 and Note L on page 222 of the Salvadoran Tariff Book; the local sugar industry is not penalized for government revenue as is the coffee one.

III. WHEAT FLOUR

There now are two wheat flour mills in El Salvador; one opened in 1932, a second in 1933, and a third in 1934 which absorbed the first-- all operating under special government concessions. The Salvadoran tariff protection under which they operate is complicated by the internal levies discussed in the Consulate General's despatches No. 662 of December 28, 1934, on the subject "Reduction of internal taxes on wheat flour produced in El Salvador; establishment of internal tax on wheat imported into El Salvador for milling purposes as indirect tariff protection" (Consulate File No. 869.1) and no. 678 of January 15, 1935, on the subject "Salvadoran taxes on imports in addition to import duty" (Consulate File No. 631). There is a small local demand for flour from other cereals, particularly from locally-grown yuca, but it is not a significant factor. However, in the rural areas the sale of wheat flour is limited as the proletariat cannot afford to purchase bread. The diet of the lower class is restricted generally to corn, beans and coffee –occasionally varied with meat.

Statistical Estimates for Salvadoran Wheat Flour Manufacturing Industry:

Wheat Flour Mills:

1. Number of wheat flour mills 2
2. Estimated mill investment (total capital investment in buildings, machinery, etc., but excluding land sites) $75 000
3. Estimated employees 100

Production and Consumption of Wheat Flour

4. Estimated annual production of wheat flour (at recent operating schedules):
   (a) Volume (expressed in barrels calculated from the actual finished product: a package ("bulto") of wheat flour of 150 Spanish lbs.; i.e., about 152 American lbs., composed of 3 sacks of 50 Spanish lbs. –equalling approximately 69 kilos and therefore roughly equivalent tothree-fourths of a barrel of 90 kilos or 198 American lbs.gross weight) .... 60 000 bbls.

   (b) Value (calculated from the millers' present prices per package –to wholesalers ¢25.00; to bakers ¢26.00– converted at ¢2.49 3/4 per $1.00 to an average around$13.50 per barrel) $810 000

5. Estimated plant capacity (annual production)
   (a) Volume .... 5 000 bbls.
   (b) Value 1 015 000
   (c) Percentage of plant capacity now being utilized 80%

6. Estimated Salvadoran total annual consumption of wheat flour:
   (a) Volume .... 90 000 bbls.
   (b) Value $1 215 000
   (c) Percentage of total consumption supplied by local production 67%

7. Estimated Salvadoran total annual consumption of raw material (wheat) for local wheat flour mills at recent operating schedules:
   (a) Volume in short tons of 2 000 American lbs .... 9 000 tons
   (b) Value at the present price of around $40.00 pershort ton c.i.f. Salvadoran ports $360 000

Imports of Wheat and Wheat Flour

8. The Salvadoran import data for wheat and wheat flour in 1933 may not be accepted as reliable supply indices as the local mills were not operating then on present schedules but are given for reference in the following table (II.3.2) for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds:

Table II.3.2

EL SALVADOR: ORIGIN OF IMPORTS OF WHEAT AND WHEAT FLOUR 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(a) **Raw Material (Wheat):**				
Wheat in its natural state				
United States	420 442	924 972	50 960	17 300
Total	**420 442**	**924 972**	**50 960**	**17 300**
(b) **Finished Product (Wheat Flour)**				
Wheat flour				
United States	6 778 102	14 911 824	798 165	271 400
Germany	4 623	10 171	519	200
Other countries	13	29	7	-
Total	**6 782 738**	**14 922 024**	**798 691**	**271 600**

Import Tariff on Wheat and Wheat Flour

9. The Salvadoran tariff protection schedules on raw material (wheat) and finished product (wheat flour) levied in gross weights in nominal American dollars payable at ₡2.20 per $1.00; that is at a discount of approximately 12% below today's commercial rate of ₡2.49 34 per $1.00, follow with the exception of the commercially negligible Central American preferences shown on page 227 of the Salvadoran Tariff Book as discussed in the Introduction to this despatch.

(a) Raw Material

Wheat in its natural state

Nominal per 100 gross kilos	$8.80

This rate has been reduced to $2.50 nominal per 100 gross kilos for the Salvadoran concessionaire wheat flour millers, who handle all of the local wheat flour manufacturing, but partial compensatory indirect tariff protection has been provided to encourage the few Salvadoran wheat growers who now can supply only a very small fraction of the local mills' demand, by the imposition of an additional internal production tax upon the concessionaire millers of ₡4.40 per 100 gross kilos on imported wheat plus ₡7.50 per 100 gross kilos of wheat flour so that the millers' tariff charges if they utilize imported raw material (wheat) may be estimated as (on the basis of 300 pounds of wheat consumed for each barrel of wheat flour of 198 American lbs. gross weight each computed as follows: $2.50 payable at ₡2.20 plus ₡4.40 equalling ₡9.90 per 100 gross kilos of wheat increased by 50% to provide 100 gross kilos of wheat flour and supplemented by ₡7.50 to an estimated effective total of ₡22.35 per 100 gross kilos of wheat flour) roughly $8.05 per barrel which it must be emphasized amounts to about 60% of the millers' selling prices. In other words, they actually are penalized in comparison with importers of wheat flour unless they use Salvadoran wheat!

(b) Finished Product (Wheat Flour)

Wheat flour

Nominal per 100 gross kilos	$9.00
Actual per 100 gross pounds	3.60

The actual rate is equivalent to about $7.20 per barrel, slightly over 50% of the local millers' present prices, but the tariff protection only is effective in reality for Salvadoran wheat flour produced from Salvadoran wheat, as explained in the preceding section, which is not being grown at present in quantity to supply even a small part of the millers' demand! The importation of wheat flour in used bags or sacks is prohibited as shown on page 215 of the Salvadoran Tariff Book.

IV. HENEQUEN BAGS

At the present time there are two concerns in El Salvador which manufacture henequen bags for use in shipping Salvadoran coffee. One of the factories is operating at full capacity while the other, which on account of certain difficulties is not allowed to sell its product, is running at about 60% of capacity with the product being placed in storage awaiting a settlement of the differences with the Salvadoran Government. All raw material is obtained locally.

Statistical Estimates for Salvadoran Henequen Bag Industry.

Henequen Bag Mills.

1. Number of henequen bag factories 2

2. Estimated capital investment (including buildings,equipmentand farms) $1 500 000

3. Estimated employees
   At present
   Factories 500
   Field 1 000
   At full capacity
   Factories 600
   Field 2 000

Production and Consumption of Henequen Bags

4. Estimated annual production of henequen bags:
   (a) Volume .... 1 950 000 bags
   (b) Value (calculated from the millers' present price to coffee and other commodity shippers of ¢0.72 per bag– converted at ¢2.493/4 per $1.00 to equal about $0.29) $565 000

5. Estimated plant capacity:
   (a) Volume .... 2 500 000 bags
   (b) Value $725 000
   (c) Percentage of plant capacity now being utilized 78%

6. Estimated Salvadoran total consumption of raw material (henequen) including that part of the supply from the millers' own plantations:
   (a) At present capacity
   (1) Volume in short tons of 2 000 American lbs.......... 2 150 tons
   (2) Value (calculated from the henequen growers' price to the henequen bagmakers of ¢0.11 per Spanish lb. (1 014 American lbs.) converted at ¢2.49 per $1.00 to roughly $87.00 per short ton of 2 000 American lbs 185 000

   (b) At full capacity
   (1) Volume in short tons of 2 000 American lbs .... 2 750 000 tons
   (2) Value $240 000

   (c) The Salvadoran raw henequen cultivation industry may be expanded readily to produce all of the henequen that may be required for the local henequen bagmaking industry within any limits applicable to the prospectively near future which are perceptible at present.

7. In view of the present legal battle between the two henequen bagmakers in this country, the production of these bags is not in close relation to the actual consumption. Furthermore, the "normal" demand for them depends largely upon the size of the Salvadoran coffee crop; the division of that crop into "washed" and "unwashed" coffee; the demand for export sugar bags; and the secondary demands for the sale of bags for coffee, sugar and wheat flour consumed in the country which have been placed on a different tax basis as explained later in the tariff division of this section.

It has been reported by the manager of one of the factories under discussion that there are 300 000 bags on hand in El Salvador resulting from imports of foodstuffs from Mexico due to the disastrous results of the hurricane in this country of June, 1934, while the operator of the factory which is experiencing difficulties, had about 180 000 coffee bags stored for futur sales on February 1, 1935.

Imports of Henequen and Bags:

8. There were no imports of raw henequen into El Salvador during 1933 according to the Salvadoran customs statistics –comprehensible in view of the local cultivation– while the Salvadoran import data for bags for that year may not be accepted as a complete consumption index as one of the local mills was not then established while the other had not been equipped to operate on its present schedule but the data are given for reference in the following table (II.3.3) for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds:

Table II.3.3
EL SALVADOR: ORIGIN OF IMPORTS OF HENEQUEN AND BAGS 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
Empty Bags of Jute for Coffee				
Great Britain	218 098	479 816	121 843	41 400
Germany	153 255	337 161	69 556	23 600
Czechoslovakia	56 465	124 223	35 154	12 000
Netherlands	57 725	126 995	26 389	9 000
Belgium	47 132	103 690	20 981	7 100
Austria	29 047	63 903	11 437	3 900
United States	20 654	45 439	9 301	3 200
India	932	2 050	635	200
Guatemala	78	172	73	-
Other countries	5 315	11 693	2 558	900
Total	**588 701**	**1 295 142**	**297 927**	**101 300**
Empty Bags of Jute for Sugar				
Great Britain	40 072	88 158	29 737	10 100
United States	12 922	28 428	11 830	4 000
India	3 528	7 762	2 905	1 000
Austria	5 600	12 320	2 744	1 000
Germany	8	18	-	-
Total	**62 130**	**136 686**	**47 216**	**16 100**

Import and Export Tariffs on Henequen and Bags:

9. The Salvadoran tariff protection on raw material (henequen) and the finished products (bags) levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follow:

   (a) Raw Material
   Jute, henequen, sisal and other primary fibers, unmanufactured, raw, or combed.

   All raw material is obtained locally as stated previously; the actual rate of about $0.06 per American gross pound is equal to about 150% of the local henequen growers' selling price of about $0.04 per pound.

   (b) Finished Products
   The actual rates in the previous schedule ranging from about $0.06 to $0.11 per American gross pound provide a range of tariff protection to the Salvadoran henequen bagmakers of about $0.13 to $0.24 per bag or around 45% to 80% of the henequen bagmakers' selling price to coffee and other commodity shippers of about $0.29 per bag weighing about 1 kilo or 2.2 American pounds on the average.

Furthermore, as shown on page 216 of the Salvadoran Tariff Book the importation of used sacks or bags into El Salvador is prohibited. On the other hand the local henequen bag makers have been penalized, so far as production for internal consumption is concerned by the provision on page 222 of the Tariff Book: Sacks or bags made of jute or henequen, manufactured in the country (El Salvador) for any use pay an internal tax equal to the duty paid by imported bags when they are used in this republic (i.e., except for bagging Salvadoran exports). The same tax is paid by the material for making sacks. Those to be exported (sacks or material) are exempt from the payment of the tax. In addition to the import customs duty such domestically consumed henequen bags are assessed the petty export development taxes that vary geographically which are shown in the schedule on page 220 and in Note LL on page 222 of the Salvadoran Tariff Book.

V. BEER AND SOFT DRINKS

There are three breweries in El Salvador, two of which are controlled by the same interests. One organization also manufactures drinks although beer is its principal product. In addition, there are some half-dozen petty soft-drink plants. The following data are restricted to the beer production. The breweries purchase the greater part of their raw materials from Czechoslovakia. A small part was obtained formerly from Chicago but this supply has been out off due to the recent drought in the United States and at the present time Chile and Canada are replacing the United States as sources of raw materials. The local industry's brew materials are imported in entirety. The Salvadoran tariff protection under which the industry operates is increased by the internal levy discussed in the Consulate General's despatch No. 678 of January 15, 1935, on the subject "Salvadoran taxes on imports in addition to import duty" (Consulate File No. 631).

Statistical Estimates for Salvadoran Brewing Industry

Breweries

1. Number of breweries 3

2. Estimated mill investment (total capital investment in buildings, equipment, etc. but excluding land sites) $1 200 000

3. Estimated employees 500

Production and Consumption of Beer

4. Estimated annual production of beer:

   (a) Volume (expressed in liters calculated from about 300 000 cases, of 24 bottles each, totalling 7 200 000 bottles containing 10-11 fluid ounces and averaging 3 bottles per liter) .... 2 400 000 liters

   (b) Value calculated from the brewers' price to retailers of ¢4.80 per case of 24 bottles converted at ¢2.49 3/4 per $1.00 to $1.92 per caseor $0.08 per bottle) $575 000

5. Plant capacity (annual production):

   (a) Volume .... 4 800 000 liters

(b) Value $1 150 000

(c) Percentage of plant capacity now being utilized 50%

6. The estimated Salvadoran total annual consumption of beer practically is the same as the local production –2 400 000 liters or 7 200 000 bottles value at $575 000– as imports are almost nothing; in other words the local production supplies 100% of the local demand. This consumption, because of the low average income in large degree and because of the local sale of native rum discussed in a separate section of this despatch, is equal to fractionally less than 5 bottles of beer per capita per annum, based upon the total Salvadoran population of 1 493 826, according to the Census of 1931 –a bottle every two months for each adult inhabitant of the country:

7. Estimated Salvadoran total annual consumption of raw materials (malt and hops) at present operating schedules:

Malt:

(a) Volume in short tons of 2 000 American lbs .... 400 tons
(b) Value $30 000

Hops:

(a) Volume in short tons of 2 000 American lbs .... 5 tons
(b)Value $5 000

Imports of Malt, Hops and Beer:

8. The Salvadoran import data for raw materials (malt and hops) and the finished product (beer) in the calendar year 1933 with Salvadoran Colones converted into American dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds follow:

Table II.3.4
EL SALVADOR: ORIGIN OF IMPORTS OF MALT HOPS AND BEER 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(a) Raw Material:				
Malt				
Czechoslovakia	328 499	722 697	70 301	23 900
United States	49 488	108 874	9 625	3 300
Germany	35 058	77 128	7 308	2 500
Chile	1 016	2 235	4 725	1 600
Total	414 061	910 934	91 959	31 300
Hops				
Czechoslovakia	2 302	5 064	6 890	2 300
Germany	1 994	4 387	6 191	2 200
United States	192	422	665	200
Holland	513	1 129	282	100
France	89	196	270	100
Total	5 090	11 198	14 298	4 900
(b) Finished Product:				
Beer				
Denmark	414	911	61	-
Total	**414**	**911**	**61**	-

Import and Export Tariff on Malt, Hops and Beer

9. The Salvadoran tariff schedules on the raw materials (malt and hops) and the finished product (beer) levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follow:

(a) Raw Materials:

Malt and grains germinated from unspecified cereals.	
Nominal per 100 gross kilos	$4.20
Actual per 100 gross pounds	1.68
Hops and unspecified forms.	
Nominal per 100 gross kilos	$35.00
Actual per 100 gross pounds	14.00

(b) Finished product:

Beers, made from malt and hops, and unspecified similar drinks.	
Nominal per 100 gross kilos	35.00
Actual per 100 gross pounds	14.00

In addition to the customs duty there is an internal tax levied on imported beer of ¢0.01 (2/5 of an American cent) per bottle. On the basis of 1 bottle weighing about 2.2 lbs., it may be estimated that the total Salvadoran tariff protection of about $0.14 per American gross pound plus the internal tax 2/5 of an American cent totals about $0.31 per bottle and is equal to almost 400% of the brewers' price to retail distributors of $0.08.

The Salvadoran export tax exemption for beer shown on pages 220 and 221 of the Salvadoran Tariff Book is not commercially significant at present.

VI. SOAP AND CANDLES

The soap-and-candle factories in El Salvador produce low-grade articles which, however, are suited to the great bulk of the local demand; a small quantity of these products also is produced by petty handicraft establishments in the rural areas. The tropical climate in this country and the consequent emphasis upon cotton fabrics tend to increase laundry requirements despite the common paucity of clothing and household linens –due to the low average income; local laundresses rarely use hot water and are accustomed to rough soaps readily soluble in cold water. As for candles, electric lighting in the principal urban areas is confined to the middle and upper class residences because of its high price while it is much more restricted in the rural zones so that the demand for candles is substantial, although oil lamps and similar lighting equipment also are used.

Statistical Estimates for Salvadoran Soap-and-Candle Manufacturing Industry (excluding household handicraft operations):

Soap-and-candle factories

1. Number of soap-and-candle mills	4

2. Estimated mill investment (total capital investment in buildings, machinery, etc., but excluding land sites) $400 000

Production and Consumption of Soap and Candles:

3. Estimated annual production of soap and candles (calculated from "cases" of varying contents depending upon size of soap bar or candle, upon grade, etc., and with varying prices but of a fixed weight for each commodity):

   (a) Volume (from: (1) around 63 0000 cases of soap of 30 Spanish lbs. each (approximately 30 2/5 American lbs. or 66 cases per short ton of 2 000 American lbs. each) equal roughly to 950 short tons; and (2) around 61 000 cases of candles of 18 Spanish lbs. each (approximately 18 1/4 American lbs. or 110 cases per short ton) equal roughly to 550 short tons):

Soap	950 tons
Candles	550 tons
Total	**1 500** tons

   (b) Value (calculated from the millers' present prices to retailers depending upon grade etc., to average around ¢5.00 ($2.00) per case of soap and ¢9.00 ($3.60) per case of candles, as converted at ¢2.49 3/4 per $1.00, to equal (1) around $130.00 per short ton of soap and (2) around $395.00 per short ton of candles):

Soap	$125 000
Candles	215 000
Total	**$340 000**

4. It is impracticable to estimate the Salvadoran capacity for the maximum production of soap and candles from the present plants because of the limited necessity for additional equipment to increase output except to state that it is sufficient to supply all of the local demand for the cheaper grades of these commodities –present or prospective in the near future– so that the present total annual consumption of these articles in this country may be considered the same as its production of them.

Imports of Soap and Candle Materials and Products:

5. The local soap-and-candle factories utilize chiefly (1) beef tallow (2) aluminum silicate (3) resin, and (4) soda ash (bicarbonate of soda) as raw materials for soap; and (1) stearin, (2) paraffin wax, and (3) candle wick for candles. Of these materials, tallow and resin are produced locally –the remainder are imported. The following tables show the available Salvadoran import data for these raw materials and for the quasi-competitive finished products (soap and candles) although the latter actually are of better grade than the local wares; the tables cover the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds:

Table II.3.5

EL SALVADOR: ORIGIN OF IMPORTS OF SOAP AND CANDLE MATERIALS AND PRODUCTS 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(a) **Raw Materials:**				
Resins Gums and Vegetable				
Wax				
United States	3 485	7 667	3 497	1 200
Great Britain	3 018	6 640	1 540	600
India	1 865	4 103	1 223	400
Germany	1 531	3 368	1 215	400
Italy	58	128	51	-
Honduras	19	42	16	-
Spain	3	7	1	-
Total	**9 979**	**21 955**	**7 543**	**2 600**
Stearine				
United States	73 521	161 746	33 875	11 500
Netherlands	39 269	86 392	18 845	6 400
Germany	1 075	2 365	591	200
Other countries	2 032	4 470	1 122	400
Total	**115 897**	**254 973**	**54 433**	**18 500**
Paraffin				
United States	413 844	910 457	106 010	36 000
Germany	12 897	28 373	3 418	1 200
Great Britain	19	42	28	-
France	1	2	1	-
Other countries	10 074	22 163	2 496	900
Total	**436 835**	**961 037**	**111 953**	**38 100**
Bicarbonate of Soda				
Great Britain	27 780	61 116	5 367	1 900
United States	9 345	20 559	3 308	1 200
Germany	2 829	6 224	680	200
Italy	330	726	217	100
Russia	1 128	2 482	166	-
Other countries	70	154	124	-
Total	**41 482**	**91 261**	**9 862**	**3 400**

Table II.3.5: (concluded)

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(b) Quasi Competitive Finished Products				
Soaps				
United States	72	158	226	100
Total	**72**	**158**	**226**	**100**
Perfumed Soaps				
United States	13 325	29 315	27 326	9 400
Great Britain	8 931	19 648	10 215	3 500
Germany	4 618	10 160	9 540	3 200
France	1 144	2 517	962	300
Spain	289	636	882	300
Honduras	694	1 527	269	100
Czechoslovakia	44	97	60	--
Guatemala	3	7	4	--
Other countries	743	1 635	1 241	400
Total	**29 791**	**65 542**	**50 499**	**17 200**
Ordinary Soaps for Washing				
Great Britain	14 935	32 857	5 494	1 800
United States	6 134	13 495	3 114	1 100
Honduras	7 217	15 877	2 992	1 000
Germany	857	1 885	541	200
Argentina	560	1 232	190	100
France	440	968	91	-
Spain	245	539	82	-
Guatemala	15	33	15	-
Other countries	418	920	159	100
Total	**30 821**	**67 806**	**12 678**	**4 300**
Medicinal Soaps				
Germany	149	328	969	300
United States	463	1 019	906	300
Great Britain	841	1 850	411	100
Other countries	20	44	101	100
Total	**1 473**	**3 241**	**2 387**	**800**
Candlesticks Tapers and Candles				
Germany	6	13	7	-
Czechoslovakia	3	7	4	-
France	2	4	4	-
Total	**11**	**24**	**15**	**-**

Import Tariff on Soap-Candle Materials and Products:

6. The Salvadoran tariff protection schedules on the soap-and-candle raw materials and on finished products (soap and candles) levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00: that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follows:

(a) Raw Materials:

Tallow, beef	
Nominal per 100 gross kilos	$35 00
Actual per 100 gross pounds	14.00

The actual tariff rate of $0.14 per American gross lb. provides a protection of around 175% to the Salvadoran cattle growers based upon an average of $0.08 per American lb. for their recent prices for beef tallow to the local soap-and-candle makers of ¢15.00 ($6.00) to ¢25.00 ($10.00) per 100 Spanish lbs. or 1 014 American lbs. varying seasonally and converted at ¢2.49 3/4 per $1.00.

Aluminum silicate.	
Nominal per 100 gross kilos	$18.60
Actual per 100 gross pounds	7.44
Common tar.	
Nominal per 100 gross kilos	$7.20
Actual per 100 gross pounds	2.88

The Salvadoran Tariff Book provides that imports of resin from (1) Honduras under the Salvadoran-Honduran treaty and (2) the other Central American countries (both cited in the Introduction to this despatch) as shown on page 228 are free; therefore the actual tariff rate of about $0.03 per American gross pound provides a protection of around 100% to both Salvadoran and other Central American pine timber cutters based upon their present average price for resin to the local soap-and-candle makers of around $0.03 per American lb. calculated from ¢7.00 ($2.80) per 100 Spanish lbs. or 101.4 American lbs. as converted at ¢2.49 3/4 per $1.00.

(b) Finished Products; Soaps

Rate:	
Nominal per 100 gross kilos	$26.80
Actual per 100 gross pounds	10.72

The actual rate for ordinary soaps of about $0.11 per American gross lb. or approximately $215.00 per short ton of 2 000 American lbs. provides an average protection of around 165% to the soapmaking activities of the Salvadoran soap-and-candle makers based upon their present average price to retailers of about $130.00 per short ton of soap.

(c) Finished Products Candles:

	Rates	
	Nominal per 100 gross (kilos)	Actual per 100 gross (pounds)
Candlesticks and candles, made of unclassified materials	$32.00	$12.80
Candlesticks, candles and tapers of natural wax	$250.00	$100.00

The actual rate of about $0.13 per American gross lb. or approximately $255.00 per short ton of 2.0000 American lbs, provides an average protection of around 65% to the candlemaking activities of the Salvadoran soap-and-candle makers based upon their present average price to retailers of about $395.00 per short ton of candles.

VII. CIGARETTES

Today there is only one cigarette mill manufacturing machinemade cigarettes in El Salvador; it is called "La Cigarrería Morazán".

CONFIDENTIAL:

It is an American interest as it is controlled by the British-American Tobacco Co., Ltd., of Louisville, Kentucky.

END CONFIDENTIAL:

Through various corporate purchases and consolidations the former competing factories have been eliminated so that major expenditures for "goodwill" represent the greatest part of the present plant investment. However, two additional mills now are being constructed in this country by local firms; it is expected that they may commence manufacturing about March 1st of this year. Furthermore, native vendors in the markets –mostly women operating independently as a sideline activity– roll cigarettes by hand for direct-to-consumer sales; their output supplies about five-sixths of the country's cigarette demand as the machinemade products are subject to heavy discriminatory internal taxes designed to favor the manual fabricators. The Salvadoran tariff protection under which both groups operate is increased by the internal levy discussed in the Consulate General's despatch No. 678 of January 15, 1935, on the subject "Salvadoran taxes on imports in addition to import duty" (Consulate File No. 631).

Statistical estimates for Salvadoran cigarette manufacturing industries.

Cigarette mills

1. Number of machinemade cigarette mills

In operation	1
Under construction	2
Total after construction	3

2. Estimated mill investment (total capital investment in buildings, machinery, etc., but excluding land sites) for machinemade cigarettes:

In operation (including goodwill)	$1 000 000
Under construction	25 000

3. Estimated employees for machinemade cigarettes:

In operation	200
For mills under construction after completion	30

Production and consumption of cigarettes.

4. Estimated annual production:

(a) Volume:	
Machinemade (in operation)	120 000 000
Handmade	600 000 000
Total Volume	**720 000 000**
(b) Value (at ¢2.49 3/4 per $1.00):	
Machine made (in operation at an average price of ¢6.25 per thousand equal to $2.50 formanufacturer's price to retail distributors for the price range of ¢6.00 to ¢20.00 per thousand or the various grades although the lowest price covers almost all of the sales)	$300 000
Handmade (at 3 cigarettes per ¢0.01 retail)	800 000
Total Value	**$1 100 000**

5. Estimated plant capacity for the annual production of machinemade cigarettes:

(a) Volume:	
In operation	400 000 000
Under construction	120 000 000
Total Plant Capacity Production Volume After Construction	**520 000 000**
(b) Value(atequivalentofpresentaverage manufacturer's price to retail distributors or $2.50 per thousand):	
In operation	$1 000 000
Under construction	300 000
Total Plant Capacity Production Value After Construction	**$1 300 000**
(c) Percentage of plant capacity now being utilized:	
In operation	30%
Under construction	nil
Ratio of Percent Plant Capacity Utilization to Total Plant Capacity After Construction	**23%**

6. The estimated Salvadoran total annual consumption of cigarettes (both machinemade and handmade) practically is the same as the local production –720 000 000 value at $1 100 000– as imports are negligible; in other words, the local production supplies 100% of the local demand. This consumption because of the low average income is equal to only about 482 cigarettes per capita per annum, based upon the total Salvadoran population of 1 493 826 according to the Census of 1931 –a package of 20 cigarettes every ten days for each adult inhabitant of this country– which in part may be ascribed to the quasi-competitive consumption here in substantial quantity of cheap hand-rolled, poor-grade cigars from Central American tobacco fabricated and distributed by native market vendors in the same manner as handmade cigarettes.

7. Estimated Salvadoran total annual consumption of raw material (tobacco) for local machinemade cigarette mill at present stock values based on c.i.f. mill prices (including duty for American tobacco):

Source	Volume in American lbs.	Value in Dollars
United States	20 000 lbs. at $0.70	$14 000
Honduras	200 000 lbs. at ¢.17 1/2 ($0.07)	14 000
El Salvador	20 000 lbs. at ¢0.50 ($0.20)	4 000
Total	**240 000 lbs.**	**$32 000**

It has been estimated that the local handmade cigarette makers consume annually almost 900 000 American lbs. of low-grade tobacco and inferior substitutes valued around $90 000 –mostly obtained from Honduras but partly grown in El Salvador.

Imports of Tobacco and Cigarettes:

8. The Salvadoran imports of tobacco and cigarettes for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds follow.

CONFIDENTIAL

The Salvadoran import data for tobacco may not be accepted as a reliable supply index as there is excellent reason to believe that the bulk of the Honduran tobacco consumed locally –which is entered free of Salvadoran duty under the Salvadoran-Honduran Treaty discussed in the Introduction to this despatch– was not reported in the Salvadoran customs statistics largely because it was brought by native vendors across the mountainous border on mules. However, the available data follow for reference.

END CONFIDENTIAL

Table II.3.6

EL SALVADOR: ORIGIN OF IMPORTS OF TOBACCO AND CIGARETTES 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(a) **Raw Material (Tobacco)**				
United States	3 049	6 708	4 910	1 700
Guatemala	29 183	64 203	1 892	600
Germany	235	517	878	300
Cuba	39	86	236	100
Honduras	345	759	224	100
Total	**32 851**	**72 273**	**8 140**	**2 800**
(b) **Finished Product (Cigarettes):**				
Cigarettes				
United States	2 761	6 074	13 082	4 500
Germany	22	48	281	100
Spain	14	31	62	--
Total	**2 797**	**6 153**	**13 425**	**4 600**

Import Tariff on Tobacco, Cigarette Paper and Cigarettes:

9. The Salvadoran tariff protection schedules on the principal raw material (tobacco) and the finished product (cigarettes) as well as the restrictions on the secondary material (cigarette paper) levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follow:

(a) Raw Material:

Raw Tobacco.	
Nominal per 100 gross kilos	$85.00
Actual per 100 gross pounds	34.00

This tariff protection of $0.34 per gross American pound amounts to approximately 170% of the Salvadoran tobacco growers' average price today of ¢0.50 ($0.20) c.i.f. mill of the grades suitable for machinemade cigarettes; and about 485% for the corresponding quotation for Honduran tobacco of ¢0.17 1/2 ($0.07) which it must be emphasized is imported duty-free.

(b) Finished Products:

Manufactured tobacco in form of cigarettes.	
Nominal per gross kilo	$5.50
Theoretical per gross pound	2.20

In addition to the custom duty there is the internal tax levied upon imported cigarettes of ¢0.05 ($0.02) per pack of 20 cigarettes. On the basis of 1000 cigarettes (50 packs) weighing about 2.8 pound it may be estimated that the total Salvadoran tariff protection of $7.15 ($6.15 plus ¢2.50 or $1.00) amounts to about 285% of the manufacturers' average price equivalent to retail distributors of $2.50. The handrollers provide one factor in this country tending to keep the mill's prices from rising any further; the other is the low income which probably would tend to curtail volume at any higher prices.

(c) Cigarette Paper Restrictions:

Paper for cigarettes, white or colored, with or without printing, in sheets, rolls or in coils and small books of cigarette paper or in small tubes.

Nominal per 100 gross kilos	$40.00
Actual per 100 gross pounds	16.00

The Salvadoran Government through an import prohibition has provided that all imports into El Salvador of cigarette paper (whether for machinemade cigarettes or for handmade ones) may be made only by the government as it supplies the local factories and hand-operators with the specially stamped paper bearing the Salvadoran Government seal that they must use as evidence of the payment of the respective internal consumption taxes. A translation of these import restrictions was enclosed with the Consulate General's report of November 16, 1932, entitled "New Salvadoran Cigarette Tax and Import Restrictions on Cigarette Paper" (Consulate File No. 851.2). The shipments of cigarette paper in transit through El Salvador is prohibited as shown under Note A on page 223 of the Salvadoran Tariff Book.

VIII. MATCHES

There is only one match factory in El Salvador; it operates under a Salvadoran government concession. Stocks on hand of foreign-made matches –which cannot compete in price now with the locally manufactured ones– are being depleted gradually although selling for almost twice the price of the local product since they are better quality. The Salvadoran tariff protection under which the factory operates is not increased by the internal levy discussed in the Consulate General's despatch No. 678 of January 15, 1935, on the subject "Salvadoran taxes on imports in addition to import duty"

(Consulate File No. 631) and explained on page 2 of the Consulate General's despatch No. 465 of November 8, 1933, on the subject "Further developments in Salvadoran government bank project; and related new bank and corporation control law" (Consulate File No. 851.6) under the heading "Decree No. 198; Match Tax for the Bank" regarding the then-projected but since-established Salvadoran Central Reserve Bank.

Statistical Estimates for Salvadoran Match Industry

Match Mill:

1. Number of match mills	1
2. Estimated mill investment (total capital investment in buildings, machinery, etc. but excluding land site)	\$100 000
3. Estimated employees	200

Production and Consumption of Matches:

4. Estimated annual production:

(a) Volume (in cases of 1 200 packages per case containing 10 boxes of 30 matches, more or less, per box; i.e., about 300 matches per package or 360 000 matches per case)	15 000 cases
(b) Value (calculated from the millers' price to whole- salers of ¢28.00 equal to \$11.20 per case convertedat ¢2.49 3/4 per \$1.00)	\$170 000

The wholesalers' price range to retailers is ¢29.00 to ¢30.00 per case equal to \$11.60 to \$12.00; the common retail price is ¢0.03 per box or ¢0.25 per package of 10 boxes equivalent to \$0.01 and \$0.10, respectively, and up.

5. Estimated plant capacity for the annual production of matches:

(a) Volume	30 000 cases
(b) Value	\$340 000
(c) Percentage of plant capacity now being utilized	50%

6. Estimated Salvadoran total annual consumption of matches:

(a) Volume	18 000 cases
(b) Value	\$200 000

7. The matchmaker has estimated that his mill consumes annually on the present schedule about 40 tons of imported raw materials –chemicals and paper chiefly– expressed in short tons of 2 000 American lbs. each and value at present prices around \$18 000. He has informed the Consulate General that he buys all of his paper supplies in the United States. His wood requirements are purchased locally.

Imports of Raw Materials and Matches:

In view of the diversity of the match mill's raw material requirements and the complexity of the related Salvadoran import statistics, it has not been practicable to obtain accurate import data for these commodities –chemicals, wood, paper, etc.– but the manufacturer has reported that his imports of chemicals and paper for the calendar year 1934 amounted to about 23 short tons of 2 000 American lbs. each valued around $11 000. The import data for the finished product (matches) for the calendar year 1933 afford only a partial supply index as the local match mill did not operate then under the same schedule as at present, but follow for reference with Salvadoran Colones converted into American dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds, together with the Salvadoran import class number.

Table II.3.7

EL SALVADOR: ORIGIN OF IMPORTS OF MATCHES 1933

	Gross Weight		Value	
	Kilos	Pounds	Colones	Dollars
Wax Matches and Matches of All Kinds				
Sweden	82 798	182 156	82 849	28 200
Other countries	31	68	51	-
Total	**82 829**	**182 224**	**82 900**	**28 200**

Import Tariff on Raw Materials and Matches:

On account of the complicated nature of the match mills' raw material requirements for chemicals, wood, paper, etc., which are classified under such a wide range of customs items in the Salvadoran import tariff, it is practicable to determine only the rate applicable to a single raw material (i.e., sulphur) and the rate of the finished product (matches) which obviously is of far greater importance commercially; the schedule levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follows:

(a) A Leading Raw Material:	
Sulphur in unspecified form	
Nominal per 100 gross kilos	$18.60
Actual per 100 gross pounds	7.44
(b) Finished Product:	
Wax matches and wooden matches in bulk or in containers, unspecified.	
Nominal per 100 gross kilos	$35.00
Actual per 100 gross pounds	14.00

In addition to the customs duty there is the internal tax levied upon imported matches of ¢15.00 per case (of 1200 boxes). On the basis of 1 case of matches weighing about 24 American lbs., it may be estimated that the Salvadoran tariff totals about $9.36 per case (24 gross American lbs. at $0.14 each equalling $3.36 plus ¢15.00 converted to $6.00 at ¢2.49 3/4 per $1.00). However, as the special tax of ¢15.00 likewise is applicable to the matches manufactured in El Salvador, the match manufacturers' tariff protection is restricted to the import duty of about $3.36 per case which is equivalent to 30% of his wholesale price equivalent to retail distributors of $11.20 per case.

IX. LEATHER AND SHOES

There are some fifteen leather tanneries above the grade of household establishment in El Salvador –three are fairly large for this country. In addition there are about a score of petty shops. Their chief product (sole leather) supplies the many little shoe factories –household or bookstore cobblers' shops– in the country while they also make most of the leather that is fabricated into saddles, harness, belts, scabbards, holsters, bags and like leather goods in the many small handicraft production units in the republic. These tanneries, cobblers' shops, and sundry leather goods "factories" are scattered throughout El Salvador so that accurate statistical data are not securable.

CONFIDENTIAL

It is suggested that if the Department desires more comprehensive information regarding Salvadoran shoemaking –particularly for such items as number of shops, machinery investment, maximum potential output, etc.– it may be able to obtain it from the United Shoe Machinery Corporation, 140 Federal Street, Boston, Massachusetts, as it is understood that practically all of the Salvadoran shoe "factories" operate with machinery from that company. Their volumes are too small or their reputations too unsatisfactory, or both, to permit of their being included in World Trade Directory lists under the controlling regulations.

END CONFIDENTIAL

For a rough indicator of the volume of shoes consumed in this area reference is made to page 39 of the Consulate General's despatch No. 663 of December 28, 1934, on the subject "Manufacture of textiles and hosiery in El Salvador" (Consulate File No. 868.11) in which it was stated that the estimated total Salvadoran annual consumption of hosiery of about 125 000 dozen pairs amounted to "about one pair of hose per capita per annum based upon the total Salvadoran population of 1 493 826, according to the Census of 1931" and that "the bulk of the local population wears neither hosiery nor shoes while a substantial portion of the shod fraction does not possess hosiery –using shoes for festive occasions as a rule. Obviously these social practices reduce the demand". As regards the demand for the sundry leather goods, two accelerating features may be noted: (1) the need for holsters, scabbards and belts because of the wellnigh universal habit of the local adult male population of carrying weapons– pistols or machete-swords and (2) the current use of riding horses and pack-animals requiring saddles, harness, etc., because of the scarcity of motor transport.

Statistical Estimates for Salvadoran Leather Tanning Industry; i.e., Excluding Shoes and Other Leather Manufactures:

1. Number of "commercial" leather tanneries; i.e., operating on a commercial factory scale thus excluding household shops .... about 15

2. Estimated "commercial" mill investment (total capital investment in buildings, machinery, etc., but excluding land sitesi) $450 000

3. Estimated employees 500

Production and Consumption of Leather and Leather Products:

4. Estimated value of annual production of sole leather ....perhaps $700 000

5. Percentage of total capacity for the production of sole leather now being utilized .... possibly 50%

6. The output of the local tanneries supplies practically the entire local shoemakers' demand for sole leather but they commonly import their shoe upper leathers while the tanners also satisfy the leather requirements of the sundry leather goods makers. Furthermore the local demand for shoe and for the miscellaneous leather goods items is supplied by the petty local factors. It is impracticable to estimate the Salvadoran consumption of (1) leather or (2) leather goods but a rough estimate for the annual shoe output (based upon the estimated annual hosiery consumption of 125 000 dozen pairs) might be half-a-million pairs. A substantial number of people in this country wears shoes without wearing hosiery while a pair of shoes usually lasts considerably longer than a pair of hose. A correspondingly rough estimate for the annual value of this shoe consumption (based upon an approximate adjusted average for current local shoe retailers' price for the better grades of (1) men's shoes ¢15.00 ($6.00), (2) women's shoes ¢12.00 ($4.80) and (3) children's shoes ¢6.00 ($2.40) as converted at ¢2.49 3/4 per $1.00) might be around $2 500 000.

Imports of Leather and Leather Products:

7. The raw material (hides and skins) for the leather tanning industry constitutes a base for the leather products industries; the leather tanners' finished product (sole leather) forms a chief raw material for the shoemaking industry. There follow the Salvadoran import data for the related leather materials and products for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with Salvadoran import class numbers:

Table II.3.8

EL SALVADOR: ORIGIN OF IMPORTS OF LEATHER AND LEATHER PRODUCTS 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(a) **Raw Material:**				
Raw Hides and Skins				
Norway	76	167	286	100
Total	**76**	**167**	**286**	**100**
(b) **Semi-Prepared Material:**				
Prepared Hides and Skins				
United States	53 103	116 827	310 763	105 600
Germany	4 899	10 778	25 452	8 700
France	2 732	6 010	16 937	5 800
Hungary	216	475	2 032	700
Netherlands	255	561	1 824	600
Mexico	267	587	1 800	600
Great Britain	122	268	1 236	400
Guatemala	18	40	19	--
China	1	2	6	--
Other countries	718	1 580	6 656	2 300
Total	**62 331**	**137 128**	**366 725**	**124 700**

Table II.3.8: (concluded)

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
(c) Finished Products:				
Leather Shoes				
France	5	11	53	-
Germany	1	2	42	-
Japan	8	18	30	-
Guatemala	3	7	14	-
United States	2	4	9	-
Chile	1	2	9	-
Honduras	1	2	5	-
China	3	7	4	-
Mexico	4	10	2	-
Other countries	3	7	18	-
Total	**31**	**70**	**186**	**100**
Leather Goods Not Specified				
United States	1 606	3 533	10 549	3 700
Germany	295	649	1 575	600
Great Britain	170	374	897	300
France	60	132	376	100
Spain	33	73	147	-
Czechoslovakia	17	37	146	-
Mexico	10	22	136	-
Japan	51	112	75	-
Guatemala	7	15	50	-
Honduras	12	26	37	-
Chile	30	66	20	-
China	14	31	15	-
India	1	2	11	-
Italy	1	2	1	-
Other countries	147	326	403	200
Total	**2 454**	**5 399**	**14 438**	**4 900**

Import Tariff on Leather and Leather Products:

8. In view of the diversity in the local production of various types of sole leather, shoes and sundry leather goods made in this country, it is not practicable to determine with any degree of accuracy the extent of tariff protection which the local tanners, cobblers or sundry leather goods makers enjoy but there follow the principal appropriate Salvadoran tariff schedules for the related leather materials and products levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00.

X . RUM AND ALCOHOL

There are 27 distilleries in El Salvador now producing under government territorial concessions protected by positive prohibitions against the import of competitive articles but penalized by the assessment against them of heavy internal liquor taxes as they collectively supply a substantial share of the national government revenue. They produce three liquids; namely: (1) native liquor called "aguardiente" –really rum although sometimes called whiskey– (2) pure alcohol, and (3) denatured alcohol; all from locally-grown sugar –the commodity discussed in the Sugar Section of this despatch. A list of these distilleries was provided in the Consulate General's report of October 24, 1934, on the subject "Alcoholic Beverage - Manufacturers and Dealers in El Salvador" consulate File No. 869.17). In view of the dispersion of the industry, statistical data regarding investment are unavailable –particularly as the cash values of the several geographical operating franchises issued by the government represent much the greater part of their capitalizations.

The distillers' output is restricted to the domestic demand; the rum supplies most of the liquor requirements of the native laborers. The quality of this rum is very poor but the retail prices are low as they must be to meet the income limitations of the consumers.

For several years a project to consolidate these distilleries into a single central plant in the city of San Salvador for the production of both beverage and fuel alcoholic products from local sugar –the latter designed to displace wholly or partially the relatively heavy Salvadoran consumption of petroleum products in motor and rail transport has been under consideration by the Salvadoran Government but without definite results. In this connection reference is made to the Consulate General's despatch No. 409 of April 27, 1933, on the subject "The Alcohol Plant Project for El Salvador indefinitely postponed" (Consulate File No. 869.2).

Statistical Estimates for the Salvadoran Rum and Alcohol Distilling Industry:

1. Number of licenced rum and alcohol distilleries 27

2. Production and sale of rum and alcohol during the calendar year 1934 according to the Salvadoran National Liquor Tax Collection Office:

(a) Volume in liters:

	Production	Sale
Rum	1 417 319	1 347 016
Alcohol:		
Pure	103 859	69 430
Denatured	114 381	95 969
Total	**1 635 559**	**1 512 415**

(b) Estimated value calculated from the distillers' prices to the licenced liquor distributors and alcohol distributors or consumers –handled through the government taxing agencies– averaging about ¢0.35 per liter for rum and ¢0.70 per liter for alcohol:

	Production (Colones)	Sale (Colones)
Rum	496 000	471 000
Alcohol:		
Pure	73000	49 000
Denatured	80 000	67 000
Total	**649 000**	**587 000**

The preceding table does not include the government taxes; to wit: ¢2.06 on rum, ¢4.12 on pure alcohol, and ¢0.40 on denatured alcohol –all per liter. There is a special reduction in the rate on rum to ¢1.06 on the excess monthly production of a distillery exceeding 310 liters, but not exceeding 1 240 liters, with a further reduction to ¢0.21 for such production exceeding 1240 liters, but not exceeding 1550 liters –however, the distilleries hardly ever produce in sufficient quantities to enjoy the reduced monthly-rates.

On the basis of retail distributors' cost prices computed from the distillers' prices plus the government taxes as follows: (1) C0.35 plus ¢2.06 totalling ¢2.41 equal to $0.92 for rum, (2) ¢0.70 plus ¢4.12 totalling ¢4.82 equal to $1.83 for pure alcohol, and (3) ¢0.70 plus 0.40 totalling ¢1.10 equal to $0.42 for denaturealcohol –all per liter and converted at $0.38 per ¢1.00, the average rate of exchange for the calendar year 1934– it may be estimated that the total wholesale value (tax-paid) with approximatge dollar equivalents of the distillers' sales for the year was as follows:

	Wholesale Value	
	Colones	Dollars
Rum	3 246 300	1 234 000
Alcohol:		
Pure	286 100	109 000
Denatured	105 600	40 000
Total	**3 638 000**	**1 382 000**

Imports and Import and Export Tariffs, Including Import Restrictions for Rum and Alcohol:

3. The Salvadoran import statistics show no imports of raw materials for the local distilling industry –it operates on local materials almost entirely– nor do they show any imports of competitive finished products as the importation of the following articles into El Salvador is prohibited:
   (1) Rum, crude
   (2) Chemical materials and preparations of any type designed to imitate the savour of grape wines.
   (3) Materials which may be employed in the manufacture of wine imitations.
   (4) Must which may be employed in the manufacture of wine imitations.
   (5) Pastes and powders which result from the condensation of wine and which may serve to remake it.
   (6) Preparations similar to grape wine which are not the result of the fermentation of the grape juice.
   (7) Thick and dense wines which may be weakened in the country and sold as foreign articles; and
   (8) Juices which may be employed in the manufacture of imitation wines.

Furthermore, the following articles shown on page 216 of the Salvadoran Tariff Book regarding distilling machinery and liquor materials may be imported only under licence from the government authority:

(1) Stills, worm coils and rectifiers; materials and accessories for them; and
(2) Essences to make liquors

Note A of the Salvadoran Tariff Book on page 220 provides that Salvadoran rum may be exported form El Salvador free of export duty; but it is not free of the various petty Salvadoran export development taxes therein specified unless shipped to Honduras under Note L on page 222.

XI. FURNITURE

Statistical data regarding the manufacture of wooden and metal furniture and related articles in El Salvador are not available. Only a small proportion of the country's population of 1 493 826 according to the Census of 1931 –perhaps a tenth– occupy residences above the mud-hut level. Patently the demand for furniture or furnishings suitable for civilized consumption –whether for residential or commercial use– is limited although there is a small sale of wooden furniture which is made by carpenters and of metal furniture by metal workers in numerous petty household establishments scattered throughout the republic. A great deal of this work is done only for special orders. The high Salvadoran tariff rates almost exclude imported furniture.

Imports of Furniture:

The Salvadoran imports of all types of furniture separately listed for the calendar year 1933 with Salvadoran Colones converted into American Dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds follow:

Table II.3.9
EL SALVADOR: ORIGIN OF IMPORTS OF FURNITURE 1933

	Gross weight		Value	
	Kilos	Pounds	Colones	Dollars
Wooden Furniture				
United States	22 428	49 342	18 134	6 200
Honduras	479	1 054	529	200
China	238	524	386	100
Chile	282	620	352	100
France	76	167	221	100
Germany	115	253	96	-
Guatemala	84	185	85	-
Total	**23 702**	**52 145**	**19 803**	**6 700**
Iron and Steel Furniture				
United States	5 482	12 060	11 118	3 900
Germany	1 378	3 032	1 299	400
France	384	845	923	300
Great Britain	109	240	192	100
Mexico	259	570	145	-
Guatemala	5	11	7	-
Other countries	28	62	13	-
Total	**17 645**	**16 820**	**13 697**	**4 700**
Iron and Steel Beds				
United States	8 318	18 300	8 963	3 100
Guatemala	133	293	57	-
Honduras	30	66	61	-
Total	**8 481**	**18 659**	**9 081**	**3 100**

Imports Tariff on Furniture:

In view of the great diversity in prices, sizes, styles et cetera of both wooden and metal furniture made in this country and in further view of the dispersed small-scale status of the furniture industry, it is not possible to determine with any degree of accuracy the extent of tariff protection which the local furniture manufacturers may enjoy but there follow the appropriate Salvadoran tariff schedules on furniture of all kinds, so far as it may be listed separately, levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00.

XII. SALT

Statistical data regarding the manufacture of salt in El Salvador are not available but it may be stated that the local production from petty handicraft establishments satisfies practically all of the local consumption; there is a petty importation of the expensive grades of refined table salt purchased by a few wealthy residents.

Table II.3.10

EL SALVADOR: ORIGIN OF IMPORTS OF SALT 1933

	Gross Weight		Value	
	Kilos	Pounds	Colones	Dollars
Table Salt				
Honduras	27 372	60 218	2 225	800
United States	400	880	227	100
Great Britain	373	821	106	-
Germany	35	77	14	-
Other countries	736	1 619	68	-
Total	**28 916**	**63 615**	**2 640**	**900**

In view of the fact that Honduran salt is about the same as the Salvadoran product and that it may be imported into El Salvador duty-free under the Salvadoran-Honduran Treaty cited in the Introduction to this despatch, it may be noted that the receipts from all countries except Honduras shown in the preceding table amounted to less than 2 tons of salt for 1933.

Import Tariff on Salt:

The Salvadoran tariff protection schedule on salt levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follow:

Marine salt and rock or mine salt

The two rates are the same; namely:

Nominal per 100 gross kilos	$10.40
Actual per 100 gross pounds	4.16

This tariff protection of around $0.04 per American gross pound amounts to over 350% of the recent local average wholesale price for salt to retailers of about ¢6.00 ($2.40) per 200 Spanish lbs. or about 203 American lbs. as converted at ¢2.49 3/4 per $1.00 or around $0.01 per American lb.

XIII. TILES AND BRICKS

Statistical data regarding the manufacture of tiles and bricks in El Salvador are not available. Only a small proportion of the country's population of 1 493 826 according to the Census of 1933 –perhaps a tenth– occupies residences above the mud-hut level. Most of the bettergrade homes and offices are constructed with tile floors; some are equipped with tile roofs although corrugated iron is used more commonly while exterior walls ordinarily are made of plaster and interior ones of plaster or wood because of the frequency of earthquakes in this country. The lower grade structures generally are built of adobe and corrugated iron. Obviously the demand for tiles, whether for flooring or for roofing, is limited and the sale of bricks even more limited; they are supplied principally by the produce of numerous small shops scattered throughout the republic. One establishment in the city of San Salvador with a reputed investment in building and equipment of around $20 000 –the chief tile factory in the country– boasts of a fair-sized production-- estimated to be less than 1 000 000 tiles per annum. Neither the raw material (clayey earth) for tiles and bricks or the finished products are listed separately in the Salvadoran import statistics so that it is impracticable to determine the quantity, if any of competitive products imported into this country; however, it is understood that the local tilemakers utilize the local raw materials almost exclusively so that the import interest in either raw material supply or in the sale of competitive tiles potentially is very scant. Recently a local tile maker has experimented with hollow bricks intended to be earthquake-proof.

In view of the great diversity in prices, sizes, styles, et cetera of floor and roof tiles and of bricks made in this country, and in view of the dispersed smallscale status of the tile industry, it is not practicable to determine with any degree of accuracy the extent of tariff protection which the local clay producers or local tile and/or brick manufacturers may enjoy but there follow the approximate Salvadoran tariff schedules levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00:

(a) Raw Material:

Clayey earth, not specified.

Nominal per 100 gross kilos	$18.60
Actual per 100 gross pounds	7.44

(b) Finished Products:

Paying tiles of porcelain.

Nominal per 100 gross kilos	$7.20
Actual per 100 gross pounds	2.88

XIV. PRINTED ARTICLES

There are numerous small printing-shops –mostly semi-household or backstore establishments– scattered throughout El Salvador but statistical data regarding them are unavailable. The low average income and high degree of illiteracy of the Salvadoran population necessarily limit the local demand for printed articles. There is no local production of paper materials.

In view of the diversified and small-scale nature of the local printing industry it is not practicable to determine the extent of tariff protection enjoyed by the local printers nor the relation of their output to the total consumption of such products in this country but it may be noted that the total Salvadoran imports of paper manufacturers, comprising 10 import statistical classes, amounted to ¢528 302 ($179 600 at $0.34 per ¢1.00 in 1933) of which the share obtained by American exporters was ¢161 393 ($54 900) or 31% while there are 150 different import classifications for paper and paper products in the Salvadoran Tariff at various rates. The Salvadoran import restrictions on one item of local commercial importance; i.e., cigarette paper, have been discussed under the Cigarette Section of this despatch, while the importation of linotype and similar machines into El Salvador is prohibited as shown on page 215 of the Salvadoran Tariff Book.

CONFIDENTIAL

It is suggested that if the Department desires more comprehensive information regarding Salvadoran printing establishments –particularly for such items as number of presses, machinery investment, etc.– it may be able to obtain it from the National Paper and Type Company, 170 John Street, New York, as it is understood that most of the Salvadoran printing shops utilize printing machinery from that company. Their volumes are too small or their reputations too unsatisfactory, or both, to permit of their being included in World Trade Directory lists under the controlling regulations.

END CONFIDENTIAL

XV. IRONWARE

There are three foundries of some importance in El Salvador which are operating on very reduced schedules, while numerous other small foundries (handicraft establishments) are located in the country. In view of the scattered and diversified nature of the local iron working industry it is not practicable to obtain much reliable data regarding it although it does supply a small share of the local demand for some of the numerous types of metal products used here. For one item of a little local commercial consequence; namely, metal furniture, reference is made to the Furniture Section of this despatch. As regards tariff protection on raw materials and finished products, more or less competitive, it may be noted that the corresponding sections of the Salvadoran Tariff Book total over four hundred items at various rates.

The following brief summary is applicable to the three leading mills –the "commercial" foundries– only but is indicative of the entire "industry":

1. Number of"commercial" foundries 3

2. Estimated mill investment for "commercial" foundries (buildings, equipment, etc., including stock on hand, but excluding land sites) $60 000

3. Estimated employees in "commercial" foundries 150

4. Estimated annual production of ironware in "commercial" foundries:

(a) Volume in short tons of 2 000 American lbs. each .... 320 tons
(b) Value $60 000

5. "Commercial" foundry plant capacity (annual production):
Volume in short tons of 2 000 American lbs. each .... 1 600 tons

XVI. LARD

There are no lard factories in El Salvador; but there is a relatively substantial local handicraft production of animal lard (hog lard) supplied by numerous farmers and stock-raisers who raise a few hogs each for scavengers. There is no hog-raising industry, as such, in this country as the price of corn is too high to permit of profitable breeding while the local corn supply commonly is insufficient to feed the human population even on its low standard of diet. In addition to the local lard there is a small importation of both hog and vegetable (cocoanut oil) lards obtained almost entirely from the neighboring Republic of Honduras as they are entered into El Salvador duty-free under the Salvadoran-honduran Treaty discussed in the Introduction to this despatch. Several years ago the Salvadoran import duty on lard was raised to the present prohibitive figure thereby accelerating in some degree the local hog-growing activity. Statistical data regarding the production and consumption of lard in this country are not available but the following Salvadoran import statistics for 1929-1931 for hog-lard (manteca de cerdo) for the period prior to the imposition of the present duty, provide rough indices:

Table II.3.11
EL SALVADOR: ORIGIN OF IMPORTS OF HOG LARD 1929-1931

	Amount in Kilos	
Calendar Year	Imports from the United States	Total Imports
1929	792 675	800 594
1930	571 980	574 439
1931	441 706	711 729 [a]

[a] Including 190 688 kilos of "Dutch lard" from the Netherlands.

CONFIDENTIAL

The Salvadoran import statistics for 1933 show hog lard but do not show vegetable lard, which is classified under the heading of other vegetable oils, edible or inedible. Furthermore, this data may not be accepted as reliable supply indices as there is fair reason to believe that Honduran hog lard, plus a little vegetable lard from that country and some "Dutch Lard" from the Netherlands sent in transit through it, entered into this country were not reported in these statistics largely because they were brought by native vendors across the mountainous border on mules. However, the available data follow for reference.

END CONFIDENTIAL

The Salvadoran imports of hog lard for the calendar year 1933 with Salvadoran Colones converted into American dollars at the rate of ¢1.00 equal to $0.34, the average value for the year, and with weights in gross kilos and American pounds follow:

Table II.3.12

EL SALVADOR: ORIGIN OF IMPORTS OF HOG LARD 1933

	Gross Weight		Value	
	Kilos	Pounds	Colones	Dollars
Hog Lard				
Honduras	952	2 094	267	100
Total	**952**	**2 094**	**267**	**100**

The total for Class 42 (other vegetable oils, edible or inedible) amounted to only ¢40,684 ($13 800).

Import Tariff on Lard:

The Salvadoran tariff protection on hog lard levied in gross weights in nominal American dollars payable at ¢2.20 per $1.00; that is, at a discount of approximately 12% below today's commercial rate of ¢2.49 3/4 per $1.00, follows:

Rate:	
Nominal per 100 gross kilos	$26.80
Actual per 100 gross pounds	10.72

Note: For the registration of hog lard, from any source, it is indispensable to present a certificate of purity extended by the respective Health Authority and visaed by the Salvadoran Consul of the respective consular jurisdiction.

Note: In the absence of the certificate of purity, or when it is not in accordance with the prescribed rules, there will be sent samples of the lard to the Laboratory of the General Health Department, all charges for analysis for the account of the importer, liquidating the permit with a charge of 20% more on the corresponding taxes.

The actual rate of about $0.11 per American gross pound amounts to about 45% of the Salvadoran hog-growers' present prices to relailers of around $0.25 per lb. for hog lard calculated from their price per tin of ¢23.50 ($9.40) which varies considerably but recently has averaged around ¢20.00 ($8.00) containing 37 American lbs. net weight or about 40 American lbs.

April 27, 1935

W. Quincy Stanton, Esquire,
American Consul,
San Salvador, El Salvador.

Sir:

In acknowledging the receipt of the Consulate's report dated February 6, 1935, entitled SALVADORAN PROTECTION OF LOCAL INDUSTRIES, in the preparation of which you were assisted by Mr. Joseph E. Maleady, I take pleasure in informing you that the Department, in view of its very satisfactory character, has accorded to it the rating of EXCELLENT.

The contents of this instruction should be brought to the notice of Mr. Maleady.

Very truly yours,

For the Secretary of State:

WILBUR J. CARR

611.1631/104

A-C/C:GHK:VTS

4. COFFEE IN EL SALVADOR (1935)

From: Copy of article in English entitled "Commercial Interchange with the United States" from the pamphlet "El Café de El Salvador" published by the Coffee Growers Association of El Salvador; Legación de El Salvador, Washington to Mr. Henry S. Grady, Chief, Trade Agreements Section, Department of State; January 11, 1935; 611.1631/94.

LEGACION DE EL SALVADOR
WASHINGTON

January 11, 1935

My dear Mr. Grady:

Enclosed herewith I have the honor to send you seven copies of the pamphlet "El Café de El Salvador" published by the Coffee Growers Association of El Salvador (Associación Cafetalera de El Salvador), and ask you to kindly place these pamphlets in the hands of the members of the Trade Agreements Committee, according to a request that I received from the Associación.

On page 20 of the pamphlet there appears an article written in English, under the heading "Commercial Interchange with The United States", which is specially dedicated to the Committee on Reciprocal Trade of the United States, and with this view in mind I have been requested by the Associación Cafetalera de El Salvador to distribute the pamphlet among the members of the Committee of which you are the Chairman.

Permit me to thank you for your courtesy in this matter, and with renewed assurances of my consideration and esteem, I am,

Sincerely yours,

(signed)

Hector David Castro

Mr. Henry S. Grady, Chief
Trade Agreements Section
Department of State,
Washington, D.C.

January 14, 1936

In reply refer to
A-S/T 611.1631/94

My dear Mr. Minister:

I have the honor to acknowledge the receipt of your letter enclosing seven copies of the pamphlet "El Café de El Salvador", published by the Coffee Growers Association of El Salvador.

In response to your request, I have had these copies distributed to members of the Committee on Trade Agreements.

Sincerely yours,

Henry F. Grady,
Chief, Trade Agreements Section.

The Honorable

Dr. Don Hector David Castro,

Minister of El Salvador,

Washington, D.C.

A-S/T:RMC:EFP
1/14/35

EL CAFE DE EL SALVADOR

REVISTA DE LA ASOCIACION
CAFETALERA DE EL SALVADOR

SAN SALVADOR, EL SALVADOR, C.A.

NOVIEMBRE DE 1954

VOLUMEN IV NUMERO 47

COMMERCIAL INTERCHANGE WITH THE UNITED STATES

We now reach the point where it is necessary to review the situation as regards the interchange of trade between El Salvador and the United States.

From this point of view the circumstances of the problem which we have been discussing vary to a certain extent.

The United States of America is one of the few countries in the world that has not restricted imports of coffee by means of maximum quotas or other artificial devices. Salvadorean coffee, in unlimited quantities, may enter North American markets without any hindrance whatsoever. The only limitations to its sale there, in actual practice, are those arising out of competition or due to the lack of an organized system of marketing.

Notwithstanding the absence of restrictions, as aforesaid, the balance of trade between El Salvador and the United States has been unfavourable to us. It is estimated that from 1922 to 1932 the balance, adverse to El Salvador, amounted in the aggregate to .... $32.500.000. In addition to this outflow, there must also be taken into account the payments made for the service of the national loan of 1922, which have absorbed large sums.

However, the Government of the United States is not responsible for this state of affairs. It is the coffee importer with whom the decision rests and his decision is dependent on the prices demanded and the qualities offered him by us. Undoubtedly, our adverse trade balance is partly due to our having failed to offer the American importers large quantities of uniformly graded coffees, and in part also to the fact of their markets being glutted with heavy stocks owning to world-wide overproduction.

Many persons are of the opinion that the Government of El Salvador should restrict imports of American merchandise, as an effective means of increasing our exports to that country. We maintain that no forcible measures should be adopted in dealing with the question of our commercial relations with the United States. The matter is one which should be handled with cool judgment, patience and in a spirit of good will. Furthermore, we must await the effect which perforce will be produced by the differential tariffs promulgated in June of this year.

These differential tariffs will not be productive of sentimental effects in the United States, but eventually they should be conducive to practical, positive and visible results. The closure of the Salvadorean market to Japanese goods should undoubtedly redound to the benefit of other countries which sell to us, particularly the United States.

Apart from this, we are bound to the United States by means of a commercial treaty which expires in 1940 and guarantees to us the right of entry for coffee, duty free, into American ports. If for any reason imports of coffee into the United States from other sources should decline, and we standardize our brands, we should be in a position to increase our sales and to obtain better prices.

According to our information, the policy which has been adopted by the "Associación Cafetalera de El Salvador" is not by any means directed towards the favoring of certain countries at the expense of others. Its scheme of operation aims at securing for the nation the greatest possible profit from the annual liquidation of its coffee crop. The factors which determine the policy of their Association are numerical calculations and sound reasons. In short, the plan of international trade ultimately becomes reduced to the defense of the national currency as a means of preventing grave disturbances.

Other countries may have cause for complaint against the tariff policy of the United States. Other people may have reason to bring charges against American commercial practice. But in this respect El Salvador can rest satisfied, in a general sense, insomuch as the country has neither received nor given any offense in its trade relations with the United States. They have always dealt with each other loyally, and these just relations cannot fail to result in the establishment of greater facilities for the development of commercial interchange.

We have already mentioned that the American Customs do not penalize the entry of coffee into the territory of the Union. Neither do the restrictive measures of the N. R. A. affect coffee imports.

The coffee roasting trade was made subject to the regulations of the N. R. A. since the beginning of the present year. Up to the present date, according to the information at our disposal, no unfavorable reaction has been observed in the United States as a result of such regulations. On the contrary, it is evident that the effects thereof must be beneficial, due to the avoidance of cut-throat competition between the coffee roasters.

The Code for coffee was approved on the 6th February 1932. The schedule of cost prices for the coffee roasting trade was drawn up by the Committee for the Coffee Industry, in accordance with Code rules. This schedule contains a list of all the factors which must be taken into account in calculating the cost of coffee ready for consumption. Once this cost is established, no member of the industry who is enrolled under the N. R. A. may sell at lower prices without violating the Code and thus becoming liable to the penalties thereunder.

It is seen that the regulation of the coffee industry by measures adopted by President Roosevelt tends to secure the future of the coffee trade, since it prevents the undercutting of the selling price of roasted coffee. We have emphasized this circumstances because there is a wide-spread belief that the rules laid down by the N. R. A. are prejudicial to those countries that export coffee to the United States.

Discarding the notion that the N. R. A. has so far hindered the free marketing of coffee, we can now proceed to analyze the possibilities which this product can have in the markets of that great country.

In the report presented at the end of last month to the Tariff Commission at Washington by the Association of American Transportation (Steamship) Lines, mention was made of the commercial relations between the United States and the Central American Republics.

The Association protests against Japanese competition in each of the Central American Countries except El Salvador, and asks that the delegates who will negotiate with these countries should endeavour to secure preferential custom duties for American products over Japanese goods. With regard to El Salvador the report says:

"Japanese competition yet exists, but it seems that the problem has been satisfactorily solved by the disposition of the Salvadorean Government to establish additional duties on importations from countries which purchase less than 50% of what they sell to El Salvador. This places Japan in a disadvantageous position and gives American exporters a substantial preference in tariff duties". The report which we insert refers to the differential tariffs decreed by the Executive Power on the 23rd of last June.

Undoubtedly these tariffs are beginning to take effect. When an increase takes place in the sale of American merchandise, we may expect to receive different treatment from the United States, failing which we shall have a perfect right to claim it.

By reason of the differential tariffs we have anticipated many arguments in our favor. Besides this we rely on the prestige which we enjoy as a debtor nation that makes every possible effort to meet its payments.

We are optimistic with regard to our commercial interchange with the United States, because we have always given the best that could reasonably be expected of a nation of modest resources. We trust our expectations may not fail us.

It was once remarked that we maintain a topsy-turvy trade with the United States and Great Britain, since our trade balance with those two countries is unfavorable to El Salvador. The truth of this assertion is illustrated by the following official figures relating to our trade with the United States:

Table II.4.1:

UNITED STATES-EL SALVADOR TRADE 1922-1931

(Colones)

Year	Import	Export	Balance
1922	9 756 274.54	7 495 586.96	2 260 684.58
1923	13 541 116.80	13 036 427.32	504 589.48
1924	13.527 977.56	12.665 051.85	862 925.71
1925	26 180 388.68	5 613 052.37	20 567 336.31
1926	34 054 362.00	9 123 062.00	24 931 300.00
1927	14 979 664.71	2 937 721.63	12 041 943.08
1928	19 888 881.47	7 429 955.98	12 458 925.49
1929	18 101 854.89	7 922 234.46	10 179 620.43
1930	11 599 216.00	6 396 180.21	5 203 035.79
1931	7 399 261.00	3 434 819.00	3 964 442.00
Totals	**169 028 997.65**	**76 054 094.78**	**92 974 902.87**

Note: The Colon monetary unit of El Salvador is equal to fifty cents U. S. Cy.

In ten years we have purchased merchandise from the United States to the value of ¢169.028.997.65 and we have sold in return products of a total value of ¢76.054.094.78, the balance of .....¢92.974.902.87 having been paid in gold. As the major volume of Salvadorean coffee was exported to Germany and the Nordic nations of Continental Europe, from these countries we transferred gold to cover our accounts with the United States.

This situation was of no importance and caused no inconvenience to El Salvador so long as Germany was in a position to purchase coffee unconditionally. The adjustment of accounts was effected through natural economic channels. Prosperity took care of arranging and closing the different balances as simply as a magnet under a paper brings together iron filings as if by magic. Things have changed now. The crisis has disordered economics and each country protects its currency as jealously as girl takes care of her complexion. Thus it has come about that Germany restricts her purchases of coffee to the value of what we buy from her.

Under the circumstances this country will be unable to pay its debit trade balance to the United States. The problem could be met provisionally by any of these procedures:

(1) Exporting gold, that is to say, releasing our reserves; (2) obtaining new credits, or (3) exporting products.

The first formula is illogical and unpatriotic; the second method is impracticable. There remains only the third, for which reason we have maintained that there is yet another possibility, and that is by the protection of our export trade.

To this end two methods of procedure are at present employed: (1) by means of quotas, and (2) by the fixing of higher import duties. The system of applying maximum quotas is both complicated and expensive. The practice of increasing the import tariff is more convenient. Such was the method adopted by El Salvador in an original formula by establishing maximum, medium and minimum tariffs.

Trade relations with the United States constitute the most vital point in our defensive action. Imports of American products into our country are carried on without any restriction or delay. Unquestionably this fact gives El Salvador the right to claim special consideration for its efforts. There is also something still more significant and worthy of consideration and that is, that at a time when the majority of other nations have suspended payment of the service of their foreign loans, El Salvador has made unprecedented efforts to meet its obligations, at least in part, in spite of a social upheaval which shook the whole republic and of a hurricane which ruined much of our enterprise.

It is not immodesty on our part which compels us to invoke the consistently honorable record which El Salvador has so deservedly earned for itself in the past, and for which reason it is able at this present time to decorously request fair consideration of its claims without loss of dignity.

Just as we have given the United States the opportunity to increase the sale of their merchandise in El Salvador by barring Japanese products, it is to be hoped that the United States will in turn allow us some reciprocal preference.

Something on these lines is beginning to materialize, according to the laconic cable and radio information received. It is to be trusted that an equitable solution will be found to this delicate problem of our commercial interchange with the United States.

5. A GUATEMALAN VIEWPOINT ON TRADE AGREEMENTS (1936)

From: Editorial Regarding the New Trade Agreement between the United States and Guatemala; Unnumbered Despatch from American Consulate General, Guatemala, Guatemala to Secretary of State, Washington; June 8, 1936; 611.1431/207 ADT.

AMERICAN CONSULATE GENERAL
Guatemala, Guatemala, June 8, 1936.

SUBJECT: Editorial Regarding the New Trade Agreement
Between the United States and Guatemala.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

SIR

I have the honor to enclose herewith a hurried translation of an editorial regarding the new commercial agreement between the United States and Guatemala, which appeared in the May, 1936, issue of the Monthly Review of the Chamber of Commerce and Industry of Guatemala.

Respectfully yours,

(signed)

O. Gaylord Marsh,
American Consul General.

Enclosure:

Translation of an Editorial.

631
OGM/CHK

Copies to:

American Legation, Guatemala;
Commercial Attaché, Guatemala.

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*This document is reproduced in its original form. Since the Spanish version was not available, this translation was not edited.

Enclosure No. 1,
Unnumber Despatch,
Dated: June 8, 1936.

The Treaty of Commerce With the United States

The economic policy of the administration of Mr. Roosevelt, as touching international commerce and in accordance with the belief that the revival thereof constitutes a most important condition in the restauration of world economy and that of individual countries, necessarily includes the making of bilateral treaties between the United States and the other nations, with special attention to the nations of the American continent.

In order to realize this part of the program of the present American government, Mr. Roosevelt received ample powers from the Congress and has not been slow in taking advantage thereof in the initiating of negotiations with those countries having trade with the United States and in the signing of agreements, which under the circumstances seemed of greatest practical advantage to the signatories.

Under this aspect it is necessary to consider in effect the different treaties that have been signed by the United States and other countries, they being the product of sober thought, practical, apart from any Utopia, of reality and of maximum benefit that may be received therefrom.

The treaty of commerce with Guatemala is one of the latest entered into by the United States with nations of the New World, and it is not the result of having viewed our country with scorn or omission, but is the most eloquent revelation of care taken on the part of Guatemala in obtaining the greatest number of benefits for the national interest. It is important to point out in this respect that contrary to that which was the case in the majority previously signed, the negotiations were conducted and the agreement signed in Guatemala and not in Washington.

Making concrete reference to the treaty which is dated April 24th. last past and which received approval by the Assembly before that high body concluded its ordinary sessions of the year, it will be pointed out in the first instance that effectively there prevails in it a spirit of reciprocity. In spite of the contrary impression which might for the moment be caused, the appreciable difference in the extent of the lists of products of each of the parties favored in customs treatment, that which we have just remarked is reenforced by a more careful study of the said lists and by taking into consideration, amongst other things, the American economy and that of ourselves.

The United States is an industrial nation and furthermore one of the greatest powers in the entire world with very great diversity in its production; at the same time, it possesses an agriculture of the greatest possibilities. Guatemala, on the contrary, is closely bound in its life to agriculture, until now its principal source of wealth, under conditions that, appertaining to that which proceeds from the commerce of its products abroad, make it dependent upon a very limited number thereof (its products).

With these premises, it will be observed that the products that make up the catalogue of those favored in their importation into Guatemala are far from comprising the very great variety of American production, that practically as a whole they cause no fear of displacement or damage to similar national products, and although they are objects of concessions they all pay duties. On the other hand it is striking that the specification of the Guatemalan articles chosen for preferential treatment consist practically in their totality of our principal articles of exportation and that with the exception of a few that have not as yet appeared to be of great importance, they will enter the United States free of duty.

It could be argued that while the American articles of the list that are given effective concessions in the amount of duties payable, in fact the United States has not extended any real concession inasmuch as those Guatemalan products, given free entry under the treaty, already enjoyed that exemption. Nevertheless, if a calculation be made on the basis of customs statistics, the probable sum of the latter reductions in duties in favor of American products would not amount to much and in any case the fiscal sacrifice would no doubt be compensated with the greater possibilities of taking advantage of American markets with Guatemalan products and with tangible guarantee that such of our significant articles as coffee and bananas are guarded against the imposition of import duties for a future term. The significance of the latter will be appreciated by recalling the great concern caused a few years ago by the danger of both articles being made subject to customs duties a result of an active campaign in that sense made by important interests in American economy. In a certain sense the protection conceded in the commercial agreement to bananas offers a complete opportunity for the most effective realization of the benefits that the national economy must derive from the more intensive exploitation of the Pacific coast as a result of the recent negotiations by the Government with the Compañía Agricola de Guatemala (Guatemalan Agricultural Company).

It is needless to say that the treaty is of singular interest to the commerce of the country, in its greatest practical part, its activity of most importance, that of importation, and that for many years the most important source of supply has been the United States. The greater part of the American products of the list annexed to the treaty form also, a part of the substantial object of business of a great number of commercial houses, and the advantage for sale made possible by customs reductions will result in the last extreme in favor of the public consumer.

In regard to industry, it will be sufficient to consider the possible effects of the treaty under two points of view: That of the undoubted benefit to those industries working with raw materials from the United States and included in the list, and that of the competition to be suffered by Guatemalan manufacturers similar to those of the United States which enjoy a better customs treatment under the agreement. While the first benefit is well known, we shall allude only to the industries that use tobacco, hides, and cotton thread-- the danger of the second injury is more than illusory, even in the case of textiles, of shirts, and of agricultural products.

In conclusion, it is sufficient to affirm that the treaty of commerce with the United States, the first of its kind subscribed by Guatemala under the present administration, and in accordance with purposes of a most scrupulous and circumspect commercial policy which was made apparent by the denunciation of the agreements with Great Britain, Italy, and Germany, is satisfactory and in any event represents, insofar as it concerns the interests of Guatemalan economy, the maximum of advantages to be obtained.

Translated by: OGM
Copied by: EP.

6. AGREEMENT BETWEEN COSTA RICA AND THE UNITED STATES (1936)

From: Trade Agreement with Costa Rica; Memorandum, Division of Latin American Affairs, Department of State; September 11, 1936; 611.1831/125 1/2 ADT.

DEPARTMENT OF STATE

DIVISION OF LATIN-AMERICAN AFFAIRS

MEMORANDUM

September 11, 1936

TRADE AGREEMENT WITH COSTA RICA.

Minister Sack plans to reach Washington next Tuesday, September 15, bringing with him a copy of the text of the trade agreement as it now stands. We understand that Schedule I as agreed on by Costa Rica contains duty reductions on steel office furniture, cotton shirts, silk hosiery, trunks, lumber, oatmeal, evaporated milk, cornstarch, canned fish, dried fruit, canned fruits and vegetables, chewing gum, dried milk, paints and varnishes, certain medicines and pharmaceutical preparations, toilet and shaving soaps, and toothpastes. This is one of the best lists of concessions we have obtained in any of the agreements with the smaller Latin American countries, despite the fact that no duty reductions on lard and flour have been obtained. Costa Rica, however, we understand is willing to bind the present tariff treatment of wheat flour (equivalent to about eighty-five percent ad valorem) and to agree not to change the present legislation affecting lard, which provides annual increases in the import duty until a maximum rate of .80 centimos per kilo is reached in 1938 (on present prices, that rate would equal an ad valorem of about sixty percent).

Practically no American lard is now being shipped to Costa Rica, although in 1929 we shipped a half million dollars' worth. The loss of this business is due in large part to Costa Rica's deliberate attempt to become self-sufficient as regards lard and pork products, a policy which requires high protective duties. As the present duty (.60 centimos) is practically prohibitive, the maximum rate of .80 centimos will make it quite certain that little or no American lard will be able to enter Costa Rica, barring exceptional price changes. Costa Rica's agreement to bind this treatment is thus worth little or nothing.

The agreement to bind wheat flour represents a definite benefit to American agriculture, since it holds open on present terms one of our few remaining markets for flour. This in itself, in these days of closing markets, is a concession of some value. During the first seven months of 1936, the United States shipped over 50,000 barrels of flour valued at $235,000 to Costa Rica, showing that this trade is still continuing in a profitable way. (It is true, however, that most of the flour we are shipping to Costa Rica is milled in this country from Canadian wheat.)

Agriculture feels disappointed, of course, that the situation in the Costa Rican agreement as regards lard and flour is not more favorable, and its representatives may object to the agreement in its present form and move that further effort to get concessions be made by our negotiators. It is very much doubted whether any further efforts would be warranted and they might well prejudice the success of the negotiations, since Costa Rica has very definite reasons for not agreeing with our desiderata on lard and flour. In flour, it is purely a case of revenue, while with lard, she has a protectionist program which may be objectionable to us, but is nonetheless something which she seems to be intent on pursuing for the time being.

Mr. Sack has expressed a desire to meet with the Trade Agreements Committee on his arrival in Washington to explain personally the circumstances surrounding the Costa Rican negotiations. The question before that Committee will be whether to conclude the agreement on the bases now proposed or whether to make further attempts to obtain some benefits on lard and flour. The Agriculture representative may favor the latter alternative; perhaps Mr. Sack's exposition of the local situation would help to convince them that no effort has been spared to get such concessions, and that any further efforts are apt not only to be unsuccessful, but also to produce an effect opposite to that intended. There is a body of opinion in the Committee, I believe, which favors the conclusion of agreements such as that with Costa Rica, recognizing that while they are not as comprehensive as we might desire, still they carry benefits for many different United States interests and represent a genuine effort on the part of the Governments concerned to cooperate with the Untied States in promoting the broad aims of the program. This body of opinion will doubtless be strong enough to have the agreement approved in its present form, if that course is recommended by this Department.

LA:EGT:FES

7. NEGOTIATIONS BETWEEN THE UNITED STATES AND COSTA RICA (1936)

From: Status of Trade Agreement Negotiations; Despatch No. 1286 from Legation of the United States of America, San José, Costa Rica to Secretary of State, Washington; November 10, 1936; 611.1831/135 A-J.

LEGATION OF THE UNITED STATES OF AMERICA

San José, Costa Rica
November 10, 1936

No. 1286

Subject: Status of Trade Agreement Negotiation

CONFIDENTIAL Declassified NARA 5-4-87

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my telegram No. 69 of November 10, 12 noon, reporting the present status of (1) the trade agreement negotiations, and to enclose copies of the English and Spanish texts of the memorandum outlined therein, that I delivered personally to the Acting Minister for Foreign Affairs, Mr. Fernandez, on November 9, pursuant to the Department's telegrams Nos. 42, 44 and 45.

It will be noted that the memorandum insists on a 50 centimo rate for pure hog lard; requests the restoration to Schedule I of canned pork, which was eliminated in the print delivered to Minister Sack by the Ministry for Foreign Affairs on September 5, 1936; accepts the binding of vetegable oil lard compound (which includes, also mixtures vegetable and animal fats, and compounds of animal fats other than pure lard) and hams and shoulders, in accordance with note 3 to Schedule I of the print delivered to Mr. Sack; assents to the elimination of corn starch from Schedule I, in exchange for the inclusion therein or rosin with a 50% reduction in the existing tariff rate, and the binding of the existing rate on typewriters, calculating machines and cash registers; and withdraws our request for the deletion of paragraph 3 of section IX, while adhering to the request for the deletion of section XVI, while adhering to the request for the deletion of Section XVI, of the text delivered to Mr. Sack.

Thus, except in its inclusion of cannedpork, and its exclusion of soda crackers and automobiles, the memorandum adheres closely to the instructions conveyed in the Department's telegrams under reference.

It did not seem necessary to waive canned pork inasmuch as this item is one the acceptance of which should not be objectionable to Costa Rica.

Soda crackers and automobiles were not included, as discreet conversations with the Minister of Finance, Mr. Gurdián, through Vice Consul Satterthwaite as intermediary, had disclosed that these items would probably be strongly opposed –the former because of the existence of a small but growing domestic cracker manufacturing industry, which it is desired to protect, and the latter because increase, for revenue purposes, in the existing low duty on automobiles is contemplated as a part of a complete revision of the import tariff that is now being planned. Increase in the duties on office machines also is contemplated, but it was decided to include these notwithstanding, as they are potentially much less important as revenue producers than are automobiles, and it is probable that even if Costa Rica will not agree to bind existing low duties on them it will undertake to limit increase to a specified maximum which, quite apart from any practical effect that it may have on the volume of trade, would strengthen the Schedule quantitatively.

The binding or the present dispositions on vegetable and other lard compounds has an interesting aspect. These substances are supplied largely by European countries, and compete with American pure hog lard. If we can peg the duty on pure lard at 50 centimos while permitting the duties on the compounds to progress to 80 centimos under the provisions of Law No. 11 of May 21, 1934, we shall obviously relieve our pure hog lard of troublesome competition. It may be said in this connection that there would be little hope of getting any concession on pure vegetable compounds, as the national vegetable oil extracting industry now in process of establishment is to be highly protected.

Our presentation was put in the form of a memorandum not only in order that it might have clear definition, but also because I had received from the Foreign Office an intimation that it would be desirable to present a memorandum that could be considered in detail by the whole Cabinet. In this connection, it is to be observed that the Acting Minister for Foreign Affairs is not familiar with the details of the trade agreement negotiations. Further, I desire to demonstrate clearly to the Cabinet that it had strong arguments for the amendment of Law No. 11 to present to Congress, the difficulty of getting Congress to amend the law having been heretofore, as the Department is aware, the principal argument of the Ministry for Foreign Affairs against the 50 centimo rate on pure hog lard.

In timing the presentation of the memorandum, I was guided by indications that I had obtained in exploratory conversations at the Foreign Office, and from Mr. Gurdián, through Vice Consul Satterthwaite. I had regard also to the fact, with which I had become acquainted through Mr. Satterthwaite, that Mr. G. P. Chittenden, Manager of the United Fruit Company in Costa Rica, who recently returned from the United States, was intimating to the President in conversation that his organization would feel more secure in carrying out its development program in Costa Rica, if Costa Rica had secured continuance of the entry of its products into the United States, under favorable conditions by effecting an agreement.

In presenting the memorandum I was accompanied by Mr. Satterthwaite who acted as interpreter. He read the Spanish text to the Acting Minister, and I left with the Minister one copy each of the English and Spanish texts.

Following the reading of the memorandum, I emphasized orally the importance of the 50 centimo rate to us; endeavored to head off a demand from Costa Rica for a 60 centimo rate by observing that to insert the 60 centimo rate into the treaty would be to perpetuate a virtual embargo by an instrument designed to lower trade barriers; and pointed out the desirability from Costa Rica's point of view of facilitating the entry of canned pork, an important item to mining and other organizations beyond the reach of a regular fresh meat supply. I also indicated briefly to him our reason for desiring the deletion of Article XVI.

The Acting Minister was, as always, friendly and receptive. He observed that he was not familiar with the trade agreement negotiations, but said that he was extremely desirous of terminating an "ambiguous" situation and reaching complete definition before the end of this month. He said that he would lay the memorandum before the Cabinet immediately, and would give us a reply within three or four days.

As I indicated in my telegram under reference, the atmosphere at the moment is markedly cordial, and the attitude of the Costa Rican Government is one of receptiveness. Considering this and the elements at work, I believe that there is a promising prospect of our getting substantially what we have requested, although Gurdián in the exchanges that I have had with him has not definitely committed himself to supporting a rate on pure hog lard lower than 60 centimos.

I shall make prompt report by telegraph of developments as they occur.

Respectfully yours,

(signed)
Harold M. Collins,
Chargé d'Affaires ad interim

Enclosure:

1 - Copy of memorandum

HMC:mc
631

Enclosure No. 1 to despatch No. 1286 of November 10, from the Legation at San José

MEMORANDUM

In his note verbale (No. 144) of September 25, 1936, the Chargé d'Affaires ad interim of the United States had the honor to advise His Excellency the Secretary of State for Foreign Affairs of Costa Rica that the texts of the proposed trade agreement between Costa Rica and the United States were being thoroughly checked by the Department of State of the United States, and that upon the completion of this checking, and the resolution of the pending question of a concession on lard, administrative consideration of the agreement by the Government of the United States would proceed.

The action of the Department of State has not reached a point where it has been possible for the Department to authorize the Chargé d'Affaires ad interim to present to His Excellency the Acting Secretary of State for Foreign Affairs the following, which it is hoped may provide a basis upon which may be brought readily to a satisfactory conclusion the prolonged negotiations through which the representatives of Costa Rica and the United States have pursued with devotion and good will the high aims of the agreement.

The Government of the United States has given careful and sympathetic attention to the question, raised by His Excellency the Secretary of State for Foreign Affairs in his note No. 505-B of August 22, 1936, to His Excellency the Minister of the United States at San José, and subsequently discussed orally by their Excellencies, of the treatment to be accorded under Schedule I to pure hog lard, vegetable oil lard compound and pork hams and shoulders. Both before and since His Excellency's note the Government of the United States has been regardful of the points emphasized by His Excellency, expressing repeatedly its desire that the trade agreement should be an instrument that would be acceptable to both the legislative and the executive branches of the Government of Costa Rica. It is, therefore, with what is felt to be comprehension and understanding, linked with the earnest desire that the agreement shall be in all its parts practicable, and beneficial to Costa Rica to a degree consonant with its purposes, that the Government of the United States invites the Government of Costa Rica to reconsider its position on pure hog lard as indicated by the note under reference, and grant the concession heretofore requested, namely, a rate of fifty centimos per kilogram on this item.

The position of the United States on pure hog lard is dictated by the circumstance that the concession asked on this product is the most beneficial feature of the trade agreement for American agriculture. The United States enjoys as much natural advantage in producing lard as Costa Rica enjoys in growing coffee; and tariff concessions on lard in trade agreements are to the farmers of the United States comparable in relative importance of benefits to Costa Rican coffee growers. In this connection the Government of the United States would point out that the requests relative to agricultural products that it has made on the Government of Costa Rica are unusually moderate. Despite the desirability of lowering the Costa Rican tariff on flour the United States has agreed to the binding of the present tariff treatment. On lard, the United States originally requested a rate of 24 centimos, receding to 40 centimos and then to 50 centimos, notwithstanding that the rate was only 40 centimos when Costa Rica agreed to negotiate.

In view of the importance of lard to the agriculture of the United States it is felt that a concession on this product is of paramount importance, and that the fixing of a rate in excess of 50 centimos would render highly uncertain the prospect for obtaining necessary clearance for the agreement in the United States. Agricultural interests in the United States are certain to withdraw their support of the trade agreement program unless worthwhile concessions are obtained on key farm products such as lard and flour, and the failure of the program is almost sure to entail a return to tariff insularity - an eventuality that would not be of more moment to any country than to Costa Rica, which has a vital stake in the development and the maintenance of a liberalized world trade.

The Government of the United States believes that Costa Rica's import figures relative to lard justify the observation that a rate of 50 centimos would strongly serve the protective purpose of Law No. 11 of May 21, 1934. These figures show that in 1935 with the 50 centimo rate in effect imports of pure hog lard into Costa Rica were only 489,252 kilograms, against 1,818,226 in 1934. That even the next higher rate, 60 centimos, provided by the law would be reasonably regardable by American agricultural observers of the trade agreement program as virtually an embargo is indicated by the figures for the first eight months of the current year, which show that imports during this period have amounted to only 133,600 kilograms.

The desire that it has had to arrive at an agreement that would be practicable for Costa Rica from the legislative point of view has led the Government of the United States in its consideration of note No. 505-B of His Excellency the Minster for Foreign Affairs to give particular attention to other aspects of the effect of Law No. 11 on the lard situation.

A salient fact that has been observed is that under the 60 centimo rate actually in effect, which is 20 centimos less than the maximum provided, the ratio of the price of pure lard to the daily wage of the worker is very high in Costa Rica, higher indeed than in any of several countries for which data have been available.

Assuming an average wage of two colones, the laborer in Costa Rica pays approximately 75% of a day's earnings for a pound of pure hog lard. This corresponds to a price of about $1.50 a pound in the United States, for example, one implication of this condition, as a newspaper in San José recently pointed out, is that the populace is forced to consume inferior, and often unwholesome, substitutes for lard. It is significant that while in 1934, 98% of the lard and substitutes imported into Costa Rica was pure hog lard, in the first eight months of 1936 only 54% was pure hog lard. Other implications are a measure of discontent among, and the lowering of the efficiency of, workers, accompanied by an increasing pressure from them for higher wages. It is difficult to visualize even the moderate amelioration implied by the effectuation of the rate of duty on hog lard requested by the Government of the United States as being otherwise than acceptable to the legislative representatives of the several groups affected

Another fact that has been observed is that the protection enjoyed by domestic lard is at present, and promises to continue to be, much higher than was originally intended by Law No. 11. It was evidently the intention of the law to add to the C.I.F. price of imported hog lard 10 centimos per kilogram in 1935 and 20 centimos per kilogram in 1936. The depreciation of the colon since the passage of the law, from 4.25 to an actual rate of 5.60 has added about 23 centimos to the addition of 20 centimos provided by the law for this year. Thus, the return of the tariff rate to 50 centimos would be, essentially, a reversion to the law rather than a departure from it.

The Government of the United States has not failed to consider the effect upon the revenue of Costa Rica of the concession that it seeks on lard. It is aware that some estimates have envisaged a loss of as high as 378,000 colones. These estimates would appear to have been reached by multiplying the number of kilograms of lard imported in 1934 (1,818,226) by 25 centimos, the difference between the 50 centimo rate requested by the United States and an average of the 70 centimo rate attainable in 1937 and the 80 centimo rate attainable in 1937 and 80 centimo rate attainable in 1938 under Law No. 11 of May 21, 1934. It is not believed that this is a just method of calculating, since, as has been shown, imports, under the restrictive influence of Law No. 11, have already dwindled to only a fraction of the total for 1934; and the logical centimo coefficient to employ is the 10 difference between the requested rate of 50 centimos and the actual rate of 60 centimos. Calculated on the basis of imports in 1936, the customs revenue derived from lard during the first eight months of this year would have been only about 15,800 colones less under the 50 centimo rate requested for the agreement than it has been under the 60 centimo rate in effect. The Government of the United States does not believe that there would be any decline in revenue under the agreement. On the contrary, it would expect a rise, as experience with the trade agreements hitherto effectuated shows that the lowering of tariff rates is more than compensated by an increase in volume of trade, which provides an enlarged basis for the collection of duties.

Having regard to the foregoing, the Government of the United States feels justified in expecting that the Government of Costa Rica will see its way to granting the moderate concession on hog lard that is being requested.

Regarding vegetable oil lard compound and pork hams and shoulders, the binding of the existing provisions of Law No. 11 of May 21, 1934 and the customs tariff of Costa Rica relative to these, in accordance with note 3 of Schedule I of the tentative print prepared by the Government of Costa Rica, and delivered to Minister Sack on September 5, 1936, is acceptable to the Government of the United States.

It has been noted that canned pork, which had been included in Schedule I under a rate of 1.30 colones kilogram, does not appear in the tentative print delivered to Minister Sack. While this item is of minor importance, the Government of the United States would be pleased to have it retained in the Schedule at the rate previously agreed, and would suggest that from the Costa Rican point of view it might usefully be retained. Canned pork, owing to its relatively high price, is not competitive with Costa Rican fresh pork, and is understood that there is in Costa Rica no canning industry with the products of which it would complete. At the same time, according to consular reports, it fills a definite need existing with mining, prospecting, exploring, construction and other operations remote from a regular meat supply -- operations that it is often desirable to facilitate.

The Government of the United States has noted attentively the mention made by His Excellency the Secretary of State for Foreign Affairs in his note no. 505-B of corn starch as an item the elimination of which from Schedule I would be gratifying to the Government of Costa Rica. From the point of view of the United States, corn starch is one of the more important of the secondary items upon which Costa Rica has granted concessions. However, the Government of the United States is willing to eliminate it, and asks in exchange, in order to preserve the quantitative value of the Schedule, a reduction of 50% in the existing customs duty on rosin, and the binding of existing rates on typewriters, calculating machines and cash registers. It is understood that none of these items is competitive with any product of Costa Rica, and that they all fill definite, if, at present, relatively small, requirements of Costa Rican industry and commerce.

In his note verbale of September 23, 1936, the Chargé d'Affaires ad interim had the honor to request, pursuant to the instructions of the Department of State, that His Excellency the Secretary of State for Foreign Affairs agree to the deletion of paragraph 3 of Article IX and all of Article XVI of the text of the proposed trade agreement as delivered to His Excellency the Minister of the United States at San José on September 5, 1936. The Government of the United States appreciates the attention that this request has received, but now withdraws that part of it relating to Article IX. It, however, adheres to that portion relating to Article XVI, the elimination of which is desired for technical reasons.

Rounded out and completed on accordance with the foregoing, the trade agreement will be a truly reciprocal instrument under which through fair exchange of concessions the United States and Costa Rica both obtain worth while benefits. For the United States it will mean reasonable opportunity for the moderate expansion or stabilization of considerable parts of its export trade with Costa Rica. For Costa Rica it will guarantee continued free entry into the largest single market actual or prospective in the world for all of Costa Rica's key products, and either continued free entry or stimulating reduction in tariff rates for the secondary products that Costa Rica is prepared to supply in quantity. Beyond this, the agreement will be a joint contribution by two sister republics of the Western Hemisphere to further the liberalization of world trade that is the high aim of the trade agreements program. Hence the Government of the United States feels justified in hoping for the favorable and early action of the Government of Costa Rica.

San José, Costa Rica
November 9, 1936

HMC: mc

B. EVALUATION OF RECIPROCAL TRADE AGREEMENTS

8. REVIEW OF THE AGREEMENT WITH COSTA RICA (1938)

From: Review of Developments Resulting from the Costa Rican-American Trade Agreement. Required Report from Consul Horatio Mooers, American Consulate, San José, Costa Rica; February 12, 1938; 611.1831/216 AKFC.

Required Report

(Submitted in compliance with the Department's mimeographed instructions of June 2, 1936, (File No. 611.0031/2844), and December 17, 1937, (File No. 611.0031/3088A).

REVIEW OF DEVELOPMENTS RESULTING FROM THE COSTA RICAN-AMERICAN TRADE AGREEMENT

From: Consul (signed)
Horatio Mooers

American Consulate, San José, Costa Rica.

Date of completion: February 12, 1938
Date of mailing: February 12, 1938.

FOREWORD:

The trade agreement between the United States and Costa Rica, as the Department is aware, became effective August 2, 1937. The Consulate on August 7, 1937, submitted a report of developments following immediately thereafter, a period necessarily limited to five day's time, and on November 21, 1937, submitted a more detailed report covering developments for the first four months following the treaty's inauguration[1] Less than three months have elapsed since the date of that report during which almost no developments worthy of discussion have come to the front. The Consulate has interviewed prominent importers and business men, including the Secretary of the San José Chamber of Commerce, but has been unable to obtain any outstanding information not already reported. It will, therefore, be impracticable to attempt an exhaustive discussion of the subject at this time. In compliance, however, with the Department's request that some direct comment be supplied applicable to each interrogation contained in the original questionnaire,[2] the topical headings contained therein will be dealt with briefly at this time.

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[1] "Development Relating to Reciprocal Trade Agreements," dated November 19, 1937, (mailing date), by Consul John B. Ocheltree, File 631

[2] Attached to Departments Instruction of June 2, 1937, File 611.0031/2844.

1. (a) *Effects of the Trade Agreement, to date, on the competitive position of American exporters, in general, in the market, and* (b) *on the trade and industry of the country:*

It has not been ascertained that the competitive position of the American exporter has materially changed. To date, no trade enquiries verbal or written, addressed to the Consulate, have brought up the trade agreement in any way, with the exception of one written protest received from an importer of canned tuna fish (see page 5 of the Consulate's report dated November 19, 1937, identified on previous page, who held that, although canned tuna fish was not mentioned by name under Ex. 118 of the agreement, which provided a lower rate of duty for certain other kinds of canned fish identified, the same and lower duty should obtain. The local customs officials, however, stuck to the letter of the agreement and assessed the regular and higher duty.

The introduction of canned tuna fish into Costa Rica from the United States is a relatively small item of importation as compared with salmon and sardines for example, which may account for the fact that it was not referred to by name in the final draft of the agreement. There is nothing new to report at this time in so far as the agreement affects the trade and industry of the country from a competitive point of view.

As previously reported, the agreement has, without doubt, stimulated the retail trade in certain classes of goods, particularly sardines and other canned foods, raisins, and dried miscellaneous fruits, some preserved meats, lard, paints, hosiery, and pharmaceutical products. As already reported, from 15 to 20% more lard (estimate) is now being imported, and local retail prices for hosiery have dropped 30% in some cases, with about a 20% drop in the case of retail prices for certain pharmaceutical products which naturally include tonics and household remedies, tooth paste and antiseptics.

In a word, many of the articles required daily by the average American family, and long considered as necessities, have now been brought to the attention of Costa Ricans at lower prices than were previously possible and, in consequence, are gradually emerging from the "luxury" classification to find a place in the needs and within the means of many local families of average means and better.[3] At a later date when official importation statistics covering the year 1937 are available it will then be possible to draw conclusions based on increase in imports shown as effected during the last six months of the year and as over a similar period for 1936. At the present time, the opinion of importers and business men must be used almost entirely in commenting. According to Uribe and Pages, San José, probably the largest wholesale importers of general merchandise in Costa Rica, the effects of the agreement are particularly to be remarked, as stated, with reference to canned foods and dried fruits. Of the canned goods American-packed sardines, probably the best selling preserved food of any imported, have been introduced in ever increasing quantities, working toward the exclusion of other foreign brands, particularly those from Norway and Japan.

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[3] This does not generally apply, however, with regard to most canned foods, which are still too high at current retail prices to be sold in any quantity, or even to the average resident foreigner with larger earnings and favorable exchange advantages. The following are current retail prices quoted representative stores in San José for goods that are inexpensively sold in the United States.

Condensed Milk	Sells here for Colones 1.00 per can or $0.18. When three cans are purchased at once, some stores sell for Colones 2.00 or $0.36
Canne Soups, standard brands, (10 cents in the United States)	Sell here for Colones 1.50 a can, or $0.27
Cornflakes	Sell here for Colones 2.50, or $0.45, per 2 boxes
All Bran breakfast food	Sells here for Colones 1.50 a box or $0.257
Asparagus (medium sized tins)	Sells 3 cans for Colones 6.65 or $1.20
Salmon (mediocre brands)	Sells for Colones 2.50 a can, or $0.50
Anchovies	Three small tins for Colones 2.75 or $0.50
Cocomalt, (1 lb. tins)	Sells here for Colones 3.75 or $0.65
Icing Sugar (per lb.)	Sells for Colones 1.75 or $0.32
Canned peaches and pears, medium tins	Sells for Colones 2.75 a can, or $0.50.

2. *Attitude and comment in regard to the operation of the agreement:*

There is nothing in particular to record at this time applicable to comment on the part of government officials, the press, business leaders and organizations or American commercial representatives. Practically no comment so far has been registered for or against the agreement. The Secretary of the San José Chamber of Commerce, for example, when interviewed, avoided making any direct comment but gave the impression that he had no criticism to offer. This, in effect, appears to be the sentiment prevailing generally in San José. The Consulate has received somewhat more calls from American business men of late than appears to have been the case a year ago this time. Again, it would also appear that American travelling salesmen are more definitely taking notice of the Costa Rican market than formerly and in cases are writing advance letters to advise the Consulate of the dates of their projected arrivals. One large paint firm on the Pacific Coast is sending a representative here for an extensive canvass, to be effected in March. On the other hand, trade enquiries received during the past five months have made no reference whatever to the existence of the trade agreement and the Consulate is not in a position to know whether these letters were written partly or wholly by reason of the agreement now effective.

3. *Manner in which the foreign government (Costa Rica) is carrying* out the letter and spirit *of the trade agreement:*

There is, so far, nothing to indicate that the Costa Rican Government is intentionally failing to carry out the agreement. Both the Legation at this writing is in conversation with the Foreign Office over an apparent contravention of Article 4 of the agreement, since the Government of Costa Rica is imposing a consumption tax on beer from the United States, 100% **more** than the consumption tax levied on domestic beer. There is no reason to believe that this is anything more than an oversight or misinterpretation on the part of the Costa Rican Government. As stated above, there have been no complaints received at the Consulate, apart from one importer of tuna fish.

4. *Important developments affecting the operation of the trade agreement:*

There has been no new legislation authorized affecting the trade agreement (not already carefully reported), and no establishment of competing industries, although there is competition from third countries inasmuch as Japan is persistently competing in the exportation to Costa Rica of cheap textiles (including hosiery) and canned fish particularly sardines. Germany, also, competes principally in pharmaceutical products. It will be remembered that sales of many German-made products are materially assisted by the askimark compensation plan. In the case of pharmaceutical goods, for example, in which incidentally all glandular products of German origin are well established on the local market, local retail prices in many cases are somewhat below those charged for pharmaceutical products of American manufacture. Again, England competes with the trade agreement in the sale of woolens, British woolens being generally preferred here to American woolens, in spite of the fact that they are more expensive to the purchaser. As some apples and grape-fruit are imported from Chile, this country also may be said to compete slightly with the agreement, although in a minor degree.

Immediately official importation statistics are available for 1937, a more complete picture of the situation will be possible.

As far as the matter of exchange and financial developments in Costa Rica are concerned, there is little new to report. Foreign exchange was plentiful throughout 1937 and continues plentiful at this writing. During 1937 the government materially simplified the routine procedure followed in applying for foreign drafts, with the result that former and reiterated complaints over the extended period required to obtain dollars for the payment of imports effected are no longer heard. The Federal Government realized a very satisfactory revenue return for 1937, taking in about Colones 40 000 000 or Colones 4 000 000 *more* than during 1936. Increased importations, particularly those brought in toward the close of the year and after the entry into effect of the trade agreement, accounted materially for the additional revenue received. In short, the Government is well satisfied with its state of finance, and annual reports from the five principal banks give proof in turn that the banks are also in a sound condition. At the close of January 1938, partly due to the unsettled and falling coffee prices, collections were reported as slow and credits as easy for bona fidé parties. The Banco Nacional de Costa Rica early in the year set the rate for dollars (on which the rates for foreign currencies are established) at Colones 5.61 (buying) and Colones 5.62 (selling). This rate did not vary materially during the past 12 months. The established rate for uncontrolled drafts during the week ended February 12th 1938 was Colones 5.65 (buying) and Colones 5.68 (selling). During 1937 quotations at times touched Colones 5.72 (buying) and dropped as low as Colones 5.60 (selling).

The present quotation for the askimark (German compensation plan) is Colones 1.63, or a discount from the gold mark of 27.6%.

The askimark did much to influence Costa Rican exporters to purchase goods in Germany throughout 1937, and materially competed with the trade agreement in certain lines of manufactured goods, and principally photographic supplies, cameras, chemicals, pharmaceutical products, cement, steel, iron, and other unprocessed construction materials. The future of the askimark in Costa Rica as a boon to the importer is open to speculation, and the Banco Nacional de Costa Rica, local clearing house for the askimark, has recently decided to hold only enough askimarks on hand to meet demands already registered. In other words, there will evidently be no desire this year on the part of the bank to stock up with millions of askimarks as was the case during 1936. As Germany took 97,000 bags of Costa Rican coffee during last year under the quota system, and is one of Costa Rica's best coffee-buying customers, exporters feel that this market must at any rate be protected and preserved.

5. *General Trend of the Government's Commercial Policy:*

There is nothing tangible to report under this item at the time, with the exception that, instead of receding from the basic purposes and objectives of the trade agreement with the United States, Costa Rica appears definitely interested in eventually effecting agreements with other countries of which probably the first to be considered will be Great Britain. It is recalled that Great Britain is a principal market for Costa Rican coffee, and that genuine anxiety is manifest at this time on the part of coffee shippers, concerned with the stability of the English coffee market now fluctuating and classed as "very dull". Were an agreement to be drawn up with Great Britain, it is evident that the main purpose of the local government would be to safeguard the coffee and banana markets in that country, since these products, with cacao, make up the principal exports of the Republic and the basis upon which its economic stability rests. Nothing official has been published or stated with regard to the proposed treaty with Great Britain, but rumors appear occasionally in the local press and on the street to the effect that pressure is being brought upon the Government to consider the matter at an early date.

6. *Attitude and Comment of Government officials, local business leaders and organizations, and the press in regard to the trade agreements program of the United States:*

There is nothing new to report under this heading, except to reiterate what has been stated under (2) above.

Original and four copies to Department.
One copy to Mission, San José.
One copy to Commercial Attaché, Panama.

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HM/ml.

Sources of Information:

1. A review of all preceding reports submitted and
2. Informal interviews with local business men, importers, officials, Secretary of Chamber of Commerce, and others.

9. REPORT ON THE AGREEMENT WITH GUATEMALA (1938)

From: Semi Annual Report on Reciprocal Trade Agreement; from Consul General Walter F. Boyle, Guatemala, Guatemala; July 1, 1938; 611.1431/220.

REQUIRED

(In compliance with the Department's mimeographed instruction of December 17, 1937, File No. 611.0031/3088A)

SEMI ANNUAL REPORT ON RECIPROCAL TRADE AGREEMENT

From Consul General Walter F. Boyle (signed)

Guatemala, Guatemala

Date of Completion: July 1, 1938.
Date of Mailing: July 1, 1938.

The trade agreement with Guatemala afforded but little opportunity for tariff reductions. Coffee, bananas, and chicle, the three principal exports, were on the American free list for many years before the trade agreement programme was authorized. The value of the agreement with Guatemala lies chiefly in the good will evidenced in its making, and the stabilizing effect of its guarantees against practices likely to be unsettling to trade.

Competitive Position of American Exporters.

The extra favorable competitive position temporarily accruing to the United States under the agreement to a large extent has been leveled out by most favored nation treaties with such major commercial countries as Belgium, Canada, Czechoslovakia, France, Germany, Italy, The Netherlands, and Sweden. The only major commercial countries appearing not to have a most favored nation treaty are Great Britain and Japan. It should not be overlooked that the United States and the other countries enjoying most favored nation treatment occupy a strong competitive position because of those sections of the agreement guaranteeing against inequitable concessions to third countries, exchange control, and other factors unsettling to trade.

Effect on Trade and Industry of Guatemala.

Guatemala naturally hopes for benefit by the increased taking of Guatemalan products by the United States. But inasmuch as her outstanding products were on the American free list long before the agreement, it would seem manifest that any increase would represent a change in American taste, or some deficiency in the normal supply usually bought from other countries, rather than the effect of the agreement. Normally coffee represents about eighty per centum of the exports of Guatemala, and it is to be borne in mind that the United States has reciprocal arrangements with the other great American coffee producing countries. Hence even though coffee is bound on the free list, the competitive position of Guatemala for American trade in its principal product holds the same relative position with its chief competitors as before the agreement was made. The good will, understanding, and security in trade relations springing from the agreement undoubtedly have an effect on trade and industry which cannot be measured statistically. Guatemala is not an industrial country. The great bulk of the population live on a very simple and even primitive scale, and the per capita purchasing power is very small. The lesser towns and rural communities are self-contained to a surprising degree. It cannot be said that the trade agreement has aroused any tendency to change the industrial status of the country.

Attitude of Responsible Government Officials.

As repeatedly noted in former reports, the agreement has come to form such a normal part of the commercial life of the country that it is no longer the subject of comment or discussion by responsible government officials, business men, or the community in general. It is not the wont of local business men or the community in general to express opinions contrary to those inspired by the Government. Healthy and normal trade conditions do not tend to evoke comment and discussion.

Attitude and Comment of Local Business Leaders and Organizations.

Business leaders, organizations, and the public in general are not prone to express opinions at variance with the pleasure of the government, unless the provocation is acute. This will help to explain the absence of unfavorable comment. The absence of all comment would seem to clearly indicate that the trade agreement has become an accepted part of every day business life.

Attitude and Comment of the Press.

Close scrutiny has failed to disclose any press comment whatever relative to the agreement. Press comment on the making of trade agreements with other countries has been merely a relation of the terms of the treaty without comment thereon. As the press of Guatemala conforms strictly to the wishes of the government, its utterance are usually taken as inspired.

Attitude and Comment of American Commercial Representatives.

Commercial representatives of the few lines conceded an actual tariff reduction seem to be particularly favorable. The attitude of other representatives of American trade, though tinged with regret that their own liens were not favored with a tariff reduction, seem to be well pleased because of the stabilizing features of the treaty applicable to trade in general.

Manner in Which Local Government Is Carrying out Letter and Spirit of Agreement.

Several presidential decrees revising and stiffening the documentary requirements for imports into Guatemala, with heavy fines for non-compliance, were mentioned in the last report by this office as giving rise to considerable misgiving as to the spirit with which the government intended to carry out the agreement. However, these decrees seem to be working chiefly in securing the stricter documentation desired. On the whole importers seem to have arranged with their principals in the United States to comply with the letter of the decrees.

Arrangements Contemplated with Third Countries.

With most favored nation treaties now in effect with Belgium, Canada, Czechoslovakia, France, Germany, Italy, The Netherlands, and Sweden, but little room is left for promoting new agreements. It is to be noted that there is no agreement with Great Britain.

Although coming more within the scope of a political report, it may not be out of order to mention that the old dispute with Great Britain relative to Guatemalan claims to ownership of the Colony of Belize is receiving a great deal of obviously government-inspired newspaper publicity. That this influences the slowness to accord Great Britain most favored nation trade treatment would seem plausible.

The other outstanding commercial nation not having most favored nation treatment is Japan. At present Japanese goods are subject to the surcharge imposed on countries whose exports to Guatemala increase abnormally without a corresponding increase in takings of Guatemalan products.

New Legislation.

Although there has been considerable minor regulatory trade legislation by presidential decree, a close examination would indicate that none of it has been influenced by the agreement.

Establishment of Competitive Industries.

Guatemala is not an industrial country in the sense of factory products. The scale of living of the masses is very simple and at times even primitive. Imports usually run at about five dollars per capita per annum. The trade agreement does not seem to have influenced the establishment of any industry.

The concession under the agreement to such things as mango and guava pastes and pulps and fresh pineapples, etc., do not seem to have worked to the building up of an export trade therein. It is to be recalled in this connection that a more liberal concession on these products is made to Cuba.

Competition from Third Countries.

The failure of Guatemala to accord most favored nation treaty to Great Britain, and the surcharge against Japanese goods because of the unfavorable balance of trade, naturally give American goods a handicap over the manufactured goods of those countries. However, as the great group of major commercial countries now have most favored nation treatment, the United States enjoys no particular advantage in competition with such countries. Germany, with its so-called "aski" marks, amounting in effect to an export bounty, occupies a very favorable position. However, as long as the United States takes its usual share of Guatemalan coffee, bananas, and chicle, it would appear that directly or indirectly Guatemala must purchase the value thereof in the United States. This, of course, is not without its unsettling features as regards individual items.

Exchange and Finance.

The heavy decline in world coffee prices, said to have been brought about by the practical abandonment of the Brazilian coffee valorization policy, has placed a severe test on the financial and exchange policy of the Guatemalan Government. With most of the big coffee "fincas" carrying mortgages regarded as unpayable as regards principal, and with every prospect of at least partial default in interest payments, there has naturally been a great deal of pressure for currency inflation. However, the government has steadily maintained its stable financial policy having as its basis a balanced budget and maintaining the exchange value of the quetzal at par with the dollar.

General Trend of Guatemalan Commercial Policy.

The immediate commercial policy of Guatemala is based on finding a market for its coffee which makes up about eighty per centum of its exportable wealth.

By virtue of its railways, steamships, wide organization, and marketing facilities in the United States, the banana business is in the hands of one big American company. The overshadowing position of this company therein necessarily relieves the government from any particular primitive commercial policy with relation thereto.

Chicle, the third but on the whole a rather minor export, is dominated very largely by a single American corporation. The government policy, therefore, is chiefly that of making favorable contracts for exploitation and the protection of its revenues.

The policy of the government may be summed up as the extension of the most favored nation tariff treatment to any and all countries offering an actual market for Guatemalan coffee, particularly if such country will agree to a minimum quota for its own consumption.

Official and Business Attitude on Trade Agreement.

The reporting office has talked with business leaders and has followed the press. It is his opinion that both the press and the business world have but little interest in the general policy of the American trade agreement programme save as it directly affects the trade of Guatemala.

Statistics.

Following this caption are some import tables of the principal articles on which there was an actual tariff reduction on the part of Guatemala.

Notwithstanding the tariff reduction, powdered milk and cream, varnishes prepared with oil, and prepared enamels and lacquers seem to show but little more than what might be called the normal fluctuation of trade.

While prepared cereals showed a remarkable increase from 1936 to 1937, the 1937 level would appear to be only the normal growth of trade as compared with 1934 and 1935.

The increase in motor vehicle tires, notwithstanding the tariff reduction of practically fifty per centum, has advanced in just about the same percentage as the imports of motor vehicles, and it is to be noted that although the duty on motor vehicles was bound at the existing rate, there was no tariff reduction thereon.

As regards radio receiving sets, there seems to have been a very satisfactory increase, though it is to be noted 1936 was greater than 1937. Also it is to be noted that while American imports dropped from 1936 to 1937, those from Germany increased.

The most favorable increase appears to have been in that of metal furniture. Just how much of this increase is represented in Guatemalan Government purchases for new buildings and for newly constructed governmental office buildings there is no estimate.

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WFB/NG

Copies sent:
1 to Legation
5 to Department of State

C. THE END OF SPECIAL TRADING RELATIONSHIPS

10. RENEGOTIATION OF THE AGREEMENT WITH GUATEMALA (1954)

From: Renegotiation of Trade Agreement with Guatemala; Department of State Instruction No. A-120 to Amembassy, Guatemala; December 7, 1954; 411.1431/11 1854 CS/S.

DEPARTMENT OF STATE INSTRUCTION

LIMITED OFFICIAL USE
(Security Classification)

Declassified
NARA 6/24/88

No.:A-120, December 7, 1954

Subject: Renegotiation of Trade Agreement with Guatemala

Reference: Embassy's Despatch No. 422 of November 18, 1954.

To: Amembassy GUATEMALA

In reply to the Guatemalan memorandum proposing renegotiation of the bilateral agreement, the Embassy is requested to inform officially the appropriate Guatemalan representative that the U.S. Government would not be willing to undertake such renegotiation since it is this Government's general policy not to negotiate bilateral trade agreements outside the framework of the GATT. The Department believes that it would be in the overall interest of Guatemala to negotiate for accession to the GATT at such time as the Contracting Parties arrange a round of negotiations or under such procedures for accession of new countries as the Contracting Parties shall determine. Guatemala would be assured in its won right of the benefits of world-wide reductions in restrictions against its export trade in return for trade concessions on its part, without sacrificing the prospects of achieving its desires for economic development and higher living standards for its inhabitants. Many underdeveloped countries, including such other Latin American countries as Brazil, Chile, Cuba, Dominican Republic, Haiti, Nicaragua, Peru and Uruguay are now participating in the GATT, which includes an article (Article XVIII) specifically intended to enable protective measures to be used where necessary in conjunction with economic development programs.

The Contracting Parties are, moreover, engaged in a revision of GATT including consideration of various proposals for the liberalization of the procedures under Article XVIII with the view toward further facilitating the adoption of protective measures for purposes of economic development by countries such as Guatemala. It would, therefore, appear to be in the interest of Guatemala to defer making its decision concerning accession to the GATT until it has had an opportunity to consider the revised provisions of the GATT. The Department will furnish Guatemala the results of the current GATT session as soon as they are available. In the meantime, trade relations between the U.S. and Guatemala would continue to be governed by the bilateral agreement. While the agreement remains in effect, however, the stated desire of the Gu atemalan Government to comply with its international obligations would not be achieved unless it were to remove the existing violations.

DULLES

LIMITED OFFICIAL USE
(Security Classification)

Drafted by:
EDT:CP:DHandler:mal 12/6/54

Approved by:
Margaret H. Potter

Clearances:
L/E - Mr. Czyzak ARA - Mr. Fisher EDT - Mr. Kelly COMMERCE - Mr. Boyd

11. HONDURAS SEEKS REVISION OF ITS AGREEMENT (1954)

From: Desire of Honduras for Revision of Trade Treaty with United States; Foreign Service Despatch No. 280 from Amembassy, Tegucigalpa to Department of State, Washington; December 28, 1954; 411.1531/12-2854.

FOREIGN SERVICE DESPATCH

Despatch No.: 280

From: Amembassy, Tegucigalpa

To: The Department of State Washington

December 28, 1954

Ref.: Department's A-84, May 6, 1954

Subject: Desire of Honduras for Revisions of Trade Treaty with U. S.

Members of the Honduran delegation to the recent Rio de Janeiro Conference discussed with U. S. delegates the desire of the Honduran Government for a revision of the trade agreement with the U. S., originally signed on December 18, 1935. Somewhat to the surprise of the Hondurans, the U. S. delegates appeared willing to discuss a revision and informal arrangements were made to explore this possibility in writing. The Honduran delegates mentioned that conversations with Embassy officials on the subject indicated that the U. S. Government would be unwilling to undertake Bi-lateral Trade Agreement negotiations with Honduras (as stated in reference instruction). To this the U. S. delegates are reported to have replied that this Embassy was apparently unaware of the latest developments in United States policy and that renegotiation of an existing treaty would be easier than the negotiation of a new bi-lateral treaty.

At the request of the U. S. delegates a letter was prepared and signed by Honduran Under Secretary of Finance, Pedro Pineda Madrid, indicating the reasons why the Honduran Government is interested in renegotiation (see enclosure No. 1). The letter states that certain clauses of the Trade Agreement are out-of-date and that, because 80% of Honduran trade is with the United States and over 90% with the Western Hemisphere, Honduras feels that renegotiation should be on a bi-lateral basis rather than within the framework of the General Agreement on Tariffs and Trade. Specifically, Honduras desires to raise its tariffs on certain imports from the U. S. considered to be non-essential. The Embassy was told that there would be

OFFICIAL USE ONLY

continued correspondence on this subject and that the Embassy would be kept informed of the new developments.

FOR THE CHARGE D'AFFAIRES, a. i.

(signed)

Edward V. Lindberg
Second Secretary of Embassy

cc: MID
Enclosure: 1) Copy letter dated Dec. 1, 1954 from Honduran Under Section of Finance Pineda

ACTION COPY - DEPARTMENT OF STATE

UNCLASSIFIED
(Classification)

Page 1 of
Encl. No. 1
Desp. No. 280
From Tegucigalpa

Rio de Janeiro, Brasil
1 December, 1954

Mr. Isaiah Frank, Acting Deputy Director
Office of Economic Defense and Trade Policy
Department of State
Washington, D.C.

Dear Sir:

The purpose of this communication is to put in writing some of the reasons why the Honduran Government is interested in renegotiating the trade agreement that has been in existence between our two countries for more than eighteen years.

Our most important objection is that certain clauses of this agreement are out of date. It has also proven to be on occasions contradictory to the basic principles of sacrifice that a country must make in order to achieve a higher rate of development. Specifically, this is applicable to the list of certain U.S. non-essential products which Honduras imports, either free of duties or with lower tariffs than those imported from other countries, because of this agreement.

Our difficulties do not end at this point. Because of our deficient tax administration; as well as to the low level of income of our general population, it has been found necessary, at times, to levy duties on capital goods and other essential imports to attend to fiscal necessities. Furthermore, our entire treaty program has been paralyzed, not wanting my Government to extend the most favored nation treatment toother countries as long as these inconsistencies with our economic development policies have been resolved. The result, therefore, has been that Honduras has only one other trade treaty, and that with the Republic of El Salvador. Since in the U. S. trade agreement the Central American preference is recognized therenegotiation of the Salvadoran treaty was carried out in the early part of this year without any difficulty.

My Government has in the past three years been giving lot of thought to this treaty matter. Although, practically all Honduran exports are on the U. S. free import list, it was felt by our authorities that denouncing this old agreement would constitute an unfriendly gesture toward our great American brother, as well as to create an unfavorable climate for the flow of U. S. private capital to our country.

Another course open to us was the acceptance of the General Agreement on Trade and Tariffs, so that our difficulties might be resolved within the framework of such instrument. In view of the interest Honduras has in Central American economic integration, and given that efforts were and are being given to form a custom union it was thought desirable for us to stay out of such Agreement until this regional problem had been resolved. Furthermore, because approximately eighty per cent of our total trade has been traditionally with the United States, and over ninety per cent with the Western Hemisphere, we felt that our difficulties were more of a regional nature and consequently to be dealt in the interamerican sphere rather than in a world forum.

Since Honduras does not have either trade or exchange controls and is loathe to establish them, other forms of traditional restrictions as well as these, are not available to it for curtailing unnecessary imports.

Because of all these considerations our government has thought that the best course available to it was to directly approach the U. S. Government on a possible renegotiation of our 1936 Agreement.

Fundamentally, we are not interested in raising our average tariff level; what we are interested in obtaining is a change in the list of U. S. imports items, under the agreement, whereby non-essential articles would be substituted by capital goods or by general consumers goods which are now subject, as indicated above, to duties for fiscal reasons.

Recognizing that it is impossible in such a short communication to cover the intricacies of such a problem, the Honduran Government would welcome the opportunity to meet informally with representatives of the U. S. Government to see whether our aspirations have merits and could be carried out.

Respectfully,

Pedro Pineda Madrid
Under Secretary of Finance, Public
Credit and Commerce

12. TARIFFS INCREASE IN HONDURAS (1955)

From: Letter, Russell B. Long, U.S. Senator to Secretary of State John Foster Dulles with letter attached from Mr. J. T. Connor, Attorney, New Orleans, Louisianna together with a chart comparing the old and new tariff schedules on imports from Honduras; May 12, 1955; 411.116/5-1255.

Russell B. Long
Louisiana

UNITED STATES SENATE
Washington, D.C.

May 12, 1955

Honorable John Foster Dulles
The Secretary of State
Washington 25, D. C.

My dear Mr. Secretary:

There is attached hereto a copy of the letter I received from Mr. James Thomas Connor, Attorney, New Orleans, Louisiana, together with a chart comparing the old and new tariff schedules on imports from the Republic of Honduras.

This appears to be an action which has very serious effects upon our import trade with Honduras which could only be justified by most serious and specific economic difficulties within Honduras and in connection with its foreign exchange position.

I should appreciate it if you would inquire into this matter and inform me as to what your position is on the issue. Specifically I should like to know whether or not an official protest to the Honduran authorities has been made by our representatives.

With assurances of my highest esteem, I am

Sincerely yours,

(Signed) Russell Long

COPY

James Thomas Connor
Attorney at Law

407 Richards Building
New Orleans 12, La.

May 9, 1955

Dear Senator Long:

At my suggestion Mr. Remy Fransen, my father-in-law, has prepared the enclosed comparison of the old and new tariff schedules on imports into the Republic of Honduras with a view to placing this matter before you for your information and whatever good offices you may exert to ameliorate this condition. Bear in mind that Honduran products are admitted into this country duty free. I am writing similar letters to your colleagues, Senator Ellender and Messrs. Hebert and Boggs.

On all sides we read about and hear of the vast trade opportunities that await the American producer and manufacturer in Latin and South America. Yet, as you well know, there must be reciprocity of one kind or another if this program is to be effectual. What hope is there for the development of trade with the Republic of Honduras if in return for free access to our markets she elects to impose an almost prohibitive tariff around hers?

While it is true that Mr. Fransen is an exporter of American goods to Honduras, his concern is not limited by his own selfish interest in the effect of this drastic tariff increase on his operations. He has had a long and thoughtful association with Latin American countries and he recognizes (as do all those who have informed themselves) that the improvement of the lot of the people of those countries depends upon giving them access to the products of our industrial genius and thus improve their living standards especially in the area of food stuffs which will enable these people to vary their diets and better their health. But this cannot be a one-way street and it seems to me that the officials of this country should recognize the short-sightedness of this tariff policy and make representations to the government of Honduras to the end that the high tariff wall erected on April 15th last be lowered forthwith.

Respectfully,

(Signed) James Thomas Connor

Table II.12.1

COMPARISON OF OLD AND NEW CUSTOMS TARIFF ON IMPORTS INTO THE REPUBLIC OF HONDURAS. THE NEW SCHEDULE WAS ENACTED ON APRIL 15, 1955, AND DECLARED TO BE IN EFFECT IMMEDIATELY

(Amounts are stated in American currency and the unit is the kilo usually)

Commodity	Old tariff	New tariff	% increase
Soups cont. meat	$ 0.30	$ 1.50	500
Soups, vegetable	.30	1.50	500
Milk products	.00	1.00	
Shrimp & oysters	.60	2.00	333
Macaroni	.50	.70	
Olives	.15 to .22	.80	400
Marmalades	.42	2.00	500 -
Potatoes	.20	.60	300
Dry beans, etc.	.15	.30	100
Tomato & vegetable juices	.15	1.00	667
Candies	.80	1.50	.87 1/2
DOG FOOD	.00	.00	none
Margarine	.00	.92	
Vinegar	.20	.60	300
Jellatines	.42	.75	90 -
Catsup, mayonnaise	.42	.75	90 -
Beer	.75	2.30	306
Vino de mesa	.40	1.75	410
Whiskies	1.42	4.00	280
Table salt	.22	.50	110
Kleenex	.00	.60	
Grocery bags	.00	.25	

June 20, 1955

In reply refer to
ARA: MID 415.116/5-1255

Dear Senator Long:

In your letter of May 12, 1955 you requested the position of the Department of State on the increased tariff schedules of Honduras which Mr. James Thomas Connor had brought to your attention.

The new tariff, effective April 15, 1955, is designed by the Honduran Government to achieve a number of important objectives.

(a) It will provide for a uniform tariff nomenclature and simplify the rate structure in accordance with a resolution adopted in September 1953 by the Minsters of Economy of the Central American nations. These changes should result in greater administrative efficiency. It should be noted, however, that in view of the consolidation of the many charges into one rate of duty, the actual increase in duty under the new Honduran tariff is not as great as it would appear from the chart which was forwarded by Mr. Connor.

(b) The new tariff is expected to conserve the country's already limited foreign exchange by discouraging some imports through the imposition of higher duties on such products. Honduras considers the adoption of this measure essential to the country's recovery from the disastrous economic conditions in 1954.

The American Embassy in Tegucigalpa has informed us that banana exports, which constitute Honduras' chief source of foreign exchange earnings (about 60% of total) have been drastically reduced both as a result of severe floods which during the fall of 1954 destroyed a large number of banana trees and also as a result of a prolonged labor strike in the middle of the same year. At present, banana exports are about 1/3 of normal and are expected to continue at this level for the balance of the year. It is estimated that banana exports from Honduras will, in 1955, total about 6 - 8 million stems compared to exports in 1953, the last normal year, of 12.4 million stems valued at $41 million. The Embassy has also advised us that return of banana exports to normal levels cannot be expected before the end of 1956.

The Honorable
Russell B. Long
United States Senate

In addition to the loss in receipts from banana exports, Honduras has also suffered a substantial reduction in foreign exchange earnings from exports of coffee and precious metals. The latest reports from the American Embassy in Tegucigalpa indicate that coffee shipments, which ordinarily account for about 20% of Honduras' foreign exchange earnings, are substantially below normal in terms of quantity and even less in terms of value, since coffee prices have fallen sharply during the early part of this year. By March 1955, Honduras' foreign exchange holdings had declined to 44 million lempiras (one lempira is equivalent to US$.50) compared with a total of 56 million lempiras during July 1954.

The Department, however, notes with satisfaction that in its adoption of the new tariff Honduras has not failed to give full recognition to its commitments to the United States under the United States-Honduras Trade Agreement of 1936. The items on which tariff concessions were made to the United States under this agreement were included in a special annex to the regular tariff and were not increased in duty. Furthermore, there is no discrimination against the United States with respect to the duty treatment accorded products not covered by the trade agreement. The new rates of duty on these products are applicable to imports from all other countries as well as from the United States.

In view of the foregoing, the Department of State did not consider that representations in regard to the adoption of the new Honduran tariff were likely to be effective and none were therefore made.

The Lozano administration is trying to carry out a Five-Year Program of economic development, and this offers hope for an improvement in the standard of living of the Honduran people.

The Department of State appreciate your thoughtful letter, and hopes that the information presented will meet your needs.

Sincerely yours,

For the Secretary of State;

Thruston B. Morton
Assistant Secretary

13. INCREASING TARIFFS IN GUATEMALA (1956)

From: Request for Department of State to prevent or postpone the application for higher duties and work toward a lowering of existing duties on certain products; U.S. Department of Agriculture, Foreign Agricultural Service to Mr. Ben H. Thibodeaux, Office of International Trade and Resources, Department of State; February 9, 1956; 414.114/2-956 CS/E.

UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service
Washington 25, D.C.

February 9, 1956

Mr. Ben H. Thibodeaux
Office of International Trade and Resources
Department of State
Washington 25, D.C.

Dear Ben:

During the first 11 months of 1955, United States exports of pork and pork products to Guatemala declined sharply from the levels of the same months of 1954. Import duties on the meat products range from 3.2 to 13.6 cents per pound. A reduction in the duties on meat might stimulate increased trade in these items.

The termination of the bilateral trade agreement between the United States and Guatemala on October 15, 1955 leaves the two countries without any contractual arrangement with respect to trade, and leaves the United States with no guarantee that duties on its products will not be increased sharply. In fact, we understand that Guatemala will put into effect a new tariff schedule on February 15, that will raise existing duties two and three-fold on certain items.

We would appreciate it if the Department of State could use its good offices: (1) To prevent or postpone the application of higher duties on agricultural products in the proposed new tariff schedule; and (2) work toward a lowering of the existing duties on meat and meat products.

May I have your comments or suggestions on these problems?

Sincerely yours,

(signed) Gwynn Garnett
Administrator

February 24, 1956

Dear Gwynn:

I have your letter dated February 9, 1956 requesting the department to use its influence with the Guatemalan Government to obtain a reduction in the new tariff of higher duties on other agricultural products. I appreciate your bringing the problem to our attention. As you know, we have already taken some measures on it in cooperation with the Department of Agriculture.

Guatemala has repeatedly violated its bilateral trade agreement with the United States over a period of years. Last year when the Guatemalan Government requested termination of the agreement, the United States agreed. We have endeavored since then to encourage Guatemala to become a participant in the GATT, but without results as yet.

We are informed that the tariff changes now contemplated by the Guatemalans would be for the purpose generally of furthering economic development of the country. Some duties would be increased for protection of local industries, while others, especially those on essential raw materials and consumer goods, would be reduced below existing levels. At this time, however, we have no firm information as to how agricultural products will fare, either individually or in the aggregate, under the new tariff. We understand that the revision of the tariff has not yet been completed and it will therefore be some time before the new tariff is ready for publication.

The Department is sympathetic with and is endeavoring to assist our producers who fear that higher duties may be imposed on imports of their products with the resultant curtailment or complete loss of markets built up over the years. Our Embassy at Guatemala City has already been instructed in DEPTEL #227 of February 10, 1956 to point out to the Guatemalans the excessive nature of the protection to local industry contemplated by the proposed tariff increase on lard and the resulting increase in living costs for Guatemalan consumers. Representations to the Guatemalan Government by local agents of American producers and by importers of American goods would also be helpful. It is our hope that in these ways and through continuing consultation we may be able to induce the Guatemalans to consider the generally unfavorable effects on their economy that are bound to result from unduly high duties on imports from the United States.

Mr. Gwynn Garnett, Administrator,
Foreign Agricultural Service,
United States Department of Agriculture,
Washington 25, D.C.

Since Guatemala apparently fears that large quantities of United States meat products may be sold there at subsidized prices that may injure their internal markets, any assurances that could be given to Guatemala concerning United States surplus disposal plans would also be helpful in this regard.

Sincerely yours,

(signed) Ben H. Thibodeaux
Director, Office ofInternational Trade and Resources

Clearances:

TAD - Mr. Weiss
MID - Mr. Fisher

ITR:TAD:DHandler:jml
2.23.56

DEPARTMENT OF AGRICULTURE
Washington 25, D.C.

March 21, 1956

The Honorable
Herbert V. Prochnow
Deputy Under Secretary for Economic Affairs
Department of State

Dear Herb:

I wish to express my Department's sincere thanks for the prompt and efficient action taken by the Department of State through the Embassy in Guatemala in the matter of the proposed increase in the Guatemalan duty on lard, which we discussed with you recently.

The Embassy has now reported the promulgation of the new tariff rates on fats and oils by decree of the Guatemalan Government of February 28. We feel that the Embassy's prompt approach to the Guatemalan Government to protest the proposed excessive increase in the duty on lard was effective in limiting the action taken to a relatively small increase which, under present conditions, we believe will not adversely affect our trade.

It is indeed gratifying to learn of the successful outcome of this matter. We appreciate your splendid cooperation in preventing action which could have had serious consequences for an important segment of our export trade.

Sincerely yours,

(signed)

Earl L. Butz
Assistant Secretary

14. TRADE AND PAYMENTS IN CENTRAL AMERICA (1956)

From: U.S. Department of Commerce, Bureau of Foreign Commerce, American Republics Division, *Investment in Central America: Basic Information for United States Businessmen.* Study prepared by firm of Albert O. Hirschman and George Kalmanoff, Economic Consultants (Bogotá, Colombia, December 1956), pp. 27-30.

FOREIGN TRADE AND PAYMENTS

The combined foreign trade of the five Central American countries in 1954 amounted to about $775 million and consisted of some $400 million of exports and $375 million of imports. This level of imports represented a value of about $40 per person. Exports are heavily weighted by a few primary products, and three-fourths of the imports consist of finished manufactures, many of which are simple consumer goods, such as textiles. About two-thirds of the trade of the area is carried on with the United States; Western Europe has not regained its prewar share of the Central American trade and accounts for somewhat less than one-fifth of the total.

The 1954 trade level represents a significant advance over the earlier years of the postwar period. This is particularly true of the countries where coffee is an important export, primarily as a result of the substantial increase in the price of that commodity. However, the increased value of exports has resulted in part from the development and expansion of other primary products for foreign markets, such as cotton, cacao, lumber, and certain staple foodstuffs. The increase in export values in all of the countries has been followed closely by greater imports, as a result both of the immediate effect on import demand of increase in incomes and the rapid rate of economic development that has been characteristic of recent years.

As shown by Table 1, the greatest volume of foreign trade in relation to population is carried on by Costa Rica, and the smallest by Guatemala. Imports per capita into Costa Rica –$87 in 1954– were more than double the average for the area. Since Costa Rica has the smallest population of the five countries, the relative size of the import volume reflects in part the greater reliance on foreign sources that is characteristic of small countries; but it is also in line with other economic indicators cited throughout this report that show a considerably higher level of living in Costa Rica than in the other Central American countries. The low value of imports per capita in Guatemala reflects that country's more highly diversified economy, but it also reflects the fact that more than one-half of Guatemala's population consists of indigenous peoples who, for the most part, do not participate in the exchange economy.

Table II.14.1

VALUE OF CENTRAL AMERICA'S FOREIGN TRADE, BY COUNTRIES, 1954
(In millions of dollars)

Country	Exports	Imports	Total	Imports per capita (dollars)
Guatemala	96	86	182	27
El Salvador	105	87	192	40
Honduras	57	58	115	36
Nicaragua	63	63	126	48
Costa Rica	81	81	162	87
Total	**402**	**375**	**777**	**42**

Exports

The principal items of export from Central America are agricultural. The only mineral items that have been of some importance are gold, mainly from Nicaragua, and silver, primarily from Honduras.

Coffee and, in second place, bananas are by far the leading exports of the Central American countries, as shown in Table 2. Together they represent about four-fifths of the exports of the area. This percentage varies among the individual countries. In El Salvador, coffee accounts for about 85 percent of exports and, in Guatemala, it represents almost 80 percent of exports.

Table II.14.2

CENTRAL AMERICAN EXPORTS, BY COMMODITIES, 1953

(Percentages)

Commodity	All countries	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
Total	**100**	**100**	**100**	**100**	**100**	**100**
Coffee	56	77	86	17	39	44
Bananas	23	14	[a]	60	1	42
Cotton	4	[a]	7	[a]	15	[a]
Gold	3	[a]	1	2	16	[a]
Silver	2	[a]	[a]	7	[a]	[a]
Lumber	2	1	[a]	5	7	[a]
Abacá	1	2	[a]	1	[a]	3
Other	9	6	6	8	22	11

[a] None or les than 1 percent.

Coffee has also been the leading export of Costa Rica and Nicaragua. However, in Costa Rica banana exports are almost equally important, and in Nicaragua a number of other commodities are exported in significant quantities, particularly cotton, which has replaced coffee as Nicaragua's leading export. Coffee is of secondary importance in Honduras, but it has recently been gaining ground. Bananas are by far the leading export of Honduras, and an important secondary export of Guatemala.

Cotton exports have increased rapidly during the last few years, particularly in Nicaragua, El Salvador, and Guatemala. In the latter country a surplus has developed since 1953 as a result of official promotion of the crop. In all of these countries, cultivation of cotton has been expanded, particularly in the Pacific coast plain area, where natural conditions are very favorable for this crop.

Lumber exports also have shown progress, except in El Salvador, which has negligible forest resources.

The items discussed in preceding paragraphs constitute about 90 percent of Central American exports, but numerous other commodities are shipped in small quantities. Among agricultural products, Guatemala exports essential oils distilled from citronella and lemongrass, and Costa Rica has been shipping increasing quantities of cacao. Exports from Nicaragua are particularly diversified compared with those of the other countries of the area.

The items listed as "other" in Table 2 constituted more than one-fifth of Nicaragua's exports in 1953, and consisted of such products as cattle, sesame, sugar, corn, rice, and cottonseed. Staple food items, such as corn, sugar, beans, and rice, have been exported by Honduras and Costa Rica to neighboring Central American countries, and this trade can be expanded with the achievement of greater agricultural development. El Salvador in particular has a food deficit because of the large size of its population in relation to land resources. Other minor exports of Central America include textile handicrafts from Guatemala; textiles, straw hats, soap, and leather articles form El Salvador; and processed foods from Costa Rica.

The trade in basic foods and manufactured items offers the greatest potential for development under the area's program for economic integration and freer trade.

Imports

With respect to imports, three-fourths of the total consist of manufactured products and the rest are about equally divided between foodstuffs and raw materials. The manufactured products are, of course, heavily weighted by complex goods of modern technology, such as machinery, vehicles, and consumer durable goods, but they also include a substantial volume of textiles and apparel (see Table 3).

Table II.14.3

CENTRAL AMERICAN IMPORTS, BY PRINCIPAL COMMODITY GROUPS, 1953

(Percentages)

Country	Foodstuffs and related products	Raw materials	Manufactured products
All countries	**12**	**13**	**75**
Guatemala	13	12	75
El Salvador	16	15	69
Honduras	8	12	80
Nicaragua	7	11	82
Costa Rica	12	13	75

Petroleum products rank high on the list of raw material imports, and this situation will continue unless petroleum resources are discovered in quantity as a result of current exploration activity in Guatemala, Honduras, and Costa Rica. Honduras and Costa Rica still import their requirements of cement, but these imports will diminish or be eliminated if these countries develop cement industries, a possibility that has been given active consideration. All of the countries are heavy importers of wheat and wheat flour, and there is a trend toward increased importation of wheat as local milling industries are expanded. In addition, numerous food items are imported, such as fats and oils, dairy products, fruits and vegetable, fish, and other processed and canned foods. Volume may diminish, however, as local food-processing industries are developed.

Country Distribution

The United States is by far the leading trading partner of the Central American countries. In 1953, the United States took 71 percent of the area's exports and supplied 64 percent of its imports. Most of the dollars earned by these countries from their exports to the United States are spent directly in this country, but some are spent elsewhere, particularly in Western European countries, which thus earn dollars needed for their net purchases in the United States. In general, Europe has not regained its prewar share of Central America's exports of coffee and other commodities. Moreover, in spite of substantial gains in recent years, Europe is still well behind the United States as a supplier of the Central American countries (see Table 4).

Table II.14.4
EXPORTS AND IMPORTS OF THE FIVE CENTRAL AMERICAN REPUBLICS, BY PRINCIPAL AREAS, 1953
(In millions of dollars)

Country	Exports		Imports	
	Value	Percent of total	Value	Percent of total
United States	267.7	71	206.2	64
Canada	14.9	4	6.7	2
Intra-Central America	11.0	3	11.0	3
Other Latin American and Caribbean countries	14.9	4	26.8	8
Europe	61.5	16	63.0	20
Other areas	6.4	2	8.4	3
Total	**376.4**	**100**	**322.1**	**100**

Trade with areas other than the United States and Europe represents only about 15 percent of Central America's total trade. Canada takes a large volume of bananas directly, aside from transshipments though the United States, and supplies some of the area's imports.

Trade among the Central American countries is still very limited, except for certain minor products. However, intra-Central American trade has begun to expand as a result of the free-trade treaties, and it may be expected to increase further as progress is made in the integration program. Trade with other Latin American and Caribbean countries is relatively small, the Central American import surplus being accounted for largely by petroleum imports from Curazao and Aruba.

As can be seen from Table 5, there is some variation among the countries with respect to their trading partners. For example in 1953, the share of total exports shipped to the United States ranged from 45 percent for Nicaragua to about 80 percent each for Guatemala, El Salvador, and Honduras. Much less variation occurs with respect to imports, the United States supplying about two-thirds of the total imports of most of the countries.

Table II.14.5
VARIATIONS AMONG THE FIVE CENTRAL AMERICAN REPUBLICS WITH RESPECT TO DESTINATIONS OF EXPORTS AND SOURCES OF IMPORTS, 1953
(Percentages)

Country of destination or origin	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
		Exports			
United States	76	81	79	45	65
Canada	2	1	8	[a]	9
Intra-Central America	2	3	6	3	1
Other Latin American and Caribbean countries		1	2	4	12
Europe	19	12	2	32	20
Other areas	[a]	1	1	8	1
Total	**100**	**100**	**100**	**100**	**100**
		Imports			
United States	65	61	72	65	60
Canada	3	2	/a	2	3
Intra-Central America	1	9	4	3	1
Other Latin American and Caribbean countries	12	4	8	10	7
Europe	18	22	11	17	26
Other areas	1	2	5	3	3
Total	**100**	**100**	**100**	**100**	**100**

[a]Less than 1 percent.

Canada's purchases of bananas are reflected in the relatively high percentages of Honduran and Costa Rican exports to that country. As regards intra-Central American transactions, El Salvador and Honduras have the largest volume of such trade. The diversification of Nicaragua's exports is reflected in a much greater distribution, by country, of its trade compared with that of the other Central American countries. Honduras has the greatest concentration of trade with the United States.

INTERNATIONAL PAYMENTS AND EXCHANGE

Table 6 indicates the level of gold and foreign exchange reserves in each Central American country at the end of 1954, the value of imports during that year, and, by relating the reserves to the level of imports, the extent to which the reserves represent a cushion against any declines in exchange receipts. These date show why Nicaragua and Costa Rica consider it necessary to maintain control over transactions in foreign exchange. The ratio of reserves to imports was only about 25 percent in these two countries, compared with 45 percent or more in the other three.

Table II.14.6

CENTRAL AMERICAN GOLD AND FOREIGN EXCHANGE RESERVES, AND THEIR RATIOS TO IMPORTS, 1954

(In millions of dollars)

Country	Gold and foreign exchange reserves [a]	Imports [b]	Ratio of reserves to imports (percent)
Guatemala	40	86	47
El Salvador	50	87	57
Honduras	26	58	45
Nicaragua	15	63	24
Costa Rica	20	81	25

[a]End of 1954.
[b]Cost insurance and freight.

Exchange reserves in all of the countries have increased steadily in the postwar period as a result of favorable market conditions for their exports, but in Nicaragua and Costa Rica imports paralleled exports so closely that these two countries had not achieved an easy exchange position by the end of 1954. In an attempt to keep import demand in check in relation to the exchange availabilities, Nicaragua has required advance deposits in local currency for import order and made use of differential exchange rates through a system of exchange taxes, which were incorporated into import duties when exchange rates were unified in mid-1955. Costa Rica controls import demand through the maintenance of dual rates of exchange, subjecting certain imports and other exchange payments to the higher free market rate. Neither country has imposed quantitative import restrictions in recent years.

The downward adjustment of coffee prices in the latter part of 1954 adversely affected the trend of exchange earnings in Central America. However, the total earnings prospects were not unfavorable since the price declines were being offset by expansion in the volume of coffee exports and by increases in other exports, such as cotton and cacao.

The traditional pattern of current transactions in the balance of international payments of the Central American countries is one of a surplus of exports over imports, which is used to finance deficits on "invisible" service transactions. These deficits arise principally from payments abroad made by these countries for transportation and made by these countries for transportation and insurance and in servicing foreign investments.

Generally, there is also a deficit in the travel account, with Central Americans spending more on travel abroad than foreigners spend on travel in Central America. This pattern has been true in recent years even for Guatemala, noted as a tourist country, because travel to that country fell off sharply as a result of the political difficulties there. With the elimination of these difficulties in Guatemala, with the completion of the Inter-American Highway throughout the area, with the construction of some new, modern hotels, and with official tourist promotion programs, the travel account may be expected to yield considerably more foreign exchange to Central America in the future.

The inflow of capital into the Central American countries has been limited in recent years. As a matter of fact, Guatemala and El Salvador have experienced a considerable outflow of domestic capital –the former because of the political situation, and the latter because of the tendency of coffee growers and exporters to keep their profits abroad. This capital may be expected to be repatriated as greater political stability is achieved, and as domestic investment opportunities are discovered. An increasing flow of foreign direct investments, which appears to be under way, should have the effect of stimulating suchrepatriation of domestic capital. The capital account of the balance of payments of these countries should also be favorably affected in the future as the international lending institutions intensify their activities in the area.

15. DECLINE IN EXPORTS FROM THE UNITED STATES TO EL SALVADOR (1959)

From: American Exports to El Salvador Decline; Foreign Service Despatch No. 583 from Amembassy, San Salvador to Department of State, Washington; May 28, 1959; 416.119/5-2859.

UNCLASSIFIED
(Security Classification)

AIR POUCH
PRIORITY

FOREIGN SERVICE DESPATCH

From: Amembassy, SAN SALVADORDesp. No. 583

To: The Department of State, WashingtonMay 28, 1959

Ref: CERP D-1-A-5

Subject: American Exports to El Salvador Decline

INDEX

UNCLASSIFIED

DRRaynolds: etm

ACTION COPY - DEPARTMENT OF STATE

During the past several years, the United States has been steadily losing its enormous share of the Salvadoran market to more aggressive foreign competition. United States and Salvadoran figures appear to agree that although the maximum dollar volume of United States exports came in 1957, the American share of the growing local market declined from three-quarters to one half in the ten-year span 1948-1957. 1958 saw further competitive inroads made in American exports, with the value of such exports decreasing and the American market share declining as well. During the first half of 1959 this trend has shown no signs of reversal. Commodities bearing the major brunt of foreign competition appear to be cotton textiles, machinery, and vehicles. Such signs in a hard currency market close to the United States shores may indicate some fundamental problems for U.S. trade.

2. GENERAL

El Salvador was a growing market for U.S. exports until 1958. According to Salvadoran statistics, the CIF value of U.S. exports doubled between 1948 and 1957. During this period, however, the overwhelming American share of the market, which had been 74% in 1948, declined to 52% in 1957. 1958 results apparently were less, both on a value and proportionate share basis. Table 1 presents the basic Salvadoran statistics on imports from the United States in the 20-year period 1938-1957:

Table II.15.1

IMPORTS FROM THE UNITED STATES 1938-1957

(CIF values in millions of colones; 1 colon = $0.40)

Year	Value (colones)	% of total imports
1938	10.7	47
1943	20.2	68
1948	76.3	74
1953	109.7	61
1954	128.0	59
1955	131.1	57
1956	138.0	53
1957	148.3	52

Source: Dirección General de Estadística y Censos.

In 1957, U. S. exports to El Salvador were larger than to seven other Latin American countries: Costa Rica, Honduras, Nicaragua, Haiti, Bolivia, Paraguay and Uruguay. El Salvador is closer to the United States than the last three named, and of the seven only Honduras also had a stable currency without exchange controls. As noted in Table 1, American products became well-intrenched in El Salvador during World War II and the immediate postwar period. The composition of American exports to El salvador in the five years 1954-1958 is shown in Table 2.

Table II.15.2

UNITED STATES EXPORTS TO EL SALVADOR, BY GROUPS 1954-1958

(FOB Values in millions of dollars)

Year	Textiles	Metals and metal manufactures	Machinery vehicles	All other groups [a]	Totals
1954	6.7	2.6	11.9	20.0	$41.2
1955	5.5	3.1	13.2	25.0 [b]	46.8
1956	5.4	4.0	16.3	23.6	49.3
1957	5.4	4.8	16.0	23.7	49.9
1958	4.3	3.5	13.7	22.7	44.2

Source: U.S. Census Report No. FT 420 including 1958 monthly issues.

[a] This category includes Groups 00-Animals edible; 0-Animals inedible; 1-Vegetables edible; 2-Vegetables inedible; 4-Wood and paper; 5-Minerals; 8-Chemicals; 9-Miscellaneous.

[b] Most of increased value due to large wheat shipments of 1955.

Preliminary Salvadoran estimates of 1958 imports show total CIF values off about 7% from 1957. A general drop of this sort would not account for the decrease of $1.1 million (20%) in U.S. textile exports, $1.3 million (27%) in metals and metal manufactures, or $2.3 million (14%) in machinery and vehicles. On the other hand the $1.0 million (4%) drop in other exports is well within the limits predictable in a year of general import reduction.

Analysis of the local market shows quite varied reasons for the more pronounced declines enumerated above. 1957 was peak period here in the construction industry, and imports connected with the building trades, new homes, and offices, all were abnormally large. Much of the decline in imports of metals and metal manufactures from 1957 to 1958 appears to be associated with a downward shift in the construction cycle, rather than linked to particular failures on the part of American exporters. Market losses in the case of textile, machinery and vehicle products, on the other hand, were more closely linked to problems within the control of American producers. The market situation in textiles, agricultural equipment and automotive vehicles is discussed more fully below.

3. THE TEXTILE MARKET

Table 3, shows relative market performance in three major categories for the period 1955-7. The four tabulated countries, Great Britain, Italy, Japan and the United States, accounted for about 90% of all imported textiles in each of those years. These results show that the United States achieved larger market penetration in the field of threads and yarns, which is an expanding market closely tied with increased home sewing and small tailoring establishments. United States exports also achieved a larger portion of the non-cotton textile market, but this market is declining due to cotton competition. In the vital cotton textile market, U. S. exports showed large declines in totals and percentage penetration, while the total market grew under intensive Japanese cultivation.

Table II.15.3
EL SALVADOR TEXTILE IMPORTS, BY SOURCE AND TYPE 1955-1957
(Values in thousands of colones)

	1955	1956	1957
Threads and Yarns			
Great Britain	647	643	720
Italy	40	77	173
Japan	-	4	16
United States	**341**	**292**	**549**
World Totals	**1 318**	**1 406**	**1 745**
Cotton Textiles			
Great Britain	117	112	255
Italy	7	5	23
Japan	2 406	5 511	9 897
United States	**5 701**	**4 788**	**4 239**
World Totals	**9 484**	**11 626**	**15 788**
Other Fiber Textiles			
Great Britain	765	704	522
Italy	191	216	289
Japan	1 444	957	774
United States	**3 024**	**2 773**	**2 650**
World Totals	**5 790**	**4 883**	**4 502**
Total Three Categories	16 592	17 915	22 035
U.S. Share	9 066	7 853	7 438
Percent	54	44	34

In the field of cotton textiles exporters need to fear local production as well as alternate foreign suppliers. Cotton textile imports in 1957, for example, weighed about 2585 metric tons, and had a CIF value of ₡15 788 000. According to official estimates of local production in 1957, mills here used about 2 650 metric tons of cotton and produced products valued at ₡14 354 000 appears on the basis of 1957 results that about half the local market was being filled by local production. In 1958 and early 1959 El Salvador made extensive tariff revisions which greatly added to the protection afforded local producers. At the same time, the first production began to flow from the new mill erected with joint Japanese and local capital. This new mill, if it should offer competitive prices and quality, could bring about increasing displacement in the local market of imported and other domestic cotton textiles.

In the postwar period the American textile market has been subject to increasingly severe competitive pressures. The loss of another market for cotton textiles would probably come as no surprise. Here in El Salvador American exporters are facing the two major types of competitions in the textile field: aggressive merchandising by foreign competitors (chiefly Japanese) who are using modern, postwar machinery, and market erosion caused by the growth of protected industries within the local market. Both foreign and local producers enjoy cheaper wage levels in their plants than American mills. While reported January 1959 average wages in broadweave fabric mills in the United States was $1.47 per hour (before recent pay increases), the average wage here is $141 per month. In addition, foreign and Salvadoran mills can use non-American cotton, which is considerably cheaper than the product sold American mills. With these inherent handicaps, the outlook for American cotton textile sales in El Salvador is not particularly bright.

4. AGRICULTURAL MACHINERY

Since El Salvador is largely an agricultural country, machinery sales here are largely tied to crops. In the postwar period a major market factor has been the development of an important cotton industry. Unlike the coffee crop, which is planted, cultivated and picked by manual labor, cotton growing as practiced here involves large investment in mechanical equipment.

Salvadoran tractor imports for 1957 and the first 10 months of 1958 are shown below in Table 4.

Table II.15.4

EL SALVADOR TRACTOR IMPORTS, BY SOURCES AND TYPE, 1957 AND 1958

(Value in thousands of colones)

	1957		10 months, 1958	
	Units	Value	Units	Value
Germany	0	2	12	82
Great Britain	25	135	58	313
United States	171	3 050	83	1 647
Total	**196**	**3 185**	**153**	**2 042**

As these figures show, in 1957 the United States supplied almost the entire tractor market, but by the first 10 months of 1958 was losing both dollar volume and unit sales. Between the two periods, British unit sales and value roughly doubled, while U.S. results were roughly cut in half.

Most of the shift between sources of supply was made between factories of the same parent organizations –that is, local distributors now order from a British or German plant, rather than their old source in the United States. The tractors received from the European plants appear to be very comparable in quality, but differ markedly in the lower cost of the similar European product. Table 5 gives some comparative prices on tractors of similar design produced in competing plans of international producers.

Table II.15.5

UNITED STATES AND FOREIGN TRACTORS, CIF EL SALVADOR

(Values in U.S. Dollars)

	U.S. factory	Foreign factory	Saving
Unit #1	$5 704	$4 420 (England)	22%
Unit #2	16 483	15 553 (England)	6%
Unit #3	2 202	1 572 (Germany)	29%
Unit #4 (This unit Diesel from Europe gasoline from U.S.)	2 750	2 050 (England)	26%

With price differentials of this magnitude, local distributors are prepared to shift their foreign supply points as soon as competitive models become available.

In addition to losing its proportionate share of the tractor market, for reasons outlined above, American applications for planting permits are off at 45 000 manzanas, compared with 76 000 manzanas for the 1958/9 crop. Plantings in other recent years were: 1957/8; 57 000 manzanas, 1956/7; 55 000 1955/6; 65 000 and 1954/5; 42 000. Less-efficient producers are being driven out, leaving the field to highly-mechanized operators. These latter producers are reportedly planning to retrench on equipment expenditures. Knowledgeable sources predict that the national tractor market, in which the cotton growers play such a part, may be only 100 units in 1959 - roughly half the number of units imported in 1957. It is difficult to see how United States plants could supply more than fifty units for this reduced sales volume, in view of the attractive products offered by foreign branches.

Local distributors are convinced that the market for U.S. tractors is being closed off largely on a basis of price. There is apparently no appreciable preference for the service provided by one branch of an international producer against another of that some producer's branches. There is no major difference in the credit facilities afforded the distributor or final purchaser. On a mechanical basis some criticize the slowness of American plants to shift to diesel units, but much of this criticism appears directed toward past failures rather than the present product line. Distributors suggest that the only way that U.S. plants can regain their former volume is to sharply reduce prices *vis-à-vis* their European branches, or offer special credit facilities beyond those provided for the European production.

5. THE AUTOMOBILE MARKET

The most striking erosion of the American export market in El Salvador has been the rapid influx of foreign cars in the past several years. Table 6 shown the import levels for passenger cars in 1957 and the first 10 months of 1958, by country of shipment.

On the basis of these figures, it appears that in 1957 the United States provided 49% of the automobiles worth 63% of the CIF costs of all cars, while in the first 10 months American participation slipped to 39% of the units and 51% of the value.

As American producers have discovered in the home market, autobomile purchasers are very conscious of differentials in price, utility and style. For many years purchasers here bought American products without much thought to possible alternatives. It is likely that here, as in the United States, the first purchases of other imports were on a style basis, by individuals seeking to be slightly different from others in the market. A more cogent reason for shifting away from the American product has been a growing differential in prices. The price factor might not be expected to operate well in a market where most of those who can afford cars can afford the most expensive types; but in the atmosphere of retrenchment which has come with declining agricultural prices it has appeared to be "smart" to economize on conspicuous items. Thus there are known instances here of people economizing on automobile purchases at a time when their income is still high.

Table II.15.6

EL SALVADOR AUTOMOBILE IMPORTS, 1957-1958

(CIF Value in thousands of colones)

	1957		10 months, 1958	
	Units	Value	Units	Value
Belgium (transshipper)	32	117	9	35
France	147	468	83	294
Germany	305	1 110	449	1 685
Great Britain	279	975	174	636
Italy	52	185	40	145
United States	786	4 827	482	2 880
Totals	**1 601**	**7 682**	**1 237**	**5 674**

Source: Departamento de Estadísticas y Censos.

The 1958 market was obviously strongly shaped by the price differential between alternate products, and in 1959 this will become even more of a factor. The new tariff which went into effect in 1959 increased the duties on car imports from 21% to 26% across the board, thereby invoking a greater unit cost on the more expensive (US) models. CIF prices and tariff charges for 1958, and estimates for 1959, are provided in Table 7.

Table II.15.7

AVERAGE AUTOMOBILE UNIT COSTS, EL SALVADOR

(Colones)

Export source	CIF	1958 Tariff	Total	1959 est. New Tariff	Total
France	3 540	745	4 285	920	4 460
Germany	3 750	790	4 540	985	4 735
Great Britain	3 660	770	4 430	950	4 610
Italy	3 610	760	4 370	935	4 545
United States	6 000	1 260	7 260	1 560	7 560

Source: Data in Table II.15.6. 1959 estimates assume same unit costs as 1958.

While the average German car is not the cheapest available, it is furnishing the major competition to U.S. products. As noted in Table 7, the "average" German car is ¢2250 cheaper on CIF costs, ¢575 cheaper on tariffs, and ¢2825 cheaper on both scores together. At retail the differential gets even more striking: A Volkswagen retails for roughly $2000, while a stripped model of the big three* is sold for $3 500.

Competition with the German Volkswagen is particularly severe for a number of reasons besides initial cost. German products have long enjoyed prestige in this market for efficiency

*The "big there" refers to General Motors, Ford and Chrysler, the three major United States auto manufacturing companies.

and good design, and the Volkswagen has lived up to this reputation. The car has an advantageously low fuel consumption per mile, in a country where the low test gasoline retails at $0.50 per gallon. The company is owned by the German Government, and hence gets full support from other dependencies of the German government, including the banking system. The financing has its impact here because the Volkswagen dealer gets very advantageous terms from the plant. While consumer terms are uniformly no better than 20 months for all cars, the Volkswagen dealer is able to carry a broader stock than most dealers. At the customs in La Libertad he appears to receive his shipments in fifties, while importers of different American brands appear to order in threes and fours.

Now that the style barrier has been broken and wealthy people are driving the more economical European cars, there appears little likelihood that American car sales can do better than retreat slowly in the months ahead. Most established dealers are scrambling for one or more European lines to add to their American offerings. The prime competition appears to be coming from the independent Volkswagen distributor.

6. CONCLUSIONS

Certain conclusions are suggested by the recent decline in U.S. exports to El Salvador. In the losses of competitive position outlined above, currency controls or other monetary impediments have not been a factor. Tariff influences affect somewhat the sale of American cotton textiles, but the protection of local industry is not designed to discriminate against any particular foreign supplier. The sumptuary tariff levies on automobiles also will serve to shrink the sales of American products, but in this instance the product is already priced well above normal competitive levels. Distributors here express some hope that the new proposed American small cars may help restore the American car market, but this will be possible only if there is a major price differential over current models.

Foreign producers appear to have made their first large inroads on the basis of lower prices. In the case of tractors (diesel motors) and automobiles (lower fuel consumption) the foreign products may also have some design advantages for the local market.

Credit terms do not appear to have been a major factor in the sliding sales of the American products discussed, though the Volkswagen dealer does have the unusual credit facilities mentioned. Some American distributors however feel that if consumers here enjoyed longer terms from local banks, the sales of American products would be aided, since longer credit would obscure higher initial costs.

American products have not been driven from the market by superior servicing facilities on the part of other foreign suppliers - in fact, on balance the American reputation for service is still an important factor operating in favor of American products. In cases where the same distributor handles the production of American and foreign factories of the same American parent firm, however, the American reputation for service appears to extend to the foreign-made product. In the case of head-on competition, such as between American car dealers and the Volkswagen distributors for the American firms feel that brand loyalty is still operating in their favor and could be assisted by improved credit terms, if not direct price reductions.

Over the next few years the changing factors likely to affect the market of El Salvador appear to be further declines in the prices of agricultural exports, growing industrialization, and possible enlargement of the market through Central American integration. Declines in export earnings will put further pressures on high-cost imports, and American products will probably receive the brunt of any retrenchment campaign. Efforts to industrialize may have to be pursued with European or Japanese equipment, if American prices are too high in these individual lines as well. The efforts of El Salvador to achieve some sort of economic integration with its neighbors will broaden many of the competitive problems already felt here, but not necessarily make any individual American products more saleable. Integration may, however, offer Americancapital an opportunity to invest here and thus displace foreign (and American) sources of imports.

The recent failure of American exports in the free market of El Salvador may indicate some basic problems for U.S. trade which extend beyond the loss of prestige and commercial position so obvious here. Some possible methods of maintaining the U.S. market position here are discussed in the following despatch.

For the Charge d'Affaires, a.i.,

(signed) David R. Raynolds
Second Secretary of Embassy

Chapter III

FINANCING DEVELOPMENT

Documents in this chapter deal with indebtedness and external finance.

1. LOANS TO NICARAGUA AND EL SALVADOR (1910-1925)

From: Brown Brothers & Co. and J. and W. Seligman & Co., Loans to Nicaragua (1911) and Loan Contract Between the Republic of El Salvador and Minor C. Keith (June 22, 1922), in Robert W. Dunn, American Foreign Investments (New York: The Viking Press, 1926), pp. 219-247, 337-383.

AMERICAN FOREIGN

INVESTMENTS

by

Robert W. Dunn

CONTRACTS AND CONCESSIONS EDITED BY

ADRIAN RICHT

LOANS TO NICARAGUA: A CLOSED EPISODE

A. **1910-1914***

Prior to 1910 Nicaragua's debt record was a clear one, nor had any of its few loans been placed in the United States. In 1909 a bond issue for several millions had been made to the "Ethelburga Syndicate" of London, interest payments on which defaulted during the following year owing to a revolution thatdeposed President Zelaya, dictator of the Republic for over a decade. The United States Government gave its recognition to the government set up by the Revolutionists, and a treaty was negotiated between both governments providing for United States supervision of the liquidation of claims against the Republic which included several indemnity items besides interest on the 1909 bonds. The treaty further provided for the establishment of a new and stable currency, and approved the issue of bonds to the amount of fifteen million dollars to an American banking group to finance these operations. The Republic negotiated this loan with the firms of Brown Bros. & Co., and J. and W. Seligman & Co., of New York.

*Subtitle added by the Eds.

The American Congress, however, adjourned without approving the treaty, which never, indeed, secured ratification. The Republic and the bankers, nevertheless, in the expectation that the treaty would be ratified in a subsequent session, and wishing to obtain an immediate loan for the relief of the pressing financial situation of the country, contracted the Agreement on Gold Treasury Bills. This provided for the issue of $1.5 million par value of short-term Treasury Bills which the bankers would buy at a price considerably below par. The entire product of the loan was to be kept by the Trustee as security, except as its expenditure was disposed in the contract. With part of the product the Republic was to subscribe to the stock of a National Bank and the shares bought by the Republic were to be kept and voted by the Trustee. The directors of the Bank would be appointed by the bankers; all the expenses of corporation were to be defrayed by the Republic. The Bank contract also provided that a study of the monetary conditions of the country would be undertaken by a committee appointed by the bankers, at the Republic's expense, and that its recommendations for the establishment of a currency would be followed by the Republic through the National Bank. Part of the product of the Bills was assigned to a fund for this purpose until the Banking and Monetary Fund to be created out of the larger loan was available. The Bank was to be sole depository of the Republic, with the power to issue notes.

Further security for the loan was provided through the appointment by the bankers with the approval of the Secretary of State of the United States of a Collector General of the Customs, and this Collector General was to remit all customs receipts to the Trustee, where the Minister of Finance might draw on them. Finally, the bankers obtained an absolute option for the $15 million loan, and might declare contracts for the service and issuing of this loan, into effect at their will within thirty days of the ratification of the treaty. If the treaty were not ratified within five years, the bankers would have an option on all future loans of the Republic for this period. The bankers were also irrevocably authorized to negotiate a settlement of the Ethelburga claims, and the Republic was bound to their agreements with the foreign bondholders.

Although the treaty was never ratified and consequently the loan for $15 million was never made, it is interesting to examine under what terms it would have been issued. The bonds were to constitute a lien on all the customs revenues which would continue to be collected by the Collector General appointed by the bankers; the bonds were also a lien on the government-owned railway and on a new railway to be built out of the Railway Fund, created out of the loan. This latter security would be waived by the bankers if they should exercise their option to build the new railway themselves. The government railway, however, would be managed by an Administrator General appointed by the fiscal agent and this official would remit all profits of the railway to the Trustee in case of default of the loan.

The product of the loan was to be divided into six funds. Fund A was to settle the Ethelburga debt according to an agreement to be reached by the bankers and the bondholders. Fund B was to settle a claim of the United States against Nicaragua, a claim which Brown Bros. was greatly interested in as a later contract of 1917 shows. Fund C provided means for the settlement of claims, according to judgments given by a Mixed Claims Commission, two of whose three members were to be Americans. Fund D was the Banking and Monetary Fund, already referred to, more or less under the management of the bankers. Fund E was the Railway Fund, out of which were to be paid any expenses incurred by the bankers in making surveys, etc., of the projected new railway to determine whether or not they would exercise their option to build it themselves. Fund F was a General Fund which provided for the payment of the bankers' services, and any remainder of which was to be expended in public works approved by the fiscal agent. All the product of the loan would remain with the Trustee as security, until called for its specific purpose.

The Railroad Concessions conferred an option to the bankers for the construction of the new extensive system on the basis of a 99-year free lease, and other auxiliary concessions such as electric power and telegraph. The Republic was to pay half the cost of construction, and unusual privileges were granted the Company to be formed. Timber might be taken from the national forests, customs exemptions on any importations were allowed, and the Republic ceded, free, a strip of 100 metres on either side of the tracks. Further land grants of 335 acres were to be made for each kilometer of railway constructed as well as for each station and kindred works. One hundred acres were granted to the head of every family of labor-colonists imported. Further grants and the full details of those given here will be found in the contracted, which follows.

Agents of the bankers negotiated settlements with the bondholders of the Ethelburga issue during the following year, dealing with them through the Corporation of Foreign Bondholders in London. The Republic bound itself to these settlements, and also entered into a Supplemental Loan Agreement with the bankers, binding itself to sell 51 percent of its shares in its own railway to the bankers at their option. The price agreed upon was $1 million. Eventually the railway was resold to the Republic at $1 750 000, as specified in the 1920 contracts.

In 1913, five contracts were entered into between the Republic and the bankers. The Principal Contract stipulated the sale of 51 percent of the shares of the Pacific Railway and the National Bank, to the bankers, and the issue of over $1 million par value of Treasury Bills of 1913, both of which the bankers were to secure for $2 million. It was further stipulated that the bankers would make the railway a loan at 85 per cent par value and 6 per cent interest. The product of this contract was to be spent as follows: for the purchase by the Republic of 47 shares of a new issue of the National Bank stock; for a payment to the bank to go toward establishing the new currency, and for the retirement of the outstanding Treasury Bills. The remainder, about $700 000, remained with the Trustee at the order of the Republic. The bankers received a preferential right for the purchase of the remaining bank and railway stock should the Republic ever sell them, and in order to make this preferential right effective, the shares of both bank and railway were to be kept by the Trustee. The contract further provided for the cancellation of the Railroad Concessions of 1911. Six of the Bank directors were to be the appointees of the Bankers, one was to be appointed by the Secretary of State of the United States, and two were to be appointed by the Republic. Two offices were created, Bank Examiner and Railway Examiner, which were to be held by the same person, a resident of the United States, at a salary of $400 monthly. This person would also be a director of the bank and receive a director's salary.

Schedule I, the Trust Contract, provided that the Bills would constitute a lien on all the customs receipts which were still to be collected by the Collector General. This lien should be subject to prior liens in favor of the 1909 bonds, by the terms of the settlement, as also the payment of an indemnity to the same bondholders, and the prior lien in favor of payments to the National Bank for the fund for the establishment of the new currency. The loan constituted a first lien on all the Republic's shares in the National Bank and the Pacific Railway.

Schedule 2 was a contract for the sale of the new issue of Treasury Bills to the bankers at slightly more than 94 per cent of their pay value.

Schedule 3 was a contract with the National Bank, stipulating payments of $350 000 for the monetary fund and $100 000 for services and temporary loans made to the Republic.

Schedule 4 was a contract with the Pacific Railway, clearing up necessary details involved in the sale of the majority of its stock to the bankers.

B. 1914-1925*

On August 5, 1914, the United States and Nicaragua contracted a Treaty which ceded to this country the rights to build a transcontinental canal through Nicaragua, and to establish naval stations in the Bay of Fonseca. Nicaragua received $3 million for these rights "to be applied to the payment of its debt, or other purpose of public interest to be agreed upon by the two High Contracting Powers." This payment was not made until 1917, but on December 22, 1914, the bankers and Nicaragua entered into two new contracts based on the contingency of such payment. The effect of the European War on the Republic's commerce and consequently on its customs receipts caused it to request that its customs be temporarily received by it, and that interest payments on its debt be deferred four months. If the three million dollar payment should be made before January 1, 1915, payments should be immediately resumed. The contract provided for these two conditions, and the Treasury Bills another six months at 6 per cent. It also extended the Republic's option to repurchase its railway at the same price it had sold plus interest on the purchase price at 6 per cent. A contract was also entered into with the National Bank for the extension of loans made to the Republic at 12 per cent per annum. This contract also contained details of the moratorium to be enacted, and created a tax on lands to finance the new note issue.

The payment of three million dollars by the Government of the United States was held up until late in 1917. At this time three new contracts were covenanted between Bankers and Republic. The first of these was with Brown Bros. alone. On September 16, 1909, Nicaragua had entered into a

Treaty with the United States in settlement of an international claim, for the payment to this country of $600 000 in installments. Only $50 000 had been paid to date, and the remaining principal and interest amounted to $748 986.12. Of this sum Brown Bros. was interested to the extent of $589 656.33. It was agreed that $485 000 of this debt should be paid immediately out of the canal rights payment, and that Deferred Treasury Bills, bearing interest at 6 per cent, should be issued for the remainder. These were to be secured by a lien on the customs, subject to five prior liens mentioned in a Financial Plan of the same date which the Republic bound itself to adopt. The Bills would also be secured by a lien on the railway and bank stock still in the possession of the Republic, subject only to a prior lien in favor of the 1909 bonds.

Another contract was entered into with the bankers collectively, the preamble to which stated that the 1913 Treasury Bills had been extended from time to time and were still outstanding with interest to the amount of $1 271 181.14. According to the 1914 contracts, the bankers had the right to pay themselves from the canal rights payment. This contract stipulated the payment of a total of $767 693.80 for the bankers' service to date, the interest on the entire amount outstanding, and half the principal. Half the principal remained outstanding and was extended. The Bills were to be secured in the same manner as the Deferred Treasury Bills except that their lien was poor.

The third contract was with the National Bank and provided the payment to it of $111 404.83 which constituted its loans to the Republic. The United Sates was quoted as approving these three contracts and the disposition made by them of nearly half the sum due Nicaragua.

The Financial Plan which the Republic obligated itself to follow provided for a Collector General as before who was to make his reports regularly to the Secretary of State of the United States, a High Commission created by the Plan to supervise the country's finances, the Bankers, and the Republic. He was not to be interfered with in the discharge of his duties by the Republic unless the total expenses of collection should exceed 6 per cent of the receipts. Six liens were constituted on the customs, as follows:

The expenses of collection.

The expenses incurred by the Bankers, with the provision that a surplus of $10 000 was to remain at their disposal at all times.

The bond issue of 1909.

The exchange fund managed by the National Bank.

The Treasury Bills.

The High Commission already referred to was to consist of three members, of which two, including the chairman of the Commission, were to be appointed by the Secretary of State of the United States. The Commission had as its mission, generally, to act as final arbiter in all disagreements, and to supervise the working out of the Financial Plan. The Plan further restricted the national budget to an expenditure of 95 000 cordobas monthly. All taxes, except for two minor revenues, were to be collected by the Republic and administered according to the Plan. If less than 180 000 cordobas was collected in a period of three months, the collection of the national revenues would pass into the hands of the Collector General of the Customs. The Plan finally provided for the floating of an internal bond issue and its service, and disposed of the possible surplus revenues of the Republic for the retirement of outstanding obligations in a given proportion.

The finances of the country were consequently put on a thoroughly sound basis within the next three years, and in 1920 the Republic made an effort to obtain a large loan to build the Atlantic Railway originally projected in 1911. Its negotiations with the same group of bankers were apparently successful, for four contracts were entered into in this year.

Although all these contracts were ratified by the Nicaraguan Government, what actually happened was this: The Treasury Bills Series A were immediately issued to the Bankers in payment of their stock in the Pacific Railway, as well as divers fees. When it came time, however, for the negotiation of a price for the bonds, the bankers failed to make one which the Republic felt it could afford to accept at 7 per cent interest on par. The bonds, consequently, were never issued, and Treasury Bills Series B remained unissued also. The Bills to the amount of $1 450 000 were therefore the only obligation of the Republic beside the 1909 bonds. These Bills were paid off in 1924. The Bonds remain outstanding.

There has never been any question of a military intervention in connection with the finances of Nicaragua. American soldiers have been landed on several occasions, however, allegedly to quell disturbances, guarantee elections, etc., and a small unit of marines is still present in the country (July, 1925).

LOAN TO SALVADOR (June 24,1922)*

(a) The contract for this loan provides for supervision of customs collection by an American official in an otherwise autonomous country. The official recognition and approval of the United States was sought and obtained for the bond issue. Disputes between the contracting parties are referred for final settlement to the Chief Justice of the Supreme Court of the United States. The history of the early negotiations of this loan are interesting and of possible significance.

René Keilhauer, manager of the International Railways of Central America, of which Minor C. Keith, head of the United Fruit Co., is president, received the authorization of the President of the Republic to contract a loan in its favor on June 25, 1921. It was a three months authorization, but it was indefinitely extended on August 21 of the same year.

The loan was occasioned by the necessity of refunding an earlier English issue, settling large and long-pending claims against the Government, mostly for revoking monopolies, and to repay various small short-term loans lent variously by the International Railways and its bank in Salvador and other local banks. But the large subsidies granted to the International Railways were the second largest single item.

On February 11, 1922, Keilhauer purported to have concluded preliminary negotiations with the National City Bank, which submitted its proposition to the Republic for approval before entering into further proceedings. Minor Cooper Keith had meanwhile been made co-agent with Keilhauer, allegedly in case Keilhauer should have to be absent from New York at a critical period in the negotiations. Both Keilhauer and Keith signed this document with the National City Co., and the National City Bank. This contract was disapproved by the President because of the clause it contained depriving Salvador of its financial autonomy by the establishment of American supervision and super-government, and the setting of many limitations upon the fiscal policy of the country. In return, the Secretary of the Treasury made a detailed suggestion, showing how the object of security supposedly desired by the National City Co., could be obtained in a less drastic manner. Instead of a foreign Administrator and Collector General of Customs with full appointive powers, he offered a guarantee in the form of fiscal checks and balances. The National City Co., however withdrew from further negotiations.

Keilhauer and Keith supposedly proceeded to interest other banking groups in the proposed issue, but now Keilhauer wrote to the Secretary of the Treasury that great difficulty was being encountered. No banks, he said, cared to deal with a country that had already broken off negotiations carried almost to their conclusion; there was too irresponsible an air about its projects. The earlier negotiations had "discredited" the Republic. He proposed that a definite contract be drawn up and the bond sold to Minor Cooper Keith, whose standing was such that he could command respect as seller. A contract already approved, he said, would interest bankers.

This was done. Keilhauer signed for Salvador, Keith as party of the second part, on June 24, 1922, and the contract was approved by the Assembly on July 12, and by the President the following day. The Diario Official of July 21, 1922 (Number 163), carries a Spanish translation. This contract was modified in certain minor respects October 16 of the same year. All that need be said is that Keith bought the bonds on terms that the Republic would probably not have offered another buyer. He bought them at 88 with an understanding that sale at a better price would be to the Republic's advantage. There was no resale. Keith kept the bonds and paid himself as creditor the largest part of the product at 88 that he had given for Series A.[1]

The following was the disposition of bonds as given in the message of President Molina to the Salvador Assembly, 1924:

*Representatives signed the loan contract on this date, as indicated in the text.

[1]Source: Memoria de Hacienda y Crédito Público published in the Diario Oficial of El Salvador, Feb. 20, 1923. Detailed information of the early stages of the negotiations are in the preceding year's Memoria, published toward the end of Feb. 1922.

"A" Bonds ($6 million) sold to Minor C. Keith at 88 per cent nominal value, and amount deposited in Metropolitan Trust Co., which deducted $153 333.33 commission; remainder paid to creditors as stipulated in contracts.

"B" Bonds ($5 1/4 million) cancelled English debt of £1.5 million. Remainder of £1 712.

"C" Bonds ($6.5 million) paid to certain creditors as stipulated in contracts. $317 425.47 remainder in cash.

Additional "C" Bonds ($2 million) paid to passive creditors. There was a remainder of $612 500 in cash.

The most important item in the contract is the collection of 70 per cent of the customs by an American collector.

2. COSTA RICA'S EXTERNAL DEBT (1932)

From: Costa Rica: External Debt; Memorandum, Division of Latin American Affairs, Department of State; June 2, 1932; 818.51/510

DEPARTMENT OF STATE

DIVISION OF LATIN-AMERICAN AFFAIRS

MEMORANDUM

COSTA RICA

External Debt

The principal loan from American sources is that originally made in the amount of $8 000 000 and for which the Central Union Trust Company of New York is trustee. This is called the external Secured Sinking Fund Gold Loan of 1926.

There are two contracts covering this loan: the loan contract and the Trust Agreement. These two are along precisely the same lines, except that the Trust Agreement is in considerable more detail. The provisions of the Trust Agreement, which may be of particular interest at this time, are the following:

"Article I.

"Section I. ... In case the revenues pledged as security for the Bonds shall prove insufficient to make any payments to be made as provided herein or in the Bonds it (the Republic) will make up such deficiency out of its other revenues.

"Section 2. The Republic as security for the payment of the principal, interest and sinking fund of the Bonds and for the expense of the service of the Bonds, hereby specifically pledges, and creates a direct lien and charge on.

(1) the gross revenues of the Republic from customs duties, both import and export, subject only to the lien or charge thereon of the Gold Refunding Bonds of 1911 of the Republic ...

(2) the gross revenues of the Republic from its monopoly of alcohol and liquors, subject only to the lien or charge of the Costa Rica Foreign Loan 5 Per Cent Gold 1911 bonds, and to the lien or charge of the internal loan authorized March 1, 1923....

"Section 3. The Republic covenants that it will not reduce, abolish, or in any manner impair its revenues existing at the date of this Trust Agreement from customs duties, both import and export or from its monopoly of alcohol and liquors....

"Article IV.

"Section 1. Until all the bonds of 1926 shall have been retired or redeemed, the Republic shall pay semi-annually to the Trustee, who shall pay over the same to the Fiscal Agents for the Bonds of 1926 as hereinafter provided, for the semi-annual service of interest and amortization of the Bonds of 1926, the sum of $341 070 in gold coin of the United States of America, (in monthly installments).

"Section 2....

(c) ... In case the Republic shall fail to make prompt payment of any payment for the service of interest and amortization of the Bonds of 1926 as and when the same shall be due and payable the Fiscal Agents for the Bonds of 1926, shall apply to the payment of interest and sinking fund as and when due all or such part of the aggregate sum of $170 535.

"Article VII.

"Section 2.... The trustee may and, upon the written request of the holders of not less than one-fourth in principal amount of the Bonds then outstanding, shall, by written notice to the Republic, appoint, and the Republic shall be obligated to consent to the appointment of, and hereby does consent to the appointment of, a Special Collections Agency ... with the sole right to administer, at the Republic's expense, subject to the prior rights of the holders of the outstanding bonds of the Gold Refunding Bonds of 1911, the collection of all revenues from customs duties, ... and the collection of all the revenues from the monopoly of alcohol and liquors, subject to the rights of the holders of any prior lien or charge thereon....

"Article XII.

"Section 1.... The "Special Collections Agency" ... shall be construed to mean the individual, firm, company or corporation designated for the purposes ... by the Trustee in writing addressed to the Envoy Extraordinary and Minister Plenipotentiary of the Republic at Washington or to the Secretary of Finance and Commerce of the Republic in Costa Rica....

"Section 3.... The Republic further agrees to pay to the Special Collections Agency (if any) reasonable compensation not exceeding $5 000 per annum for its services and also to pay all reasonable expenses....

"Article XIV.

In case any dispute or difference shall arise ... any party to the dispute desiring to submit the same to arbitration shall serve written or cabled notice on the other party or parties to the dispute, of its election to arbitrate it by submitting the question for decision to the person who shall be at the time the Chief Justice of the Supreme Court of the United States of America, who is hereby appointed the sole arbitrator, or if he shall refuse or be unwilling to act, then the arbitrator shall be the Associate Justice or said Supreme Court, next in order of seniority who shall be willing and able to act."

In a despatch from the American Consul at San José, prepared in September 1931, appears the following statement:

"DEBT RECORD: Cósta Rica obtained its first foreign loans in 1871 and 1872. In 1874 both loans went into default. Under an agreement reached with the bondholders in 1885, principal on the old loans was reduced by 50 per cent. In 1895 interest was defaulted. And in 1897 a new arrangement was made whereby interest was scaled down. But in 1901 the government again defaulted. A final adjustment was made in 1911, under which there was a further reduction in principal.

"A franc loan was issued in connection with the adjustment of 1911 (5 per cent external loan of 1911). After the severe depreciation of the franc following the war, there was considerable controversy regarding whether interest was to be paid in paper or gold francs. In November 1925 a settlement was made whereby Costa Rica agreed to pay at the rate of 10 cents (U.S. currency) per franc. The agreement also provided for the purchase of Costa Rica of bonds of the franc loan at the rate of $50 per bond of 500 francs plus accrued interest. A large majority of the bonds were thus redeemed. A decision rendered by the Tribunal de la Seine in June, 1930, requires Costa Rica to meet the service on the outstanding bonds of the five per cent franc loan of 1911 on a gold basis. The loan contract provided that French tribunals were to determine any questions arising out of it. As a result of the decision, Costa Rica will also be required to pay accrued interest on the outstanding bonds, representing what would have been paid as interest on a gold basis and what was actually paid on a paper basis.

"Since the general revision of the debt in 1911, with the exception of the franc controversy which now appears to be finally settled, there have been no defaults, scaling down of interest payments, or suspension of sinking fund payments in connection with any loan of the Republic."

I have included in the chart of the external debt hereto attached, the items carried as such in the 1931 budget of the Government of Costa Rica.

The following sums are set aside daily from Government revenues by the Banco de Costa Rica to service the loans indicated:

British 5 per cent	
English Construction 6 per cent ¢9 000	($2 250)
American 7 per cent	1 900
Pacific Railway 7 per cent	500

In the contract for the French Franc Loan of 1911, appears the following:

"If the Government of the Republic or the administrator of the revenue of the Republic should happen to let sixty days go by without making the weekly remittance, he should deliver immediately to the banker or the representative of the administration, the revenues of alcohol and liquors.

"In this case the bankers will retain the amount for payment of the weekly interest and amortization of the present loan and will deliver the balance to the Republic after having deducted the expenses of the administration of these deliveries. In case the bankers should have to take charge of the administration of the liquor revenue, they will give a guarantee from a European bank for the sum of 500 000 francs as a security for the over-balance that they may collect."

The million dollar loan security by the Government of Costa Rica originally from the First National Bank or First National Corporation of Boston and later transferred to the National City Bank of New York, apparently is treated by the Government of Costa Rica as a credit rather than as a loan. Originally it was to have matured on September 2, 1930, but due to the inability of the Government to pay, several extensions of a few months each have since been secured. In December 1930 the Government was authorized to raise the annual interest rate from 8 per cent to 8-1/2 per cent and to pledge the customs and liquor revenues as security, subject to prior liens thereon.

Table III.2.1
COSTA RICA

Internal Debt
(As of July 1, 1931)

It is of interest to note that provisions of the 1931 budget for the internal debt are shown as follows:

Name	Outstanding dollars	Outstanding colones	Annual service appropriated colones
1. Port Limon Sanitation Bonds	368 000	1 472 000	117 120
2. A.E.G. Completion 7% Bonds	141 825	567 300	42,286
3. Banco de Costa Rica (Alajuela electric plant 8%)	380 700	30 277	
4. Banco Internacional (various loans)			261 004
Total			**450,687**

Public Debt Service, 1931

According to the budget for 1931 it would appear that the total public debt service for the year is as follows:

	Colones	Dollars
External debt	4 902 313	1 225 578
Internal debt	450 687	112,672
Commissions, etc.	275 000	68 750
Total	**5 628 000**	**1 407 000**

It would appear that the total customs revenues for the year 1931 will amount to more than 12 000 000 colones (or $3 000 000), and liquor revenues to approximately $1 000 000.

Table III.2.2

COSTA RICA: EXTERNAL DEBT (as of June 30, 1931)

Name of issue	Annual interest rate	Amortization provision:	Year of maturity	Total service appropriated 1931 budget	Amount issued	Amount outstanding	Security	Bankers
1. Costa Rica *Refunding* Gold Loan of 1911	5%	1% p.a. cumulative	1958	$372 033	Pounds Sterling 2 000 000	Pounds Sterling 1 542 000	First lien on all customs duties.	Hambros Bank, London & National City Bank, N.Y.
2. Costa Rica *External* Gold Loan of 1911	5%	----	1956	55 055	French francs 35 000 000	Gold francs 5 774 000	First lien on alcohol & liquor monopoly revenues.	(Protective Committee of French Bond Holders)
3. Costa Rica Mortgage Bonds of 1912 (English Construction Co.)	6%	2% per annum	1942	27 733	Pounds Sterling 188 720	Pounds Sterling 97 370	Direct obligation of Government.	Hambros Bank and Guaranty Trust Co., N.Y.
4. Costa Rica External Secured Sinking Fund Gold Loan of 1926	7%	In accordance with fixed table	1951	516 600	$8 000 000	$7 367 000	Direct obligation of Govt. and (second) lien on gross customs and alcohol monopoly revenues.	Fiscal Agent: J. & W. Seligman, N.Y. Trustee: Central Hanover Bank & Trust Co., N.Y.
5. Costa Rica Pacific Railway Gold Bonds (1927)	7%	2% per annum	1949	134 156	1 800 000	1 777 500	First lien on gross revenues of the Pacific Railway.	National City Bank, N.Y.
6. Public Works [a]	--	----	1930(?)	120 000	----	1 500 000	Direct obligation of Govt. without specific pledge.	----
				$1 225 577		$20 019 864		

[a]This item apparently includes the National City loan of $1,000,000. This loan originally was to mature September 2, 1930 but it has been extended for periods of several months. It originally bore 8% interest, but the rate has been increased to 8% and possibly it is now secured by a third lien on the customs and liquor revenues.

Table III.2.3

COSTA RICA

(The following tables are all in colones. 4 colones equal $1.00)

Comparison of Public Debt of Costa Rica for Years 1925-1930

Year	External debt	Internal debt	Total debt
1925	42 368 177	40 348 239	82 716 416
1926	39 087 784	39 919 512	79 007 296
1927	65 740 721	13 287 064	80 047 942
1928	68 604 249	15 001 209	83 605 458
1929	69 916 379	...	79 191 000
1930	68 341 190	25 753 562	94 094 752

Comparison of Revenues and Expenditures, 1925-1930

Year	Revenue	Expenditure	Deficit
1925	25 781 231	23 767 550	2 013 680 *
1926	27 417 348	22 611 499	4 805 899 *
1927	30 584 123	23 319 189	7 264 934 *
1928	33 318 699	28 406 000	4 912 699 *
1929	35 395 988	36 220 066	824 078
1930	27 468 500	32 513 820	5 045 320

*** Surplus.**

Comparison of Customs and Liquor Revenues, 1925-1930

Year	Customs revenues	Liquor revenues
1925	12 951 953.40	4 971 330.40
1926	14 248 002.93	4 989 909.72
1927	16 187 155.22	5 478 810.44
1928	18 149 490.10	5 665 478.65
1929	19 201 514.00	5 514 314.76
1930	12 579 324.00	4 384 725.00
1931--1st six months	6 173 717.00	

3. THE FOREIGN DEBT OF COSTA RICA (1932)

From: The Foreign Debt of Costa Rica; Department of State, Office of the Economic Adviser; June 2, 1932; 818.51/511.

DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER

THE FOREIGN DEBT OF COSTA RICA

In 1911 Costa Rica issued a refunding loan of £2 000 000 bearing interest at four per cent for the first ten years and five per cent per annum thereafter. Of this loan £617 800 was exchanged for gold bonds and arrears of interest in the settlement of earlier debts and £382 000 was turned over to the Costa Rican Government. Of the amount issued £322 000 are understood to have been deposited with the National City Company of New York and £50 0000 were held by the International Banking Corporation of New York at the order of Costa Rica. It is understood that the amount outstanding of this loan is £1 507 740.

Interest on this loan has been paid at the Hambros Bank, London, and at the National City Bank, New York. It has been reported that in September 1925 a bulk of £300 000 of these bonds was offered for sale in New York by F. J. Lisman and Company.

The sinking fund provisions of this loan specify that not less than one per cent of the nominal amount of all the bonds issued under the loan agreement shall be paid annually to the bank in semiannual instalments beginning January 1, 1921. The amounts which the bankers shall receive for the account of the sinking fund shall be used for the purchase of bonds in the open market at prices not exceeding par and accrued interest or for the retirement of bonds by drawing twice a year, if necessary, to exhaust the money in the sinking fund (Loan Contract, Article VII). The entire loan was to be retired not later than January 1, 1958.

Two observations might be made on the sinking fund provisions mentioned above:

1. It should be noted that the contract specifically states that no less than one per cent of the nominal amount of all bonds issued under the loan agreement shall be paid into the sinking fund annually beginning January 1, 1921. This wording would seem to permit the construction that the payments into the sinking fund may be increased to any percentage higher than one. If the Costa Rican Government should find it possible to pay ten per cent or more of the total amount of the bonds issued into the sinking fund annually that would appear to be entirely permissible.

2. As long as the price paid for the bonds purchased on the open market does not exceed par and accrued interest, the total amount available in the sinking fund shall be used for sinking fund purposes. The article further provides that if the number of bonds necessary to exhaust the funds in the sinking fund are not available on the open market, additional bonds can be obtained by drawings at par. The fact that the amount available in the sinking fund must be exhausted would appear to permit the purchase of a larger number of bonds on the open market in case they could be obtained at the price lower than par or in case additional funds are made available for sinking fund purposes.

The provisions of Article VII of the Loan Contract, summarized above, would permit the retirement of the total bond issue as quickly as the Costa Rican Government can find the money to do so, but the retirement must take place prior to January 1, 1958.

A Costa Rican five per cent external gold loan was also issued in 1911 in France in the amount 35 000 000 French francs. While this loan was issued in France and not directly of interest to American bondholders, it throws light on the treatment Costa Rica has accorded its bondholders and, therefore, might be usefully considered at this point very briefly.

Article VIII of the French Loan provided that beginning on January 1, 1916, the interest and amortization on this loan should be paid by a constant annuity of 2 031 827 French francs which, according to the statement of the amortization attached to the Loan Contract, would be sufficient to pay the interest at the rate of five per cent and the amortization of a sufficient number of obligations to retire the total loan by January 1, 1956. However, Costa Rica reserved the right to increase the rate of retirement at per beginning on January 1, 1921, or to increase by drawings the number of obligations amortized (Loan Contract, Article VIII).

The Costa Rican Government paid interest and amortization on the bonds of this issue in French paper francs but the French bondholders refused payment in depreciated francs claiming that they were entitled to payment in gold francs. In June 1923, a committee of French bondholders filed a suit in a French court requesting a judgment to the effect that the holders of the bonds were entitled to payment in any of the currencies mentioned in the bonds and interest coupons. The bondholders could file such a suit because of Article XV of the Loan Contract authorized the plaintiff in case of any disagreement between the bankers and the Costa Rican Government in the interpretation of the contract to file suit in a court in Paris or in Hamburg.

On March 20, 1925, the Costa Rican Minister in Paris, under instructions from his Government, signed an agreement with the French Association of Bondholders providing for the redemption of the French loan at the rate of ten francs to the dollar if the holders of three-fourth of the outstanding portion of the loan accepted the arrangement. While three-fourths of the outstanding bonds were not deposited in accordance with this agreement, more than one-half of the outstanding bonds were deposited and the Costa Rican Government decided to refund these bonds on the basis provided by the agreement. For this purpose funds were deposited in New York to retire the entire issue. It has been stated that on August 1, 1926, 23 162 000 francs of this loan had been retired. The loan has now been further reduced so that on December 31, 1929, there remained outstanding 5 639 000 francs.

While the controversy mentioned above was at its height, the Costa Rican Government entered into negotiations with an American banking group for a loan. The French bondholders, supported by the French Government, protested against these negotiations claiming that the entire revenue of Costa Rica was pledged as a guarantee for the French loan. In order to settle this controversy, the Costa Rican Government deposited in Paris and in New York and invested in what was called first class securities sufficient funds, in pursuance of an agreement to that effect, to redeem and pay the outstanding part of the French loan. The French part of this deposit, said to have amounted to 5 000 000 colones, was placed with the banking house of Benard Freres of Paris. It has been reported that the Benard Freres went into bankruptcy in 1930 and the funds deposited with this bank are, therefore, tied up although the Costa Rican Government may eventually succeed in having its deposit returned. On October 13, 1931, the French Chargé d'Affaires in Costa Rica made representations to the Costa Rican Foreign Office demanding immediate action respecting the French loan of 1911. The file does not show what action, if any, the Costa Rican Government took with respect to the French representation.

In 1926, the Costa Rican Government obtained through the Central Union Trust Company of New York a seven per cent external gold loan in the amount of $8 000 000, of which $7 367 000 remained outstanding on October 28, 1931. Article IV of the Loan Agreement covering this loan states that until November 1, 1936, the bonds of the 1926 issue shall not be subject to redemption except through the operation of the sinking fund, but that on November 1, 1936, or on any interest date thereafter, the bonds of the 1926 issue may be redeemed in whole or in part at the option of Costa Rica. In the case of total or partial retirement, the bondholders shall receive sixty-days notice and the bonds shall be redeemed in the principal amount with accrued interest at the dates of redemption.

Article III of the Loan Agreement states that from and after November 1, 1936, Costa Rica may, at her option, increase the amount of any semiannual instalment for the service of interest and amortization of the bonds of 1926 in order to accelerate the rate of retirement of the bonds but that the amount of such an increase shall not be considered as permitting a reduction in the amount subsequent payments below the requirement necessary for normal interest and retirement payments.

Under Article VIII the fiscal agent is required to apply the amounts received by him to the payment of the interest on the bonds and the balance of each instalment of the semiannual payment shall be used as soon as practicable for the purchase of bonds for the sinking fund "at public or private sale or otherwise." The bonds shall be purchased at the best price obtainable, not exceeding their principal amount and accrued interest at the date of purchase.

The provisions of the Loan Agreement of the 1926 loan in the articles summarized above show:

1. That apparently no retirement beyond the regular sinking fund requirements can be undertaken prior to November 1, 1936;

2. That after November 1, 1936, additional quantities of bonds of the 1926 issue may be retired on any interest date by purchase or otherwise without any limit being indicated on the total which might be so purchased;

3. That the amount paid for any bond shall not exceed par and accrued interest;

4. That Costa Rica can, upon sixty-days published notice, retire after November 1, 1936, all or any portion of the loan of 1926 at any time she should desire to do so.

It should also be noted from the general provisions of the loan agreement that this loan matures on November 1, 1951.

In November 1927, the National City Company of New York offered at par the Costa Rican Pacific Railway 7 1/2 per cent gold loan in series A, B, C, D and E. The total amount of this issue was $1 800 000 and each series was $360 000. The loan is callable at par at any time and bonds may be purchased on the open market or called for the sinking fund.

Article IV of the Loan Contract states that Costa Rica shall create a sinking fund of not less than two and one-half per cent per annum of the total nominal value of all bonds issued. To the semiannual interest service of the bonds shall be applied the amounts received from the revenues mentioned in Article V. The banker shall apply these sums for the payment of accrued interest on the bonds in circulation and the balance remaining with the banker after interest has been paid shall be used for the amortization of the bonds.

Article V of the Loan Contract provides that until the complete repayment of the debt and its interest, Costa Rica agreed to deposit daily from the gross revenues of the Railroad a proportional amount to yield monthly the sum of $15 000.

Another point which perhaps should be mentioned in this connection occurs in Article VIII, which reads: "Then banker cannot for any reason recur to diplomatic channels for the purpose of deciding by such means questions originating under the present contract."

The sinking fund provisions of the Loan Contract for the Pacific Railway bonds can, therefore, be summarized as follows:

1. Article IV of the Loan Contract appears to warrant the conclusion that 2 1/2 per cent of the total amount issued is the minimum to be applied for sinking fund purposes and that any additional amounts may be added for the retirement of bonds on any interest date;

2. After the interest of the outstanding bonds has been paid any additional funds in the hands of the banker shall be applied for sinking fund purposes until it is exhausted;

3. The maximum price that may be paid for the bonds upon retirement is par and accrued interest, but it would appear that if bonds were available in the open market at less than par purchases can be made to the fullest extent of the funds available in the sinking fund.

I have omitted from the summary of the sinking fund provision the British Public Works Loan of 1912, of which only £84 760 sterling remained outstanding on October 18, 1931.

It appears from the foregoing consideration of the sinking fund provisions of Costa Rica's foreign debt agreement that the payments required by these agreements for sinking funds purposes represent minimum amounts and that increases can be made at any time with a view to accelerate the rate of retirement of all the loans except the loan for 1926 in which case no increases in retirement can take place prior to November 1, 1936. Further, in case of the loans to which increased amounts are applied for sinking fund purposes, the amount available in the sinking fund shall be exhausted by purchases on the open market at not exceeding par and accrued interest and, if bonds are not available on the market, additional bonds may be obtained by drawings at par. This would seem to show that the loans can be reduced as fast as funds are made available for the purpose.

In order to consider the burden of the interest and amortization payments on the Costa Rican budget, I have gathered the following information regarding the external debt of Costa Rica from La Gaceta of Costa Rica, September 2, 1931. This copy was transmitted to the Department by the American Legation at San José as enclosure to despatch No. 613 of September 26, 1931.

Table III.3.1
FOREIGN DEBT OF COSTA RICA

Loans	Amount outstanding 1931	Interest and amortization 1931	Amount outstanding 1932	Interest and amortization 1932
British loan of 1911	£1 542 000		£1 480 000	
5 per cent interest payment		£76 550		£73 250
Amortization		£43 450		£46 750
French loan of 1911	Fcs.5 774 000		Not reported	
5 per cent interest payment		$55 055.26		Not reported
Amortization		$76 439.25		
Loan of 1926 in United States	$7 447 500		$7 284 000	
7 per cent interest payment		$516 600.00		$506 870.00
Amortization		$163 500.00		$175 270.00
Pacific Railway Loan of 1927	$1 800 000		$1 754 156.25	
7 1/2 per cent interest payment		$134 156.25		$130 653.50
Amortization		$45 843.75		$49 346.50
English Construction Loan	£97 369/17/9		£77 417/1/0	
6 per cent interest payment		£5 706/2/0		£4 491/4/0
Amortization		£5 706/10/2		£10 396/16/0

Source: Despatch No. 613 of September 26 1931 from Legation at San José and La Gaceta San José de Costa Rica of September 2 1931.

Besides the loan listed in the table above, the Legation lists for the year 1931 a loan of $1 500 000 at 8 per cent for public works, but that loan is not mentioned in the part dealing with the year 1932. I have, therefore, omitted this loan from my table as it probably has been paid.

In the table above, I have retained the original currency in which the loans were listed both with respect to capital and interest except the French loan of 1911. In that case, the source mentioned the interest on the French loan in United States dollars and I have retained that figure, but I have converted the amount for amortization for that year also into dollars. It should be noted that in the case of the French loan of 1911, the Costa Rican Government had deposited securities in Paris and New York and that the interest on these securities is said by the Costa Rican authorities to be ample to meet the carrying charges of this loan. This loan is, therefore, not carried in the list for 1932 as a charge against the budget.

In order to arrive at an approximate figure indicating the burden on the Costa Rican budget resulting from the interest and amortization payments on the loans listed in the table above. I have converted the figures for interest and amortization into dollars omitting the figures for the French loan as being cared for in another way. On this basis find that the burden on the budget for the year 1931 was $1 498 965.75 for the four loans listed. It should be noted that this amount includes interest and amortization. The credits proposed for interest and amortization payments for these four loans for 1932 amount to $1 517 675.68 according to the conversion figures given in La Gaceta for September 2, 1931.

It should be noted that in certain instances the reduction of the loans from one year to another has been greater than the total amount of the funds set aside as amortization. In these cases I have assumed that the authorities have applied the sinking fund by purchasing bonds in the open market at less than par value. The par value of the bonds so purchased has then been subtracted from the amount of the loan reported as outstanding. It is, of course, possible, although perhaps less probably, that the Costa Rican Government has been using funds not provided by the sinking fund for the purpose of purchasing bonds for retirement on the open market. If such transactions have been carried on, the amounts of the bonds so purchased should, of course, also be subtracted from the total amount outstanding.

In order to show the position of the Costa Rican Treasury, I have prepared the following table (III.3.2) on the receipts and expenditures of the Government for the years from 1928 to 1932, inclusive. It should be noted that the material for the years 1928, 1929 and 1930 has been taken from Moody's, Governments, page 571, and the material for 1931 and 1932 has been obtained from despatch No. 613 of September 26, 1931, from the American Legation in Costa Rica.

Table III.3.2
RECEIPTS AND EXPENDITURES OF THE COSTA RICAN GOVERNMENT IN COLONES

Years	Receipts	Expenditures	Excess + Deficit -
1928	33 318 699	28 406 000	+4 912 699
1929	35 395 988	36 220 066	-824 078
1930	27 468 499	32 513 819	-5 045 320
1931	26 906 000	27 268 379	-362 379
1932 (proposed budget)	28 290 000	28 274 663.23	+15 336.77

Taking the colones as equal to twenty-five cents, the estimated receipt of the Costa Rican Government for the budget year 1932 will be approximately $7 072 500. If the interest and amortization of the foreign debt will amount to approximately $1 500 000 for the year 1932, nearly 21.2 per cent of the total estimated revenue will be required to meet the interest and amortization of the foreign debt.

It has been felt by some persons that the service of the foreign debt is heavier than Costa Rica can bear at the present time, and that it would be desirable that a reduction be arranged in some way. With this thought in mind, it may be of interest to compare the percentage of the estimated budget receipts of Costa Rica required for the foreign debt service with the percentages of the budget of Great Britain for the payment of its public debt. According to the Statesmen' Year Book, 1931, pages 34 to 35, the estimate for the interest and sinking fund in the British budget for the fiscal year 1931-32 was £355 000 000 out of a total estimated receipt £884 948 000. These figures show that in the case of Great Britain just over 40 per cent of the estimated receipts are required for the debt service. It should, of course, be noted that the figures for Great Britain cover presumably both the domestic and foreign debts while those mentioned for Costa Rica pertain only to the foreign debts of that country. It might be mentioned also that for the fiscal year ending June 30, 1931, the United States Government paid approximately 12.9 per cent of the total ordinary receipts as interest on its public debt.

In the case of Costa Rica, it should be noted that the estimates for the service of the foreign debt in its official publication gave the conversion value of the pounds sterling as $4.86 in the United States currency, while the present exchange value of the pound is more nearly $3.50. By taking advantage of this reduction in the present value of the pound, the burden on the Costa Rican Treasury would be somewhat reduced. Should, after this reduction is availed of, the Costa Rican Government find that the debt service is still too heavy to carry it would appear to be preferable for Costa Rica to approach the fiscal agents for the various loans with the proposition for the suspension of the sinking fund operations for a year or two. In this way a further relief for the treasury might be obtained during this period of depression and at the same time the credit standing of the Government would be maintained much better than if a default should occur.

In order to show what this suggestion would mean in actual practice, I have prepared the following table (III.3.3) in which I have converted the outstanding foreign indebtedness of Costa Rica into dollars at the rate of $3.50 for the pounds sterling and 0.0392 dollars for the French franc omitting the amounts required for sinking fund payments.

Table III.3.3

FOREIGN DEBT OF COSTA RICA

Loans	Interest rate	Amount in original currency outstanding	Dollar value of present	Interest charges
British Loan 1911	5%	£1 507 740	5 277 090	$263 834.50
French Loan 1911	5%	Frs.5 639 000	221 049	11 052.45
Mortgage debt 1912	6%	£84 760	296 660	17 799.60
Gold Loan of 1926	7%	$7 367 000	7 367 000	515 690.00
Pacific Railway Loan 1927	7 1/2%	$1 746 000	1 746 000	130 950.00
Total			**14 907 799**	**$939 326.55**

This table shows that if only the interest of Costa Rica's foreign debt is considered, even including the French loan of 1911, the total charge on the budget at the conversion rates I have been using would be less than $1 000 000 or approximately 13.27 per cent of the total estimated receipts for the year 1932. This charge on the budget would be even less than the interest burden of the public debt of the United States on its budget.

4. COSTA RICA'S DEBT-SERVICING CAPACITY (1938)

From: Comments on the Costa Rican Minister's Memorandum of October 15, 1938 Concerning the Capacity of Costa Rica to Service its external Debt; Memorandum Adviser on International Economic Affairs, Department of State; November 22, 1938; FW 818.51/783 LM.

DEPARTMENT OF STATE

ADVISER ON

INTERNATIONAL ECONOMIC AFFAIRS

November 30, 1938.

Mr. Welles:

On October 18 you asked Mr. Feis to study the Costa Rican Minister's memorandum of October 15 himself and let you have his views.

Mr. Luthringer has since made the attached very careful study dated November 22 and Mr. Feis appears to have initialed the conclusions in its first four pages as his requested report to you.

Mr. Francis White told me a week or so ago that the Costa Rican Minister, about to visit his country, told him he was convinced by Mr. White on the one point that Costa Rica should avoid giving any preference on sterling bonds. Apparently that is as near as the two men have come to an agreement.

EA:FL:LWW

DEPARTMENT OF STATE

ADVISER ON

INTERNATIONAL ECONOMIC AFFAIRS

MEMORANDUM

November 22, 1938

COMMENTS ON THE COSTA RICAN MINISTER'S MEMORANDUM OF OCTOBER 15, 1938 CONCERNING THE CAPACITY OF COSTA RICA TO SERVICE ITS EXTERNAL DEBT

Part I

Conclusions

1. The Costa Rican Minister greatly underestimates the capacity of his country to provide revenues for payments on its external indebtedness, and to convert these revenues into foreign currencies.

2. The available economic information indicates that Mr. White's minimum demands of approximately 50 percent of the contractual rate of interest and 1 percent amortization payments correspond much more closely to Costa Rica's capacity to pay than does the offer of the Government of Costa Rica to pay 1 percent interest and 1/2 percent amortization for a first three-year period and 1 1/2 percent interest and 1 percent amortization for a second three-year period.

3. Neither the present nor prospective economic conditions of Costa Rica justify such a large reduction in debt payments in comparison with those offered by the Government of Costa Rica on March 10, 1937.

4. The arguments advanced to justify the more favorable treatment of holders of the internal debt and sterling debt are not very convincing; the plan does appear to discriminate against the holders of dollar bonds.

5. The capacity of the Government of Costa Rica to service its external debt apparently greatly exceeds its willingness to pay. In my opinion the treatment accorded holders of dollar bonds in the last offer of the Government of Costa Rica is so out of proportion to the true economic capacity of Costa Rica that the Department should at least use its good offices in obtaining a more equitable settlement.

The chief arguments in support of these conclusions may be summarized as follows:

1. In spite of the fact that Brazil abandoned its control of coffee exports in November of 1937, Costa Rican coffee exports for the first nine months of the 1937-1938 crop-year amounted to 5.4 million dollars as compared to 6.1 million dollars for the entire previous crop-year (Sept. 1, 1936 to August 31, 1937), which was regarded as an exceptionally prosperous year.

2. The Costa Rican Minister ignores both the present importance of the banana industry as a source of dollar exchange, and the increasing importance of that industry in the future as a

result of the plans of the United Fruit Company to double the present banana production of approximately 5.5 million stems valued at $3 000 000.

3. The transfer of debt payments should be greatly facilitated by the recently-signed United Fruit Company contracts. The United Fruit Company has already advanced the Government of Costa Rica $1 000 000 against future banana taxes. Moreover, the United Fruit Company has contracted to undertake extensive construction works. It has been estimated that the immediate obligations under these contracts will require the expenditure within five years of between four and five million dollars. In view of the dollar exchange that will be provided by these expenditures, and in view of the present strength of the colon, as evidenced by its stability for the past several years, there is little reason to believe that there will be any difficulty in transferring debt payments.

4. Costa Rican revenues for 1937 were 38 million colones, the largest on record. In spite of the reduction in the coffee export tax at the end of 1937 revenues for the first months of 1938 were 19.6 million colones as compared to 19 million colones for the first six months of 1937. With revenues at this level the payments suggested by the Government of Costa Rica for service on its total debt, both external and internal, would require 12.7 percent of revenues during the first three-year period and 15.8 percent during the second. To meet the minimum demands suggested by Mr. White would require total debt payments of somewhat less than 15.7 percent of revenues for the first three-year period and 16.9 percent for the second. Payments of this magnitude would not appear to impose an impossible fiscal burden on Costa Rica.

5. Moreover, in view of the large outlays for construction to be made by the United Fruit Company it would appear that a reduction could be made in outlays for public works without economic detriment to the country. Indeed, since there already seems to be nearly fully employment in Costa Rica it might in any event be advisable to reduce outlays for public works in order to offset the tendency toward higher wages and costs that may be anticipated as a result of the construction activities of the United Fruit Company, and which may increase the difficulties of the low-wage coffee industry.

6. According to memoranda prepared by the Foreign Bondholders' Protective Council only a very small part of Costa Rica's internal debt was converted into colones at 4 colones to the dollar, and in addition suffered a reduction in rate of interest from 10 percent to 6 percent. Even these bondholders, however, are receiving sums equivalent to 43 percent of the original contractual interest to a high of 30 percent. The extent to which internal creditors are favored is indicated by the fact that although the internal debt of Costa Rica is only approximately 23 percent Costa Rican governmental debt, holders of the internal debt would receive approximately 54 percent of the total payments for debt service during the first three-year period and 45 percent during the second.

7. Finally, while the Costa Rican Government might feel compelled by reasons of expediency to treat British creditors relatively more favorably than American, this is no justification for offering the latter a settlement which, even taking into consideration the more generous treatment of British creditors, is far below Costa Rica's capacity to pay.

DEPARTMENT OF STATE

ADVISER ON

INTERNATIONAL ECONOMIC AFFAIRS

PART II

COSTA RICA'S CAPACITY TO PAY

I. Foreign Indebtedness of Costa Rica.

The annual report for 1937 of the Council of the Corporation of Foreign Bondholders contains the following statement of the Governmental debt of Costa Rica:

External Debt–

Gold Refunding Bonds, 1911 (English Debt), Supplementary Bonds and Unpaid Coupons	£ 1 723 584
French Loan, 1911 (Gd. Fr. 5 811 000) and Unpaid Coupons	$ 1 317 189
United States Loan, 1926, Supplementary Bonds and Unpaid Coupons	$ 7 319 696
English Construction Company Bonds and Unpaid Coupons	£ 43 330
7% Pacific Railway Bonds, 1927, Supplementary Bonds and Unpaid Coupons	$ 1 887 031
National City Bank	$ 369 117
Summary of External Debt--	£ 1 766 914 US$ 10 893 033

Internal Debt--

Bonds Issues	Colones 13 232 302
Other Liabilities	Colones 20 460 027
	Colones 33 692 329

In 1932 and 1933 holders of dollar bonds were offered 5-percent funding bonds for coupons falling due for the three-year period immediately following the default that occurred at that time. Subsequently Costa Rica, on July 10, 1935, made an offer to pay for three years 50 percent of the interest and 50 percent of the sinking fund on the two original dollar issues and full service on the funding bonds, but all these bonds went into default as to interest and sinking fund payments in September and December of 1936.

II. Offer of Settlement by the Government of Costa Rica.

Since that time the Foreign Bondholders' Protective Council has received a number of offers of settlement from the Costa Rican Government. The last offer, under date of October 31, 1937, proposes a temporary settlement under which the Costa Rican Government would pay 1 percent interest in lieu of the contractual rates of interest for a period of three years, and

1 1/2 percent interest during the following three years. The Government of Costa Rica also proposes to set aside annually 1/2 percent of the outstanding debt during the first three-year period and 1 percent during the second three-year period for amortization by means of purchase of bonds in the open market, the sums set aside for amortization being at first dedicated in their entirety, for such time as may be necessary, to the redemption of unpaid interest coupons paying 1 percent in place of the nominal interest until overdue interest coupons are cancelled. The Costa Rican Government further agrees to negotiate a definitive settlement before the foregoing provisional agreement expires.

III. Mr. White's Objections to the Costa Rican Proposals.

In an interview with the Costa Rican Minister on October 7, 1938, Mr. Francis White, the president of the Foreign Bondholders' Protective Council, objected strongly to the temporary settlement proposed by the Government of Costa Rica. Mr. White pointed out that the offer under discussion was far below the previous offers of the Costa Rican Government and, in his opinion, so much below Costa Rica's capacity to pay that it would make a very unsatisfactory impression on the bondholders. For example, the offer of March 10, 1937, to which the Foreign Bondholders' Protective Council had agreed (and which the Costa Rican Congress had rejected when the proposal was submitted "informally" to them), provided for interest ranging from a minimum of 50 percent of the contractual rate to a maximum of 70 percent and cumulative amortization of 1 percent. In contrast, the offer under discussion authorized the payment of only 13.3 percent of the interest on the 7 1/2 percent bonds, 14.3 percent on the 7's, and 20 percent on the 5's. Furthermore, the Costa Rican Government had agreed to allocate a percentage of its revenues for external debt service ranging from 16 percent when revenues did not exceed 33 million colones to 20 percent when revenues were in excess of 36 million colones. Later in the interview Mr. White pointed out that under its most recent offer the Costa Rican Government, on the basis of its 1937 revenues, would pay only 12.4 percent of its budget for debt service, including the payments on the National City Bank short-term debt. Mr. White pointed out further that the holders of Costa Rican internal debt, British creditors, and the National City Bank, were treated much more favorably than the holders of dollar bonds. Mr. White finally stated that the utmost concession he would be inclined to suggest to the executive Committee of the Foreign Bondholders' Protective Council was 50 percent of the contractual interest.

IV. Reply of the Costa Rican Minister to Mr. White's Arguments.

In the attached memorandum the Costa Rican Minister has attempted to refute the arguments advanced by Mr. White in criticism of the last proposal of the Costa Rican Government for settlement of its dollar debt. One of the Costa Rican Minister's principal arguments is that the Costa Rican Congress has not been willing, and is not willing, to approve an offer along the liens of the two previous offers. His second principal argument is that the economic situation of Costa Rica has changed entirely during the last year. The leading arguments of the Costa Rican Minister may be summarized as follows:

1. The Government of Costa Rica cannot make payments in excess of those offered because of transfer difficulties; that is, because of the low prices of Costa Rican exports, particularly coffee, compared to prices prevailing at the time the debt was contracted, it is impossible to obtain an excess of exports sufficient to provide the foreign exchange requisite for larger payments. The Costa Rican Minister apparently bases this argument very largely on an assumption that coffee is the only source of exchange and that the outlook for the coffee industry of Costa Rica is very dark since Brazil has discontinued its export control. The Costa Rican Minister suggests several times that if the debt were payable in colones instead of foreign currencies larger payments would be possible.

2. The Costa Rican Minister also states that an examination of the import statistics shows that the only "luxury imports" are radios, automobiles, and automotive accessories. This, he believes, is evidence that imports have not been excessive. Moreover, Costa Rica enjoyed a

large active trade balance prior to 1933, but since that time there has been a passive balance. Consequently the only way that large debt payments could be transferred would be for Costa Rica to increase its tariff duties in order to restrict imports relative to exports. This would be undesirable because an increase in trade barriers would retard world recovery.

3. Larger debt payments would be extremely difficult because of the reduction in, and possible complete abolition of, the coffee export tax. Hence, from a budgetary point of view there is adequate justification for a material reduction in debt payments as compared to the preceding offers of settlement.

4. There is no discrimination against holders of dollar bonds in favor of the National City Bank, holders of sterling bonds, or the internal debt.

5. The proposals under discussion require in excess of 16 percent of total revenues, although Mr. White states that less would be required.

V. Inability of Costa Rica to Pay the Full Service on its External Debt.

There is no doubt that the Government of Costa Rica would find it difficult if not impossible to meet the full service on its foreign debt. In 1937, the most prosperous year that Costa Rica has enjoyed during recent years, exports were 63 percent in value of exports in 1929. The three principal exports of Costa Rica are coffee, bananas, and cacao. In 1937 the value of coffee exports was 53 percent of the value of total exports, and the corresponding ratios for bananas and cacao were respectively 26 percent and 12 percent. In volume, coffee exports were 35 percent greater than in 1929, but in value, they were 50 percent less. Banana exports were only 10 percent less in volume, but were 33 percent less in value. In contrast, cacao exports were 24 percent greater in volume and 56 percent greater in value than in 1929. As mentioned below, however, the cacao industry suffered a large decrease in both volume and value of exports in 1938. Moreover, in 1937 approximately 20 percent of the total exports of Costa Rica were sent to Germany as against 11 percent in 1929. German trade policies narrow the world market area from which free exchange can be realized and hence make it more difficult for Costa Rica to obtain exchange for debt service by an expansion of exports.

Mr. White, of course, has not denied that there should be a material reduction in the contractual rate of interest. Indeed, he informed the Costa Rican Minister that the minimum terms which he might be willing to suggest to the Executive Committee of the Foreign Bondholders' Protective Council would be a reduction of 50 percent in the interest on the 6 percent bonds and 60 percent in the interest on the 7 percent and 7 1/2 percent bonds; that is 2 1/2 percent interest on the 5 percent bonds, 2.8 percent interest on the 7's and 3 percent on the 7 1/2's. Although these were the minimum terms that he would suggest, they evidence a willingness on his part to accept a substantial reduction in the Costa Rican debt service.

From the information available to the Department at the present time it would appear that the terms suggested by Mr. White conform much more closely to Costa Rica's capacity to pay than does the Costa Rican Government's proposal of a flat 1 percent on all issues. The main thesis of the Costa Rican Minister is that economic developments during the last year justify the great reduction in the offer of the Costa Rican Government as compared to the offer of March 10, 1937.

VI. The Transfer Question.

In my opinion the Costa Rican minister greatly underestimates the ability of Costa Rica to pay debt service in foreign currencies. There is reason to believe that he exaggerates the distressed condition of the coffee industry. Moreover, he completely ignores the present and prospective importance of banana exports as a source of foreign exchange.

A. Coffee Exports

In a despatch from Costa Rica under date of July 9, 1938 it is reported that from September 1, 1937 to May 30, 1938 (the coffee statistical year is September 1, to August 31) exports of coffee were 344,516 bags, valued at 5.4 million dollars, while exports for the whole year from September 1, 1936 to August 31, 1937 were 395 924 bags, valued at 6.1 million dollars. Thus, even with some of the 1937-38 crop remaining to be sold, the decrease in the value of coffee exports is only some $700 000 in comparison with the preceding year, which was regarded as an exceptionally prosperous one. The despatch then proceeds to point out that by no means all of the return from coffee exports can be converted into dollar exchange, nor has been so convertible for three years. After deducting exports of coffee to Germany it is estimated that, assuming that all other coffee exports went to free-currency countries, the dollar values of coffee exß convertible into dollar exchange were 3.5 million dollars and 4.4 million dollars for the coffee years 1935-36 and 1936-37, respectively, as against 4 million dollars for September 1, 1937 to May 31, 1938. The despatch then states that the decrease in the ability of Costa Rica to procure dollar exchange, owing to the coffee situation, that might have occurred during the present statistical year in comparison with 1936-37 could not be more than $374 000 if it is assumed that returns from coffee exports other than those to Germany were convertible into dollar exchange; and further, that for the first nine months of the statistical year 1937-38 there has been a gain of $479 000 over 1935-36. Moreover, other despatches from Costa Rica indicate that some experts anticipate that the current coffee crop will yield a cash return in excess of that for 1937-38.

B. The Banana Industry

An even more serious weakness in the argument of the Costa Rican Minister is his failure to mention the banana industry as a present and prospective source of dollar exchange. Reports from Costa Rica indicate that the banana industry is reviving after a period of depression and that the contracts between the United Fruit Company and the Government of Costa Rica, recently approved by the Costa Rican Congress, promise a great expansion of the industry. In 1936, 3.9 million stems of bananas were exported, the value of which was $2 000.000. In 1937 exports were 5.5 million stems, the value of which was $3 000 000. The quantity of bananas exported from January 1, to September 15, 1938 was approximately the same as for the comparable period in the preceding year. For the first half of 1938 banana exports were 1.5 million dollars in value as compared to 1.4 million dollars for the first half of 1937.

It should also be noted that according to the estimates of the United Fruit Company, the development of new areas of banana production on the Pacific Coast will raise the total banana production of Costa Rica to 10 or 11 million stems by the end of five years, or nearly double the present production. It is unlikely that the liquidation of marginal coffee production will not be more than compensated by the expansion of the banana industry.

C. Balance of Trade of Costa Rica

The cacao industry was the only major industry in which exports were less in value during the first half of 1938 as compared to the first half of 1937. During the first eight months of the year the cacao exports aggregated 3.8 million kilos, valued at $567 000 as compared to exports of 5.3 million kilos, valued at $ 1 066 000 for the comparable period in the preceding yer. This, of course, offsets to some degree the favorable position of the banana industry. Nevertheless, the decline in the value of cacao exports did not prevent exports for the first half of 1938 from exceeding in value exports for the first half of 1937. Thus, during the first half of 1938, total exports were valued at 7.7 million dollars as compared to 7.5 million dollars for the first half of 1937, which was a very prosperous year.

Total imports for the first half of 1938 were also greater than for the first half of 1937, with the result that Costa Rica, which had an active trade balance of $2 000 000 in the first half of 1937, had an active trade balance of 1.6 million dollars for the first half of 1938.[1]

So far as servicing its external debt is concerned, however, Costa Rica was as favorably situated in 1938 as in 1937. This follows from the fact that the larger active trade balance of

[1]See Table 1.

1937 was largely the resultant of exports to Germany considerably in excess of imports from that country. Since this trade was conducted in "ASKI" marks, the active balance with Germany would tend to impair rather than improve the ability of Costa Rica to service its foreign debts.* During the first half of 1938 exports to Germany were reduced considerably, while imports increased slightly as compared to the first half of 1937. As a result, the trade with Germany was more nearly in balance. If German "ASKI"-mark trade is deducted from Costa Rica's total trade for the first half of 1937 and 1938, it will be found that Costa Rican trade with other countries showed an active balance of, respectively, 1.3 million dollars and 1.4 million dollars. It may also be noted that the active balance of Costa Rica with the United States was $112 000 000 for the first half of 1938 as compared to $65 000 000 for the first half of 1937.

One is thus led to the conclusion that so far as the ability of Costa Rica to pay can be ascertained from the Costa Rican balance of trade, the situation at the present time is about as good as it was prior to Brazil's announcement of the abandonment of its coffee control, and when the Government of Costa Rica offered terms of settlement much more favorable than those contained in its last offer.

VII. The Relation of Debt Payments to Imports

A. "Luxury Imports"

Very little weight can be given to the argument that Costa Rica's only "luxury" imports are automotive products and radios and, hence, that Costa Rica's imports are not excessive. Imports of these goods may more nearly represent necessities than imports of certain textiles and food products. Moreover, it is often the nature of the use, rather than the character of good itself, which determines whether or not an import may be properly regarded as a "luxury". For example, a public works program might cause the importation of certain goods and materials which *per se* would not be considered "luxuries". Under certain conditions, however, the public works program might itself, in whole or in part, be considered a "luxury". Again, in despatches from Costa Rica it is reported that the Government is contemplating the purchase of electric locomotives from Germany, although the existing locomotives are said not to be in need of replacement. Such an import might more truly represent the importation of a "luxury" than the importation of radios or automobiles.

B. Alleged Necessity for an Increase in Tariffs

It does not follow that in order to obtain an active trade balance which would permit the transfer of larger debt payments it would be necessary for Costa Rica to increase its customs duties. The diversion of Costa Rican revenues formerly spent for public works, for example, to the payment of debt services would reduce the purchasing power available to Costa Ricans for the purchase of imports and would increase foreign purchasing power available for the purchase of Costa Rican exports. The resumption of debt payments would thus automatically tend to promote the requisite re-adjustments of the Costa Rican balance of payments without intervention in the form of tariff increases. Again, to the extent that public works had necessitated the importation of foreign materials, a reduction in the volume of public works would directly reduce imports.

It does not follow, of course, that the payment of foreign debt service would be accompanied wholly by an absolute decrease in imports. If Costa Rica increased the proportion of the revenues it transmits to foreigners to pay debt service, the resulting redistribution of purchasing power, and price and exchange rate adjustments, would tend to increase exports

* The Aski-mark was a partially convertible currency used in payment for exports to Germany that could be used to cover one-third of the value of goods purchased in Germany, on the condition that the balance was paid in freely convertible currency. [League of Nations, Secretariat, Economic, Financial and Transit Department, Money and Banking 1936/37, Vol. II Commercial Banks (Geneva: 1937), p. 73.]

as well as to reduce imports. How much the adjustment would be accompanied by the one, and how much by the other, cannot be foreseen. It is also possible that because of other economic factors that might become operative, there might not be any serious decrease in imports at all. In this connection the economic effects of the United Fruit Company contracts must not be overlooked.

VIII. The Probable Economic Effects of the United Fruit Company Contracts

These contracts, which have recently been approved by the Costa Rican Congress, should not only increase banana production and exports over a period of years but should greatly increase the ability of Costa Rica to transfer debt payments during the developmental period. The supplemental contract signed on May 3, 1938 provides for the immediate advance of $1 000 000 to the Costa Rican Government in anticipation of future banana export taxes. The developmental contract, signed on April 2, 1938, provides for the planting of a minimum of 4 0000 hectares of bananas within five years of the implementing of the contract (July 23, 1938), the construction of a port on the Pacific Coast at Quepos Point within two years and a half, and another on the Golfe Dulce within five years. The contract also provides for the completion within eight years, depending upon approval of plans by the Ministry of Public Works and the settlement of the boundary dispute between Costa Rica and Panama, of a railway from the Golfe Dulce to the Panama boundary by way of Puerto Cortes. A report from Costa Rica states that this will mean the "carrying out within the next five years of construction works on a scale nothing comparable with which has occurred in this country in the present generation". The report states further that the manager of the United Fruit Company in Costa Rica estimates that the company will probably spend between 4 and 5 million dollars in discharge of its immediate obligations under the contract. Even assuming that the greater part of these expenditures are for imported materials it is apparent that there will be a large demand for colones in exchange for dollars to pay labor and other local expenditures, and that "transfer difficulties" on debt account will correspondingly be alleviated. The report from Costa Rica remarks that there should be an abundance of dollar exchange available for payments to American holders of Costa Rican bonds now in default, as well as for meeting expanded commercial obligations. It is also estimated that the increased banana production should add about $3 000 000 to the national income and should increase by 25 percent the capacity of Costa Rica to purchase imports and meet its foreign obligations. It is believed, indeed, that the influx of dollars will be so great as to appreciate the colon and cause a rise in internal prices, wages, and costs that will seriously handicap the coffee industry, which depends on low wages and a low colon. It would seem quite certain that the National Bank will be forced to offer colones freely against dollars in order to prevent an appreciation of the colon above its present value of 5.61 - 5.62 colones to the dollar.

In this connection it may be noted that even without the anticipated influence of the United Fruit Company contracts the colon has been remarkably stable for the past two years, as evidenced by the comparatively narrow fluctuations of both the controlled and free rates. Indeed, the Costa Rican colon has appreciated relative to the dollar since 1936. The average controlled rate was 6.15 colones to the dollar in 1936, and 5.62 in 1937, at which rate it has remained throughout 1938. The uncontrolled rate for these periods was, respectively, 6.18, 5.65, and 5.64.

IX. The Fiscal Position of the Costa Rican Government

The Costa Rican Minister states that the total service of the external debt required by the first provisional offer was $950 000 per annum, and by the second offer, $875 000 to over $1 000 000, according to the revenues received. He then points out that to take care of those payments the Government would have had "as a base" the product of the coffee tax, collected in American gold and amounting to an average of $630 000 year. The Costa Rican Minister states that this tax was subsequently reduced and provided only $427 967 for this year's coffee crop. Further, if market conditions continue to be adverse this tax will be abolished altogether.

This situation, together with the unfavorable coffee market and the deficit in the balance of payments will, he states, make any payment on the foreign debt an extremely heavy sacrifice.

A. Costa Rican Revenues and Expenditures

While the loss of revenue from the reduction of the coffee tax is serious, it by no means destroys the ability of Costa Rica to service its debt. Revenues in 1937 were reported to be 38 million colones, the largest on record. Moreover, statistics for the first half of 1938 show revenues of 19.6 million colones as against 19 million colones for the first half of 1937, in spite of the reduction in the coffee export tax at the end of 1937.[2]

Although the Costa Rican budget figures are incomplete in that non-budgetary receipts and expenditures are not fully reported, available statistics show that the financial position of the Government has enjoyed a steady improvement in recent years. Reported expenditures exceeded receipts by 3 685 000 colones in 1935. In 1936 the deficit was only 556 000 colones; in 1937 there was a surplus of 3 000 000 colones; and for the first six months of 1938 reported receipts exceeded expenditures by 4 232 000 colones, as compared with 1 751 000 colones for the comparable period in the preceding year.

B. Expenditure for Public Works

In view of the prospective construction work of the United Fruit Company, it would appear both economically feasible and desirable for the Government to reduce considerably the comparatively large expenditures for public works that have distinguished expenditures in recent years. Reports from Costa Rica indicate that there is so little unemployment in that country that a considerable amount of foreign labor will have to be imported for use on the construction projects planned by the United Fruit Company. It would appear, therefore, that continuance of public works on their present scale would accentuate the tendency of the United Fruit Company projects to raise prices and wages and increase the difficulties of the coffee industry. In other words, a reduction in public works expenditures to balance the expanding construction activities of the United Fruit Company would probably be an advantage rather than a detriment to the economic stability of Costa Rica.

X. Discrimination Against Holders of Dollar Bonds

A. Alleged Discrimination in Favor of the National City Bank

The Costa Rican Minister states that the debt due the National City Bank is a "commercial loan" and therefore has priority, and furthermore, that the Foreign Bondholders' Protective Council was aware of the settlement of this claim at the time it was made. Mr. White, on the other hand, argues that the National City Bank loan was originally made on the understanding that it would be refunded into long-term bonds, and that in any event it is no more sacred than bonded indebtedness. Whether the plan of the Costa Rican Government does or does not discriminate against the holders of dollar bonds in favor of an American short-term creditor, the National City Bank, is a matter on which the Department would presumably not express an opinion since two conflicting American interests are involved.

B. Alleged Discrimination in favor of British Creditors

The offer of settlement of the Costa Rican Government is much less favorable to American bondholders than to British creditors. The Costa Rican Minister attempts to justify the more favorable treatment of holders of English Construction Company bonds on the ground that this is a small issue (£43 330) which the Government of Costa Rica was anxious to clean up, and further, that the bondholders had agreed to the cancellation of three years of interest

[2]See Table 2.

arrears when a settlement was made several years ago. Mr. White, on the other hand, argues that a small debt is no more sacred than a large one, and points out that these particular creditors are receiving 3 percent interest or 50 percent service on their debt as compared to the 1 percent and 1 1/2 percent interest payments offered to American bondholders.

The other two sterling issues involved are a small 5 percent refunding issue (analogous to the dollar 5 percent refunding issues given to foreign bondholders in lieu of interest payments accruing during the years 1932-1935), and a 5 percent refunding issue of 1911. The Costa Rican Minister argues that the holders of this issue sacrificed a good part of their principal in 1911. Moreover, he contends that while a great part of the proceeds of the original loan (1870) never reached Costa Rica, this was not the fault of the subscribers who paid the full price for the bonds. Mr. White, on the other hand, argues that while the Foreign Bondholders' Protective Council had agreed that the British demand for a minimum of 3 percent on their 5 percent bonds instead of 2 1/2 percent should be met, the Government of Costa Rica had agreed to increase its payments on these bonds to 4 percent, or 80 percent of the contractual interest. Mr. White further contends that the circumstances of the original issue were such that the holders of the refunding issue did not merit special consideration.

The British creditors are clearly treated more generously than American bondholders. Whether or not this can be regarded as an unjustifiable discrimination depends largely upon the weight given to the fact that the 1911 issue represented a scaling down of previous obligations. In my opinion this factor can easily be given too much weight since the earlier British obligations were refunded as long ago as 1911. It is dubious how far the sacrifices that one group of British investors may have endured at that time should be regarded as a justification for discriminating in favor of a probably largely different group of British investors twenty-five years later.

It is not unlikely that the more urgent reason for discriminating in favor of British creditors is the vulnerability of Costa Rica to British pressure. In his conversation with Mr. White the Costa Rican Minister pointed out that Costa Rica sells 60 percent of its coffee to the United Kingdom, that the only coffee imported and sold in the English market comes either from British colonies or Costa Rica, and that should the British put a duty on foreign coffee it would hit Costa Rica alone. In reply Mr. White pointed out that the United States purchased a large amount of Costa Rican exports. (It may be noted that in 1937 the United States purchased 45 percent and the United Kingdom 20 percent of Costa Rican exports.) In reply to this the Costa Rican Minister pointed out that Costa Rica sold a great deal to the United Kingdom but purchased a very little from that country, whereas they bought a large amount of goods from the United States.

It is not unlikely, therefore, that the Costa Rican Government fears economic pressure by the United Kingdom, and consequently deems it expedient to treat British investors very favorably. In my opinion, however, the question of discrimination is a secondary one; the primary consideration is that even assuming that relatively larger payments are made to British creditors, the payments offered American bondholders are still materially below Costa Rica's capacity to pay.

C. **Alleged Discrimination in favor of Domestic Creditors**

Holders of the internal indebtedness of the Government of Costa Rica are unquestionably treated more favorably than American bondholders. This is evidenced by the fact that while the capital value of the internal debt of Costa Rica is 33.7 million colones, or only 23 percent of the total governmental indebtedness of 144.4 million colones, under the proposal of the Government of Costa Rica holders of the internal debt would receive 54 percent of the total expenditure for debt service during the first three-year period and 45 percent during the second.

The Costa Rican Minister, however, attempts to deny discrimination on the ground that part of the internal debt was originally in dollars, that this was refunded into colones at the rate of 4 colones to the dollar at a time when the rate of exchange was 5.6 colones to the dollar, and that the interest was reduced to 6 percent.

Granting that this was done, the holders of this debt would still receive approximately 43 percent of the original contractual interest, assuming that the original interest was 10 percent, and correspondingly more if the original rate of interest was less than 10 percent. American bondholders, in contrast, are offered from a low of 13.3 percent of the contractual rate of interest to a high of 30 percent, depending upon the original coupon rate of interest of the various issues. In addition, Mr. White has stated that only a very small amount of the internal debt of Costa Rica was refunded in this manner.

Although the proposals of the Government of Costa Rica demand a far heavier sacrifice from American bondholders than from holders of the internal debt, it would probably be politically difficult for the Government of Costa Rica to reduce payments on its internal debt in order to pay American bondholders more, and in my opinion the interests of the American bondholders will not be greatly aided by an insistence upon this lien of argument. It would appear that the more important argument to press is that in spite of the relatively generous treatment of the holders of the internal debt and sterling obligations, the settlement offered American bondholders is nevertheless well below the capacity of Costa Rica to pay, and that to meet Mr. White's minimum demands for American bondholders would not appear to impose upon Costa Rica and additional burden that it would find it impossible to carry.

XI. Relation of Debt Payments to Costa Rican Revenues

The memorandum of the Costa Rican Minister contains statistics showing that the proposal of his Government would require payments on the foreign debt of $398 512, or 2 332 000 colones during the first three-year period, and $562 828, or 3 352 000 colones during the second three-year period. Service on the internal debt is estimated at 2 594 000 colones. Hence total debt service may be estimated at 4 926 000 colones during the first three-year period and 5 946 000 colones during the second. The Costa Rican Minister then states that these payments would represent, respectively, 16.5 percent and 20 percent of the average annual revenues of the Costa Rican Government during the five-year period 1933-37, inclusive. If the revenues for 1937 are taken, the ratios are 13 percent and 16 percent.

There is a small error in the calculations of the Costa Rican Minister, arising from a mistake in calculating the colon equivalent of the dollar payments. Thus the colon equivalent of $398 512, at the rate of 5.6 colones to the dollar, the rate used by the Costa Rican Minister, should be 2 232 000 colones instead of 2 332 000 colones. Similarly, the colon equivalent of $562 828 should be 3 152 000 colones instead of 3 352 000 colones. On the basis of these corrections the total annual debt payment during the first three-year period would amount to 16 percent of the average revenues for the past five years instead of 16 1/2 percent as stated by the Costa Rican Minister. Similarly, during the second three-year period the ratio would be 19.1 percent instead of 20 percent as stated by the Costa Rican Minister. If revenues for 1937 are used the ratio would be 12.7 percent instead of 13 percent for the first three-year period, and 15.8 instead of 16 percent for the second.

The corrected estimated of 12.7 percent corresponds very closely to Mr. White's estimate that under the plan only 12.4 percent of Costa Rican revenues would be devoted to debt service.

The only basis of disagreement between the Costa Rican Minister and Mr. White is not whether the plan calls for the expenditure of less than 16 percent for total debt service, both external and internal; an equally important issue is whether the Government of Costa Rica should dedicate a larger percentage of its revenues to the service of its external debt, even if this should require the expenditure of more than 16 percent for total debt service, both external and internal. Mr. White refused to admit the contention that the Government of Costa Rica should not devote in excess of 16 percent of its revenues to debt service.

The Costa Rican offer of March 10, 1936, which was acceptable to the Foreign Bondholders' Protective Council, called for the allocation of 20 percent of revenues to service on the *external* debt when revenues exceeded 36 million colones a year, and 16 percent if revenues did not exceed 33 million colones. Under the present proposal of the Government of Costa Rica the holders of external debt would receive, on the basis of 1937 revenues, approximately 5.9 percent of total revenues during the first three-year period, and 8.3 percent during the second.

Because a detailed statement of the debt of Costa Rica at the present time is not available it is impossible to determine exactly the sum required to meet Mr. White's minimum proposal of 2 1/2 percent interest on the 5's, 2.8 percent on the 7's, and 3 percent on the 7 1/2's. However, if it is assumed that the Government of Costa Rica paid 3 percent interest on its dollar bonds and 1 percent amortization, the annual service required for dollar bonds would be increased form $124 307 and $207 178, as estimated by the Costa Rican Minister for, respectively, the first and second three-year periods, to $331 485. Total service for the external debt would be $605 688 as compared to $393 512 for the first period, and $687 135 as compared to 562 828 for the second.[3] The sum of $605 688 represents approximately 8.9 percent of revenues for 1937 and 11.3 percent of average revenues for the past five years. Similarly, the sum of $687 135 represents 10.1 percent of the revenues for Costa Rica in 1937 and 12.8 percent of the average revenues during the past five years.

According to the estimates of the Costa Rican Minister service on the internal debt amounts to approximately 6.8 percent of revenues in 1936 and 8.6 percent of the average revenues for the past five years. Consequently, the external debt service of $605 688 during the first three-year period, plus service on the internal debt, may be estimated as 15.7 percent of revenues in 1937 and 19.9 of average revenues for the past five years. Similarly, during the second three-year period the external debt service of $687 135, plus the service on the internal debt, may be estimated as 16.9 percent of the revenues of the Costa Rican Government for 1937 and 21.4 percent of the average revenues for the past five years.

In as much as the foregoing estimate assumes service on dollar bonds somewhat in excess of Mr. White's suggested minimum it is probable that settlement on those terms would require a total debt service, even during the second three-year period, not in excess of 16 percent of the revenues for 1937 and 20 percent of the average revenues for the past five years. There is little reason to believe that the dedication of 16 to 20 percent of the revenues of the Costa Rican Government to debt service would impose an unreasonable and unbearable burden on that country.

The additional revenues required to increase the service on the dollar debt according to the estimate given above would amount to $207 177, or approximately 1 160 000 colones. It may be noted that a reduction in public works expenditures of approximately 11 percent of the amount expended in 1937 would provide the necessary funds. The large construction activities soon to be begun by the United Fruit Company should more than offset such a reduction in public works expenditures.

The available evidence indicates that during the past year there has been no change in economic conditions that would justify a settlement in which foreign creditors would receive only 6 to 8 percent of current revenues in contrast to the offer of March 10, 1937, in which the Government of Costa Rica offered to pay foreign creditors 20 percent of the revenues when they were as large as at the present time. Finally, it may be noted that in 1937 expenditures for public debt amounted to 6 755 0000 colones, or 18 percent of the revenues for that year. This is approximately 769 000 colones in excess of the 5 986 000 colones per annum which would be required for total debt service during the first three-year period if the service on dollar bonds was increased to approximately the level suggested by Mr. White, and 314 000 colones in excess of the 6 441 000 colones per annum which would be required for the second three-year period.

It is true that dollar bondholders did not receive any debt service during 1937, since the funds that should have been used for that purpose were used to purchase form citizens of Costa Rica dollar bonds that they had purchased at low prices in the United States as a speculation. Nevertheless, the fact remains that in 1937 the Government of Costa Rica was able to devote to expenditures for the public debt a sum substantially in excess of what would be required if Mr. White's minimum terms were met. There can be no doubt that from the budgetary point of view Mr. White's terms more closely approximate Costa Rica's capacity to pay than do the terms suggested by the Government of Costa Rica.

(Signed)
G.F. Luthringer

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[3] The difference between $687 135 and $605 688 results from the fact that according to the estimates of the Costa Rican Minister British bondholders will receive $122 165 during the first period and $203 610 during the second.

Table III.4.1

COSTA RICAN FOREIGN TRADE

(In thousands of current U.S. dollars)

	1929	1930	1931	1932	1933	1934	1935 (adjusted)
Total Trade							
Imports	20 164	10 847	8 681	5 454	6 339	8 720	7 111
Exports	18 198	16 330	14 279	8 531	10 675	8 696	8 250
Balance	-1 966	+5 483	+5 598	+3 077	+4 336	-26	+1 139
Trade With U.S.							
Imports	9 682	5 401	4 501	2 874	3 027	4 045	2 739
Exports	5 050	4 202	3 281	3 353	3 689	2 407	2 997
Balance	-4 632	-1 199	-1 220	+479	+662	-1 638	+258
Trade With Germany							
Imports	3 532	1 332	904	643	793	1 055	1 604
Exports	1 979	1 625	1 572	631	1 671	1 606	1 683
Balance	-1 553	+293	+668	-12	+878	+551	+79

	1936	1937	1937 (1st 6 mos.)	1938 (1st 6 mos.)
Total Trade				
Imports	8 397	11 878	5 237	6 092
Exports	8 309	11 512	7 462	7 722
Balance	-88	-366	+2 225	+1 630
Trade With U.S.				
Imports	3 663	5 048	2 323	2 932
Exports	3 681	5 188	2 388	3 044
Balance	+18	+140	+65	+112
Trade With Germany				
Imports	1 982	2 748	1 150	1 265
Exports	1 355	2 241	2 069	1 460
Balance	-627	-507	+919	+195

"Adjusted" refers to correction for overvaluation of German trade with Costa Rica arising from the original valuation of this trade in Reichsmarks instead of Aski marks. The figures since 1936 have presumably correctly valued German marks.

Table III.4.2

RECEIPTS, EXPENDITURES AND DEBT OF THE GOVERNMENT OF COSTA RICA, 1929-1938

(Thousands of Colones)

	1929		1931		1932		1933		1934		1935		1936		1837		1st 6 mos. 1937	6st 6 mos. 1938
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	Amount
Receipts																		
Customs	19 202	54.2	12 350	49.9	10 440	45.2	11 237	46.3	13 012	48.6	11 128	39.9	13 921	40.3	16 972	44.5		
Liquor monopoly	5 514	15.6	3 417	13.8	2 771	12.0	2 628	10.8	3 339	12.5	3 747	13.4	4 453	12.9	5 318	14.0		
Pacific Railway (gross)	3 794	10.7	1 940	7.8	1 742	7.5	2 647	10.9	3 277	12.3	3 547	12.7	3 910	11.3	4 530	11.9		
Fixed export taxes	2 503[a]	7.1	2 424	9.8	2 281	9.9	2 994	12.3	2 435	9.1	3 292	11.8	4 374	12.7	3 711	9.7		
Direct taxes	1 005[b]	2.8	1 328	5.4	1 140	4.9	1 076	4.4	650	2.4	722	2.6	800	2.3	743	2.0		
Conversion tax	--		622	2.5	368	1.6	401	1.7	538	2.0	374	1.3	552	1.6	669	1.8		
Banana export tax	--		396	1.6	371	1.6	379	1.6	251	0.9	339	1.2	477	1.4	619	1.6		
Special flour tax	–		–		–	223	0.9	193	0.7	725	2.6	--		--				
All other	3 378	9.6	2 273	9.2	3 983	17.3	2 677	11.1	3 030	11.5	4 018	14.5	6 016	17.5	5 544	14.5		
Total	**35 396**	**100.0**	**24 750**	**100.0[g]**	**23 096**	**100.0[g]**	**24 262**	**100.0[g]**	**26 725**	**100.0[g]**	**27 892**	**100.0[g]**	**34 503**	**100.0[g]**	**38 106**	**100.0**	**19 005**	**19 633**
Expenditures																		
Public debt service	5 057[c]	14.0	6 106	22.2	7 044	28.1	5 330	21.4	3 224	12.7	6 169	19.5	5 879	16.8	6 755	19.2		
Public health	1 048	2.9	1 087	3.9	854	3.4	–		–		1 113	3.5	1 196	3.4	1 644	4.8		
Public works	13 379	36.9	5 681	20.7	3 819	15.3	5 192	20.9	6 696	26.4	8 461	26.8	7 947	22.7	10 536	30.0		
Public safety	2 669	7.4	2 650	9.6	2 594	10.4	2 349	9.4	2 402	9.5	2 373	7.5	2 950	8.4	2 824	8.0		
Education	4 826	13.3	4 460	16.2	3 906	15.6	4 364	17.6	4 734	18.7	4 832	15.3	4 719	13.5	5 031	14.3		
Treasury	4 368	12.1	3 056	11.0	2 928	11.7	2 624	10.6	3 217	12.7	3 169	10.0	4 268	12.2	3 087	8.8		
Interior	2 911	8.0	2 710	9.8	2 255	9.0	2 040	8.2	1 973	7.8	2 859	9.1	2 823	8.0	2 850	8.1		
All other	1 962	5.4	1 821	6.6	1 625	6.5	2 946	11.9	3 118	12.2	2 601	8.3	5 277	15.0	2 373	6.8		
Total	**36 220**	**100.0[f]**	**27 571**	**100.0[h]**	**25 025**	**100.0**	**24 845**	**100.0[i]**	**25 364**	**100.0[j]**	**31 577**	**100.0[k]**	**35 059**	**100.0[k]**	**35 100**	**100.0**	**17 254**	**15 401**
Excess (+) or deficit (-) of receipts over expenditures	-824		-2 821		-1 929		-583		+ 1 361		-3 685		-556		+ 3 006		+ 1 751	+ 4 232
Public Debt [d]																		
End of year																		
External			74 406		77 480		83 693		83 678		83 678		83 196		77 783[l]			
Internal			27 417		30 957		30 819		31 822		36 250		37 701		33 692			
Total	**79 191**		**101 823**		**108 437**		**114 512**		**115 500**		**119 928**		**120 897**		**111 475[l]**			
Increase over previous year			7 729		6 614		6 075		988		4 428		969		-9 422			

Source: Foreign Commerce Year Books 1929-1937; Annual Report of the Foreign Bondholders' Protective Council, Consular Reports from San José.

[a] Coffee Export tax. [b] Property tax. [c] Interest and Commissions only. [d] Conversion rate - one dollar equals four colones. [e] Does not include credits of colones 420 015 transferred to budgetary accounts for "various reasons" nor receipts from loans. [f] Does not include amortization service of colones 2 721 260 and nonbudgetary expenditures of approximately colones 1 400 000. [g] Does not include credit operations or extra-budgetary receipts. [h] Does not include expenditures of colones 2 645 000 outside of the budget. [i] Does not include expenditures of colones 2 233 000 outside of the budget. [j] Does not include expenditures of colones 4 744 000 outside of the budget. [k] Nonbudgetary expenditures not available. [l] Estimated. The latest figures available state that at the end of 1937 the external debt of Costa Rica amounted to colones 110 747 404 of which colones 8 311 862 represented interest arrears. The external debt was converted at a rate of 5.62, however, whereas previous conversions were at a rate of 4 colones to the dollar

5. FINANCING HIGHWAY CONSTRUCTION IN NICARAGUA (1943)

From: Synopsis of Export-Import Bank Credit No. 227 (with 227 A) granted to Republic of Nicaragua November 10, 1943; and Suggested Procedure on Carrying out the Nicaraguan Construction and Development Program; Files of the Export-Import Bank, Record Group 275, Records of case files relating to grants of credit to foreign nations or domestic and foreign private firms to aid the foreign trade of the United States, 1934-51; National Archives and Records Administration, Washington.

MEMORANDUM

May 9, 1939

Re: Nicaragua - Conference in office of Mr. Jesse H. Jones, Chairman, Reconstruction Finance Corporation, Monday, May 8, 1939, at 3:45 p.m.

Present: President of Nicaragua, General Anastasio Somoza; The Minister of Foreign Affairs of Nicaragua, Dr. Manuel Cordero Reyes; Minister to United States from Nicaragua, Dr. Don Leon De Bayle; Mr. Jesse H. Jones, Chairman, Reconstruction Finance Corporation; Mr. Warren Lee Pierson, President, Export-Import Bank of Washington; Mr. Archie Lochhead, Technical Assistant to the Secretary of the Treasury; Mr. Laurence Duggan, Chief, Division of the American Republics, Department of State; Mr. E. G. Collado, Division of the American Republics, Department of State; and Mr. Hawthorne Arey, Secretary, Export-Import Bank of Washington.

The President explained to Mr. Jones the general situation existing in his country, pointing out recent evidence of improvement and future expectations. He stated the need for financial assistance in connection with the further development of the country, requesting specific aid in connection with the following projects:

1. Improvement of the status of the National Bank so as to enable this institution to meet obligations which would be incurred from time to time if a program of improving the country was initiated.
2. Construction of adequate roads in order that products produced by the Nicaraguan people could be exported.
3. Development of electric energy by means of diverting waters from Lake Managua during the rainy season to a river flowing into the Pacific Ocean. According to the President, engineering studies already completed indicated that sufficient energy could be produced not only to permit electrification of Nicaraguan railways but to provide the necessary power for the larger cities of the country.

After a number of specific questions relating to each of the proposals, Mr. Jones explained to the President that prior to any decision it might be desirable to send engineers or other representatives of the Bank to Nicaragua to study the several projects. The President agreed.

Following the departure of President Somoza, Dr. Reyes and Dr. De Bayle, the problems presented were discussed briefly by those named above and by Dr. Herbert Feis, who joined the conference. Mr. Jones was of the opinion that the electrification project was not practical and that consideration should be given only to the requested loan to the National Bank and possible financial assistance in connection with the road-building program. Mr. Duggan discussed briefly the plans for the Pan-American Highway.

Hawthorne Arey

November 10, 1943

SYNOPSIS OF CREDIT NO. 227 (with No. 227A)

NAME Republic of Nicaragua AMOUNT $2 500 000
(as per Resolution)

1. Background: In May 1939, when this commitment was entered into, there existed a shortage of dollar exchange in Nicaragua which rendered it difficult for Nicaraguan commercial debtors to meet their obligations to their creditors in the United States. At the same time there was an acute need for modern highways in Nicaragua.
2. Purpose:This Credit had the dual purpose of relieving the stringency in dollar exchange, and of financing the most urgent highway projects.
   (a) A credit for $500 000 (No. 227) was set up for the Banco Nacional de Nicaragua for exchange purposes; and $2 000 000 (No. 227A) was provided for public works. Of this latter amount $1 815 000 was allocated to highways - mostly on the route of the Inter-American Highway in Nicaragua - and $185 000 was allocated to the importation of agricultural machinery from the United States.

3. **Credit Arrangements:**
   (a) Parties: No.. 227: Letter Agreement of August 31, 1939 with the Bank of Manhattan Company, New York, covering purchase by them of drafts of the Banco National de Nicaragua, (the official bank of issue of Nicaragua).
   No. 227A: Agreement of Eximbank with Thomas A. Jones of November 15, 1939, as amended January 23, 1940. This Agreement is predicated upon Contract of the Republic of Nicaragua with Thomas A. Jones, as "Chief Engineer in charge of the execution of a program of highway construction and other projects in Nicaragua". That Contract is dated November 13, 1939 and was amended January 8, 1940. The Contract is dated November 13, 1939 and was amended January 8, 1940. The Contract stipulated, inter alia, the form of notes to be given by the Republic under the Agreement. Mr. Jones is an engineer of the U.S. Public Roads Administration, on leave from that service.
   These arrangements were based upon the exchange of letters between the President of the United States and Nicaragua on May 22, 1939.
   (b) Dates: No.. 227: August 31, 1939
   No. 227A: November
   No. 227A: November 15, 1939
   (c) Amendment dates: No. 227: Amended July 1, 1941 to extend availability and final repayment dates.
   No. 227A: Amended January 23, 1940, (administrative changes).
   (d) Available until: June 30, 1943, by amendment.
   (e) Amount: No. 227: $500 000 (outstanding at any one time).
   No. 227A: $2 000 000.
   (f) Amended amount: Amounts unchanged.
   (g) Guarantor: Not guaranteed.
   (h) Other guarantees or collateral: None.
   (i) Interest: No. 227: 3.6%
   No. 227A: 5% up to December 15, 1940
   4% after December 15, 1940.
   (j) Term: Advances under No. 227 are repayable in 12 approximately equal quarterly instalments, commencing from date of the advance, the final payment to be made on or before June 30, 1946.

Advances under No. 227A are repayable in 10 equal semi-annual instalments, commencing 2 1/2 years from the date of the advance, the final payment is to be made 7 years from such date. The final maturity date is March 31, 1949.

(k) Form of obligation: No. 227: The clean 3 months sight drafts of the Banco Nacional de Nicaragua are discounted by the U.S. commercial agent bank; new drafts for the balance after the respective quarterly instalment payment are then substituted.
No. 227A: The obligations are the Promissory Notes of the Republic of Nicaragua, to the order of Thomas A. Jones and endorsed by him without recourse to Eximbank.

(l) Special features: Most of the Highway construction financed under Credit 227A relates to the Inter-American Highway. Therefore, with respect to that project, for each dollar of costs finance under this credit, two dollars were contributed by the UnitedStates Government under authority of Act of Congress (No. 375, 77th Congress, 1st Session).

(m) Equipment and materials purchased under No. 227A were purchased entirely in the United States. The amounts drawn under No. 227 were to provide funds for payments to U.S. commercial creditors, typically for goods exported to Nicaragua. No funds for local labor or materials are provided under this Credit.

4. **Operational Arrangements:**
   (a) No. 227: Funds were supplied by a U.S. commercial bank, as agent.
   No. 227A: Funds were supplied directly by Eximbank.
   (b) Specific Projects were approved by Nicaraguan Government and Eximbank.
   (c) Disbursements: No. 227: Disbursements were made against clean sight drafts of Banco National de Nicaragua, accompanied by lists showing what creditors in the U.S. were receiving payments,.
   No. 227A: Notes were accompanied by the Chief Engineer's and Banco National de Nicaragua Certificates covering all expenditures.
   (d) Reports required: Quarterly Engineering Reports were required for Highway projects under No. 227A.

5. **Contractor:** Construction of these highways was administered by the U.S. Public Roads Administration.

6. **Utilization:**
   (a) Amount of credit utilized to the June 30, 1943 expiration:
   No. 227: $650 000
   No. 227A: $2 000 000.
   (b) Amount still available to borrower: None.
   (c) Amount repaid by borrower to November 1, 1943:
   No. 227: $555 833.36
   No. 227A: $238 000.
   (d) Balance outstanding: No. 227: $94 166.64
   No. 227A: $1 762 000.
   (e) In applying for an additional Credit (No. 291) for this Highway Program the Republic showed its investment in it from other sources up to early 1942 as having been $651 000.

7. **Accomplishment to date:** Sections of the Highway covered by this loan were fully completed.

8. **Other pertinent information:** Construction equipment purchased under this credit continues to be used for the work on the Inter-American Highway being done under Credit No. 291.
(The figures given herein as to the status of advances under this Credit are as of October 31, 1943).

Suggested Procedure in Carrying Out the Nicaragua Construction and Development Program

1. The Nicaraguan Government has indicated that it wishes to reserve a portion of the \$2 000 000 credit arranged by President Somoza with the Export-Import Bank for the purchase of certain equipment urgently needed in connection with the development of Nicaraguan resources. It has indicated that in addition to the proposed highway construction it feels it essential to improve its railway facilities, its transportation by boat on Lake Nicaragua, and to provide implements and equipment for agricultural development in the regions to be opened up by the new highways. President Somoza has indicated that he would like to devote \$100 000 to the purchase of agricultural implements and equipment and \$100 000 for railway equipment, and the Minister of Finance has indicated that he considers that it should be possible to purchase a suitable boat and transport it to Nicaragua for \$100 000. In a conversation yesterday with the Nicaraguan Minister, it was pointed out to him that the Coast Guard's estimate is nearer \$400 000, to which he replied that if the boat were to cost a very great amount he believed that the railway, which operates boats on Lake Nicaragua, would prefer to devote the funds to the purchase of railway equipment. He first indicated that his government might wish to reserve \$500 000 for purposes other than highway construction, but finally agreed to suggest that such purchases be limited to not more than \$300 000.

The American Minister in Nicaragua was informed some time ago that the Export-Import Bank had indicated that it felt that a period of seven years was too long a term for credits in connection with the purchase of agricultural implements and equipment. In a recent telegram he indicated that President Somoza had suggested a term of three years for this type of credit.

2. It is accordingly suggested that of the \$2 000 000 indicated for Nicaraguan construction and development not more than \$300 000 be set aside for purchases of urgently desired equipment, consideration of financing such purchases to follow the receipt of a specific detailed request. The remaining \$1 700 000 on this basis would be allocated to the highway construction program. On the basis of Mr. Coleman's estimates at \$10 000 per kilometer this should cover all of the costs for American materials, equipment and engineering and supervision services for the entire 200 odd kilometers which he proposes. Mr. Coleman and Mr. James have indicated, however, that the costs of construction might exceed this amount, while the Nicaraguan Government has indicated that it believes that such costs would be less than \$10 000 per kilometer.

3. It is suggested that the construction be undertaken by the appointment by the Nicaraguan Government of some reputable American firm to furnish the Chief Engineer and general supervision and purchasing services, on a basis similar to that envisaged for Paraguay. Such a firm would appoint a Chief Engineer not from the existing personnel of the Bureau of Public Roads. The Bureau is prepared to furnish the services of its engineer, Jones, who is now in Managua, as consultant and observer for the Export-Import Bank. In accordance with the President's letter to President Somoza, the Bureau of Public Roads is also prepared to furnish at least two engineers under Public 63. It is suggested that these engineers under the supervision of Mr. Jones carry out all the engineering surveys for the highways, while the construction firm under its Chief Engineer carries out the actual construction work. In this way the services of the engineers loaned by this Government would not tend to conflict with the services performed by the Chief Engineer and his staff. It might be necessary to charge against the job (that is against the cordoba funds) the payrolls of the local assistants who would be employed by the surveying group.

4. The contracts between the Government of Nicaragua and the Chief Engineer and engineering firm should provide for the establishment of two revolving funds in the National Bank of Nicaragua, one in dollars for the dollar expenditures, and one in cordobas for expenditures on local labor. The Nicaraguan Minister has indicated that the National Bank is hesitant to establish a revolving fund of as much as \$100 000 on the grounds that this would immobilize \$100 000 of the Bank's resources for the duration of the job. It has been suggested

that this might be reduced to $50 000, which would be sufficient to cover ordinary monthly expenditures, heavy initial expenditures on equipment being covered by additional issues of Nicaraguan Government notes at intervals more frequent than once a month.

5. Regarding the obtaining of cordobas for the cordobas expenditures, President Somoza has indicated that he will devote the present public works appropriation which he states amount to 500 000 cordobas a year, that he will devote certain cordobas which otherwise the railway company might have devoted to purchases of railway equipment, that he will sell the agricultural implements to the National Bank for cordobas, the National Bank in turn renting or selling such equipment to agriculturists, and that the remainder of the funds will be found in the general budget. In this connection it may be recalled that the Nicaraguan Government has recently changed the rate of conversion of cordobas for collection of Customs duties which are imposed in dollars from two to the dollar to four to the dollar, thus presumably increasing its cordoba revenue. It is suggested that no matter how the Nicaraguan Government obtains the funds in its own accounting, arrangements be made whereby the Collector of Customs replenish monthly a revolving fund in cordobas established in the National Bank.

6. The Nicaraguan Minister is very anxious to conclude the arrangements with the Export-Import Bank and a Chief Engineer or engineering firm since it is now four months since the arrangements were concluded with President Somoza, the period up to June 1941 is getting short, and the Nicaraguan Congress is now in session and can thus enact any legislation or changes in the recently enacted legislation which may be deemed necessary.

RA: Collado:MJC

Table III.5.1

NICARAGUA: FOREIGN TRADE BY PRINCIPAL COMMODITIES

(Thousands of United States dollars)

	1934	1935	1936	1937	1938
Exports					
Total	**5 230**	**5 658**	**4 648**	**7 038**	**5 884**
Coffee	2 374	3 118	2 115	3 078	2 031
Gold	680	567	808	849	1 550
Bananas	1 546	1 201	770	985	777
Sugar refined	185	88	84	133	129
Lumber	91	140	98	432	377
Imports					
Total	**4 610**	**5 073**	**5 580**	**5 621**	**5 120**
Cotton manufactures	1 336	1 369	1 375	1 249	1 226
Iron and steel products	343	423	574	515	416
Machinery	314	404	539	664	790
Chemicals drugs etc.	342	341	417	383	275
Wheat flour	247	248	225	227	138
Petroleum	282	249	227	362	209

MEMORANDUM

Based Upon Which the Export-Import Bank of Washington Might Consider the Extension of Financial Assistance to the Republic of Nicaragua

The Export-Import Bank of Washington is prepared to consider the extension to the Government of the Republic of Nicaragua of credits which would assist the Government of the Republic of Nicaragua in a program of expanding production and domestic and foreign trade. It is suggested that such assistance might take one or both of the following forms.

A. Highway and Other Public Works Construction

I. **Selection of Engineering Firm:**
The Government of the Republic of Nicaragua and the Export-Import Bank of Washington would jointly select a responsible United States engineering firm to study possible useful public works projects and thereafter to proceed with the construction of those projects approved by the Government of the Republic of Nicaragua and the Export-Import Bank. Projects to be thus studied might include the completion of certain links in the Pan American Highway through Nicaragua, lateral highways, and perhaps certain sanitary works and hydroelectric developments.

II. **Enactment of enabling legislation by the Government of the Republic of Nicaragua:**
The Government of the Republic of Nicaragua would enact legislation and take such other steps as might be necessary and proper to authorize the issuance and delivery of serial notes to be utilized for payments for the proposed public works; to authorize that such notes be fully guaranteed by the Republic of Nicaragua; to provide revenues adequate to meet the interest and amortization of the notes; and to exempt from all taxes of the Republic of Nicaragua, or of any political subdivision thereof, any payments to the engineering firm and any payments with respect of interest and amortization of the serial notes. The maturities, interest rates, form and other conditions of the serial notes would be determined later.

III. **Agreement Between the Government of the Republic of Nicaragua and the United States Engineering Firm:**
The Government of the Republic of Nicaragua and the United States engineering firm selected would enter into an agreement. It is suggested that among the essential provisions of this agreement should be the following:

(a) **The engineering firm would undertake among other things:**

1. To study specific public works construction projects designated by the Government of the Republic of Nicaragua and to recommend the execution of such projects as would be of real benefit to the Nicaraguan nation.

2. To supervise and administer, for a fixed engineering fee payable monthly, the execution of public works construction projects in Nicaragua. Supervision would include the services of the general office of the engineering firm in the United States in such matters as technical advice and the use of its purchasing and accounting departments. The administration of the work would be conducted in Nicaragua by an administrative unit consisting of a first-class chief engineer, an assistant engineer, a comptroller, a purchasing agent, and such clerical assistance as may be necessary. The engineering fee would consist of the total salaries of the personnel of the administrative unit plus an amount approved by the Export-Import Bank for general supervision.

3. To proceed immediately to construct public works projects recommended by the engineering firm and approved by the Government of the Republic of Nicaragua and the Export-Import Bank.
4. To assist in the financing of the construction of such projects: the engineering firm to finance payments for materials and equipment imported from abroad and the engineering fee plus the salaries of such additional engineers as are brought in from abroad; the Republic of Nicaragua to finance payments for all local labor and local engineers, as well as materials which may be acquired locally. The undertaking of the engineering firm to assist in the financing of such construction would be conditioned upon its ability to discount serial notes which would be issued by the Government of the Republic of Nicaragua.

(b) In consideration of the foregoing undertakings on the part of the engineering firm, the Government of the Republic of Nicaragua would agree, among other things, to pay to the engineering firm the stipulated engineering fee plus an amount equal to the expenditures for materials and equipment imported from abroad plus the salaries of such additional engineers as are brought in from abroad, such payment to be made by the issuance and delivery to the engineering firm each month of serial notes described above.

(c) The materials and equipments which were not already in the possession of the Government of the Republic of Nicaragua or which were not produced in the Republic of Nicaragua would be purchased in the United States of America and materials so purchased in the United States of America would be transported to Nicaragua in American flag vessels.

(d) The agreements between the Government of the Republic of Nicaragua and the Engineering firm would be terminable by either party thereto upon three months written notice.

IV. Agreement between the Export-Import Bank of Washington and the Engineering Firm:

The Export-Import Bank and the engineering firm selected would enter into an agreement. It is suggested that among the essential provisions of this agreement should be the following:

(a) The Export-Import Bank would agree, among other things:

1. To purchase the notice of the Republic of Nicaragua issued pursuant to the agreement between the Government of the Republic of Nicaragua and the engineering firm, without recourse to the engineering firm, provided that:

   a. The notes be of the maturities, interest rates, and form satisfactory to the Export-Import Bank:
   b. The Notes be accompanied by certificates of the Government of the Republic of Nicaragua and the engineering firm, in form satisfactory to the Export-Import Bank, evidencing that they had been issued and delivered to the engineering firm in payment of amount due in accordance with the agreement with the Republic of Nicaragua and the engineering firm;
   c. The notes be duly endorsed by authorized representative of the engineering firm.

2. To purchase said notes at any time prior to June 30, 1941, and thereafter in the event that the Congress of the United States should extend the Export-Import Bank as an agency of the United States; provided, however, that the Export-Import Bank would reserve the right to discontinue any or all purchases of said notes at any time following three (3) months written notice to the engineering firm of its intention so to do. It would be understood and agreed that the Export-Import Bank would exercise its right to discontinue purchasing said notes only if, in the opinion

of the Export-Import Bank, events should have occurred which caused it to find that further financing would no longer reasonably be calculated to implement the expressed purpose of the Government of the Republic of Nicaragua to stimulate the expansion of production and domestic and foreign trade.

(b) The engineering firm would agree, among other things:

1. That the personnel of the administrative unit and their individual salaries be approved by the Export-Import Bank.
2. To make periodic reports to the Export-Import Bank, in such form as might be specified by the latter, showing the progress and the cost to date of the highway and other public works construction projects.
3. That materials and equipment which were not already in the possession of the Government of the Republic of Nicaragua, or which were not produced in the Republic of Nicaragua, would be purchased in the United States of America, and that materials so purchased in the United States of America would be shipped to Nicaragua in American flag vessels.

V. Services of Engineers of the Government of the United States of America:

The Government of the United States of America would be prepared to furnish the services of engineers to assist in surveying proposed public works projects, to make recommendations regarding the selection of such projects, and to advise and assist it in general matters in connection with financing the proposed construction.

B. Line of Credit to the National Bank of Nicaragua, Inc.:

The Export-Import Bank might place at the disposal of the National Bank of Nicaragua, Inc., a modest line of credit which could be drawn upon if necessary to facilitate commercial trade with the United States, and to make possible the elimination of seasonal or unusual fluctuations in the rate of exchange. Such a line of credit might be extended for one year and be renewable for one year periods up to five years. Such a credit would be conditional upon the employment by the National Bank of Nicaragua, Inc., of a suitable financial adviser approved by the Export-Import Bank, and the National Bank of Nicaragua, Inc., would in addition furnish frequent periodic reports to the Export-Import Bank demonstrating its position and operations involving foreign currencies and this line of credit.

Suitable revenues would be created and allocated by the Government of the Republic of Nicaragua to provide for the amortization and service of the various forms of credits extended by the Export-Import Bank.

6. TACA AIRWAYS FINANCIAL PROGRAM (1946)

From: A Financial Program for TACA Airways, S.A., and Synopsis of Credit No. 361, to TACA Airways, S. A., July 3, 1946; Records of the Export-Import Bank, Record Group 275, case files 1934-51.

July 3, 1946

SYNOPSIS OF CREDIT NO. 361

TACA AIRWAYS, S.A. $1 000 000
TACA AIRWAYS AGENCY, INC.

1. **Background**

In July of 1944 The Commercial National Bank and Trust Company of New York initiated discussions with Eximbank regarding a line of credit for Taca Airways, S.A. and Taca Airways Agency, Inc.

2. **Purpose**

To participate with The Commercial National Bank and Trust Company of New York in assisting in financing the purchase of aircraft in the United States for use in the air lines of Central and South America known as the Taca System and thus facilitate exports and imports and the exchange of commodities between the United States and those countries.

3. **Credit Agreement**

(a) Parties: Taca Airways, S.A.. (a private Panamanian corporation), Taca Airways Agency, Inc., (a private Delaware corporation) and Export-Import Bank of Washington.
(b) Date: July 21, 1945.
(c) Amendment Dates: August 23, 1945 and March 18, 1946, March 25, 1946.
(d) Available until December 31, 1946.
(e) Amount: $1 000 000 to be reduced by the amount of advances made by The Commercial National Bank and Trust Company of New York under its credit line of $100 000.
(f) Amended amount: None
(g) Guarantor: None
(h) Other guarantees or collateral: First and prior lien upon aircraft, the purchase of which is financed under this credit line. Taca Airways, S.A. and Taca Airways Agency, Inc. deposit in a special account to be maintained with The Commercial National Bank and Trust Company an amount equal to 6 1/2% of the total original face amount of any notes outstanding under the credit, as security for the payment of principal and interest.
(i) Interest rate: 4% per annum from the date of the note, on the unpaid principal balance outstanding, such interest to be due and payable on the dates for the payment of installments of principal.
(j) Term: Principal of each note shall be due and payable in 36 approximately equal monthly installments, the first of which shall fall due the first day of the month succeeding a period of 30 days from the date of the note.
(k) Form of obligation: Joint promissory note of Taca Airways, S.A. and Taca Airways Agency, Inc., payable to the order of Eximbank or its nominee.
(l) Special features: Notes shall not exceed 80% of the total cost (including reconversion costs, but excluding delivery costs) of aircraft purchased, less any amount which may be advanced therefor by The Commercial National Bank and Trust Company of New York under an agreement dated August 23, 1945 between Taca Airways, S.A., Taca Airways Agency, Inc., and The Commercial National Bank and Trust Company of New York whereby that bank established a credit of $100 000.

(m) Aircraft are to be purchased in the continental United States.
(n) Summary of amendments to agreement: On August 23, 1945 Taca Airways, S.A., Taca Airways Agency, Inc., The Commercial National Bank and Trust Company of New York and Eximbank entered into a supplemental agreement to add to the previous agreements further covenants and an additional event of default. Advances of Eximbank and Commercial were to be in the ratio of 90% and 10%. On March 18, 1946 Bankers Trust Company substituted in lieu of The Commercial National Bank and Trust Company of New York, took over all Taca notes outstanding under the Commercial agreement of August 23, 1945 and the Eximbank agreement of July 21, 1945 and placed on its books the special account mentioned in this synopsis under subject 3(h).

4. **Operational Arrangements**

(a) A commercial agent bank is used. Private capital is participating to the extent of $100 000 on a non-recourse basis. Taca invests 20% of cost price.
(b) There are no specific projects to be approved by Eximbank.
(c) Disbursements are to be made against
   (1) Statements describing the aircraft purchased by Taca.
   (2) Suppliers' receipted invoices and certified copies of each bill of sale.
   (3) Certificates of insurance issued by companies satisfactory to Eximbank with designation of Eximbank as a payee of the proceeds as its interest may appear.
   (4) Promissory note of Taca for a sum not to exceed 80% of total cost (including reconversion costs but excluding delivery costs) representing expenditures made in the continental United States less any amount advanced therefor by The Commercial National Bank and Trust Company of New York.
   (5) Certification by The Commercial National Bank and Trust Company of New York that there is in the special account on its books a balance which is equal to 6 1/2% of the total original face amount of any notes at the time outstanding under the credit agreements.
   (6) Lien on the aircraft which lien, at request of Eximbank, may be converted into such instrument as is necessary to give effect to lien in accordance with the laws of the country in which the aircraft will operate. Certificate of registration from country in which aircraft operates.

(d) No reports are required.

5. **Execution of Projects**

Not applicable.

6. **Other Pertinent Comments or Information**

Agreement may be terminated at any time prior to December 31, 1946, upon 15 days notice to Eximbank provided Taca is not indebted to Eximbank. The requirement that Taca furnished evidence of registration of the aircraft within 60 days after date of purchase has been waived, with the understanding that the registration certificate on the aircraft will be sent to this Bank as soon as it is obtainable.

A FINANCIAL PROGRAM FOR TACA AIRWAYS, S.A.

I. SUMMARY

TACA Airways System requires additional capital of $1 500 000 to $2 000 000 immediately for necessary expansion of its aircraft fleet, ground facilities and working capital. It is proposed to secure these funds through the issuance of convertible notes to a small and select group of substantial investors. These notes will bear 3 1/2% interest, mature in three years, and be convertible into common stock at a price of $6. They will be secured by the pledge of the stock of the operating companies which make up the TACA System. It is not anticipated that a public registration will be required.

The TACA System operated profitably from its inception in 1932 each year through 1945. However, the extreme obsolesence of its aircraft, rising costs and other factors reversed this profit trend in the latter months of 1945, and resulted in a loss of $408 706 for the first half of 1944. Operating economics and the acquisition of a few additional aircraft have, in turn, reversed this trend and it is anticipated that the company will be operating on a break-even basis by the end of 1944. However, total losses for the year are expected to be approximately $600 000.

To enable the company to fully capitalize on the tremendous potentialities of air transportation in Central and South America, the TACA organization is being materially strengthened. Executive, operating, traffic and technical personnel are being made available to the company by TWA, and other top flight executive personnel are presently being sought.

The Company has recently acquired eleven twin-engine aircraft which will be placed in service about the first of 1945. Additional planes will be acquired under a comprehensive equipment program designed to eliminate all antiquated and inefficient aircraft, and to effect the highest degree of equipment standardization practicable under the operation conditions encountered. The operating organization has already been expanded in anticipation of the receipt of these aircraft, and it is believed that substantial earnings will follow immediately upon their being placed in service.

While we cannot now accurately forecast the growth of business to be expected in the next several years, we have prepared estimates based upon the known operating costs and anticipated revenues of the new equipment acquired and to be acquired. These forecasts indicate that approximately the following earnings may be expected in the next few years:

Table III.6.1

EXPECTED NET EARNINGS: COMBINED TACA COMPANIES AND TACA AIRWAYS, S.A.

	1945	1947	1947
Combined TACA Companies			
Revenue	$7 141 476	$15 072 507	$21 793 594
Expenses	6 842 018	12 319 490	19 007 552
Net Earnings	299 458	2 753 017	2 786 042
TACA Airways S.A.			
Net earnings	$254 753	$1 523 311	$1 414 377

II. DESCRIPTION OF THE TACA SYSTEM

The TACA Airways System comprises a group of operating companies furnishing charter air transportation from Miami to Cuba, regularly scheduled international service from Cuba to British Honduras, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama, and local service within the four latter countries. Service has been recently extended from El Salvador to Mexico City and rights have been negotiated for the commencement of operations in Venezuela through a local company which will be 45% owned and 100% managed by TACA. A similar arrangement is being worked out in Colombia. Aerovias Brasil, which is 60% owned by TACA Airways, S.A., operates from Rio De Janeiro northward through Brazil to Santo Domingo, and on a charter basis, from there to Miami. Rights are currently being negotiated for operations in Paraguay and Argentina and it is hoped that within the next year, service will extend from Buenos Aires to Miami.

The keystone of the TACA System has been the four 100% owned operating companies in Central America.

The TACA Airways System was started in 1932 by Mr. Lowell Yerex with a total capital of about \$1 500, invested in a second-hand airplane. By mid- 1945, the System's net worth had grown to \$2 500 000 almost entirely through earnings. This was accomplished without benefit of mail subsidy through the development of what was then the largest air freight service in the world. Freight rates are based upon "expedited freight" and "deferred freight", the latter carried at a substantially reduced rate. Because of this system, enough deferred freight is generally on hand awaiting shipment, to enable the company to maintain a near 100% load factor on local services.

In anticipation of future growth trends, the company has been concentrating in the past two years on the development of an international passenger business to supplement its freight service. Modern equipment of the Lockheed 14 type are used for these passenger runs. The bulk of the local freight runs is still flown with an antiquated fleet of Ford tri-motors, single-engine Bellancas, and other miscellaneous aircraft.

The company has recently undertaken the development of a comprehensive equipment program designed to provide a fleet of modern, economical and efficient aircraft. As a part of this program, the company has contracted for the construction by the Canadian Car & Foundry Co., of ten (10) Burnellis twin-engine aircraft, and has secured an option on an additional forty (40) of these planes. The Burnellis is a semi-flying wing type, tailor-made for Central and South American operations, which must be flown from small, unsurfaced airports. The Burnellis are expected to operate at approximately the cost of a Douglas DC-3, but will carry a payload of about double that of a DC-3 under similar operating conditions. Delivery of the Burnellis is scheduled to begin in the latter part of 1945. In the meantime, it is necessary that the company acquire either Douglas or Lockheed equipment needed for its international services or needed to replace the Ford tri-motors.

The requirements of local laws have made it necessary for the TACA Airways System to maintain a complicated corporate structure illustrated in Table 5 attached. Steps are currently being taken to simplify and improve the organizational structure of the companies so as to eliminate many of the difficulties now experienced under the complex corporate plan. Specifically, there will shortly be created three regions within each of which operations will be conducted as a unit. These regions will bet the Central-American region (with international service to Mexico City and Miami); the Colombia-Venezuela region and the Brazil-Paraguay-Argentina region with operations extended to Miami.

III. EARNINGS RECORD OF TACA

As stated above, the TACA Airways System operated profitably from the inception of its operation in 1932 until about the middle of 1945. A statement of earnings prepared by Arthur Young & Co., reported net profits for the first eight (8) months of 1945 to be \$206 510, but by the year end this profit had been reduced to \$3 814. Losses for the first six (6) months of 1944 were \$408 076. At that point drastic economies and some strengthening of management were effected with the result that monthly losses declined to an estimated average of \$35 000 per month for the last half of the year. We are hopeful that operations will be on a break-even basis early in 1945.

A condensed statement of earnings for the past several years follows:

Table III.6.2
CONDENSED STATEMENT OF EARNINGS, TACA AIRWAYS SYSTEM, 1941-1944

	1941	1942	1943	1944 (1st 6 mos.)
Operating revenues	$1 178 747	$1 576 401	$2 245 771	$1 044 294
Operating expenses				
Depreciation	148 786	140 391	160 272	115 423
All other	949 813	1 109 933	2 080 426	1 352 792
Total	**1 098 599**	**1 250 324**	**2 240 698**	**1 468 215**
Net operating profit or loss (-)	80 148	326 077	5 073	-423 921
Other income and expense (-)	-17 481	44 720	-1 259	15 345
Net profit or loss (-)	**$62 667** [a]	**$370 797**	**$3 814**	**-$408 076**

[a] Exclusive of direct charge of $72 400 to surplus to write off Guatemalan Co.

In October 1942, TACA organized Aerovias Brasil to operate internally in Brazil and to the United States on a charter basis. The company is owned 40% by Brazilian nationals and 60% by TACA Airways, S. A. During 1945 this company, with only one Lockheed 14 in operation, earned $93 944.

It was anticipated that additional equipment would be secured in 1944, enabling Aerovias Brasil to considerably expand its operations. A substantial organization was created preparatory to the operation of these aircraft, with the result that operating expenses of the company increased about 12% over 1943. Unfortunately, no additional aircraft were available in 1944 and, on the contrary, utilization of the Lockheed 14 substantially lower due to maintenance and scheduling difficulties, resulting in an estimated reduction of $171 000 or 40% in operating revenues. Accordingly, the substantial profit of 1943 was turned into an anticipated loss of approximately $145 000 for 1944. Two Fairchild single-engine planes and one Lockheed 12A, which were acquired but little utilized in 1944, are expected to be brought up to full utilization in 1945. In addition, three Douglas DC-2s and one Lockheed 12A will be added to the Aerovias Brasil fleet during the next several months.

IV. FORECAST OF FUTURE EARNINGS

In recent months TACA has acquired additional aircraft which should enable the company to enjoy a profitable operation almost immediately. These aircraft, and the estimated dates and places where they will be utilized, follow:

Table III.6.3
ESTIMATED DATES AND PLACES WHERE ADDITIONAL AIRCRAFT WILL BE UTILIZED BY TACA

	No.	Date to service	Location
DC-2	2	3/15/44	Colombia
	2	1/15/44; 2/15/45	Venezuela
DC-2	3	12/10/44; 1/10/45; 2/10/45	Brazil
Lockheed-12A	1	12/10/44	Brazil
Lockheed-10	1	12/15/44	Central America
Beechcraft	2	12/1/44	Venezuela
	1	1/1/45	Colombia
	2	6/1/44; 11/25/44	Central America

The first Burnelli is expected to be received about September 1945. The company's contract with the Canadian Car & Foundry Co., is such that no obligation to accept the aircraft will exist unless they meet exceedingly rigid contract specifications.

We believe that TACA should immediately acquire not less than eleven Douglas DC-3 or Lockheed Lodestar type aircraft to implement its international service, and to replace the Ford tri-motors which are no longer profitable. Much of the reduction in earnings in the past 1 1/2 years can be attributed to the fact that the company has been unable to maintain a sufficient utilization of the Ford tri-motors. Repair time has considerably exceeded flying time.

TACA owns 45% of companies which have acquired or are in the process of acquiring operating rights in Venezuela, Colombia, Paraguay and Argentina. Aircraft will be available before the end of 1944 for the Venezuelan and Colombian services. Because of the almost complete absence of any other form of transportation than by air, it should be possible for these companies to operate profitably almost from the commencement of services. Assuming a 65% load factor (which we believe to be exceedingly conservative), local services in Colombia and Venezuela are estimated to produce total earnings of approximately $1 757 408 for the next three years. Further, TACA de Venezuela anticipates that it will secure the help of the Venezuelan government to obtain permanent entrance rights into Miami. Assuming a 65% load factor and rates reduced well below present levels, we forecast total earnings of $2 038 158 for 1946 and 1947 for the Venezuelan international operation alone. In each of the above cases, the estimated earnings represent those of the local company of which TACA Airways' portion would be 45%. The granting of permanent operating rights into the United States to any part of the TACA System should immeasurably increase the profit potentialities of the entire system.

The forecasted earnings of TACA Airways for the years 1945, 1946 and 1947 as set forth in the summary were based upon the following major assumptions:

1. A 65% load factor. TACA's present load factor on its international operation is over 90%. The system average is estimated to be about 75%.
2. Placing the equipment recently acquired in service in the near future.
3. Purchase early in 1945 of eleven additional aircraft of the DC-3 or Lodestar type.
4. Delivery of Burnelli aircraft on a reasonable production basis commencing in September 1945.
5. Establishment of anticipated routes in Colombia. The local TACA company has received permission to operate an airline from the Colombian government but definite routes have not yet been prescribed.
6. Award of entrance rights into Miami for the Venezuelan company. If this route should not be awarded it is believed that the aircraft assigned to this operation can be used about as profitably elsewhere.
7. No consideration has been given to operations in Paraguay and Argentina where the local TACA companies have been given permission to operate an airline but where definite routes have not yet been prescribed.
8. A substantial reduction in air transportation rates has been anticipated.
9. Operating costs have been adjusted to local conditions.

The effect of improved or decreased load factors during the forecast period is illustrated below for TACA Airways, S.A.:

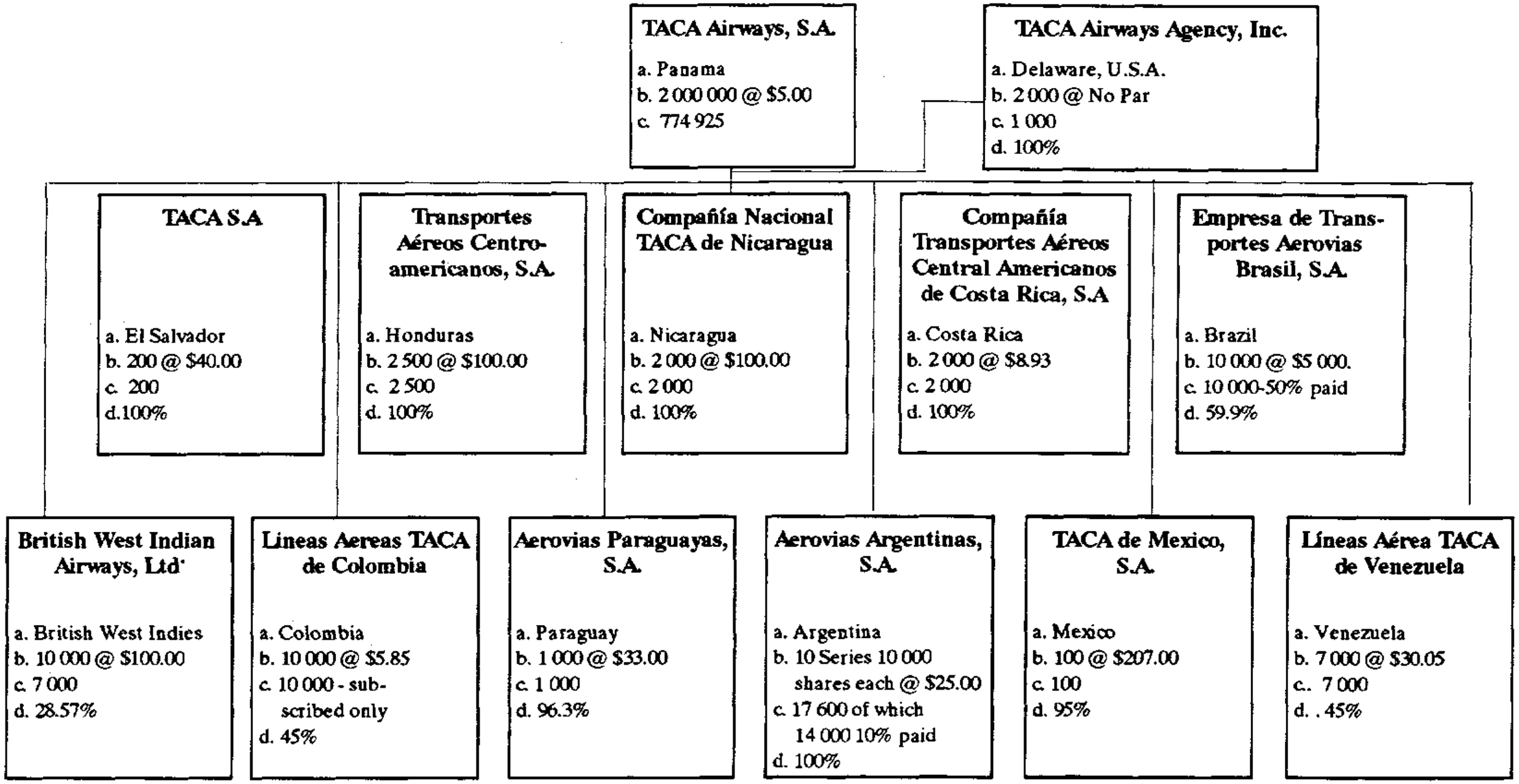
Table III.6.4
FORECAST OF NET EARNINGS, TACA AIRWAYS, S.A.

	Load factor		
	75%	*65%*	*60%*
1945	$1 127 566	$254 753	182 679 loss
1946	3 114 069	1 523 311	727 276
1947	3 492 057	1 414 377	376 257
Total	**$7 733 692**	**$3 192 441**	**$920 354**

December 6, 1945

Table III.6.5

TACA AIRWAYS S.A. - CORPORATE STRUCTURE AS OF OCTOBER 1, 1944 (EXHIBIT "C")



a. State and/or country of incorporation. b. Shares authorized and par value expressed in U.S. dollars current rate.
c. Shares issued and amount paid if full payment has not been made. d. Percent owned or subscribed by TACA Airways, S.A.

The following companies have been formed but are not yet operating: Líneas Aéreas TACA de Colombia, Aerovías Paraguayas, S.A., Aerovías Argentinas, S.A. and Línea Aérea TACA de Venezuela. TACA de Mexico, S.A. is currently acting only as agents for TACA, S.A.; however, local operations in Mexico are planned.

Table III.6.6

TACA AIRWAYS, S.A. AND AGENCY: FORECAST OF ANTICIPATED CASH REQUIREMENTS, 1945

Cash on Hand January 1 1945		$39 000.00
Aircraft		
International Run 6 Planes - DC-5 or Lodestar	$360 000.00	
Local Replacement 3 to Replace Fords	250 000.00	
Brazil 2 Burnellis	280 000.00	870 000.00
Inventories - Parts Supplies - Spare Engines and Props		200 000.00
Working Capital		100 000.00
Buildings Hangars etc.		
Tegucigalpa New Hangar or Move	$200 000.00	
Miami	10 000.00	
Mexico City	10 000.00	
Sao Paulo	100 000.00	
Miscellaneous	5 000.00	325 000.00
New Capital for Colombia		170 000.00
Total		**$1 665 000.00**
Net Cash Requirements 1945		$1 626 000.00

7. FINANCIAL CRISIS IN NICARAGUA (1947)

From: Financial Crisis Arising from Withholding of Bank of America Loan - Serious Foreign Exchange Position; Despatch No. 1736 from Foreign Service of the United States of America, Managua, D.N., Nicaragua, to Secretary of State; August 21, 1947; CDF 1945-49, Record Group 59; 817.51/8-2147.

No. 1736

CONFIDENTIAL

FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Managua, D.N., Nicaragua, August 21, 1947.

Subject: Financial Crisis Arising From Withholding of Bank of America Loan- Serious Foreign Exchange Position.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to my telegram no. 307 of August 15 and previous correspondence with the Department regarding the local financial flurry aroused by refusal of the Bank of America to continue advances under its loan agreement with the Nicaraguan National Bank.

As previously reported, the unexpected action of the Bank of America left the Nicaraguan National Bank with only about $60 000 in liquid dollar balances as of August 12. With refusal of the Federal Reserve Bank of New York to make an otherwise normal 90-day advance of $500 000 against earmarked gold owing to the *de facto* character of the Government, it was then considered that the National Bank's gold assets in the United States had been frozen. Such assets comprised:

Gold	
Collateral with Bank of America	$2 750 000
Earmarked with Federal Reserve Bank of New York	1 594 385
International Monetary Fund	500 000
Dollars	
Collateral with Bank of America	904 159
Total	**$5 748 544**

As against this, the National Bank has already received from the Bank of America and expended net advances of $2 155 000 on loan account.

The crisis broke on August 13 when, as a result of the foregoing situation, the National Bank discontinued dollar operations: all new and pending import applications as of that day were rejected and importers attempting to meet sight drafts covering merchandise already at Corinto were told that the National Bank was not in a position to furnish the dollars.

The immediate result was a sharp rise in the black market rate for dollars and a state of panic and confusion in commercial circles. With replacement costs uncertain, some merchants discontinued sales and others raised prices markedly. Rumors of economic sanctions were prevalent, and anxiety was, if anything, accentuated by the following statement to the press on August 13 by Rafael Huezo, Manager of the National Bank:

> "Commerce has been abusing the law of October 15, 1945 which authorizes applications for foreign exchange through the deposit of 60 percent of the total value of the imports involved. The National Bank has been forced to issue an order temporarily restricting the entry of imported goods, since there are in warehouses and in the customs stocks of goods which could not be consumed in a year. Commerce has violated its obligations by absorbing more than its share of foreign exchange. The Bank is now disposed to maintain a equilibrium between imports and exports."

The situation remained tense until August 15 when the admittedly[1] unexpected purchase by the Federal Reserve Bank of New York of 15 000 ounces of earmarked gold valued at $525 000 permitted the limited resumption of dollar operations. Although not yet restored to normal, economic conditions have as a result receded from the panic stage. Black market dollar quotations have declined from a momentarily frenzied high of C$9.00 to about C$5.50 - 5.75.* The quotation on April 12 was C$5.35. Shops have been reopened and general business activity has returned to the limited levels consonant with the currently acute political situation.

An examination of the National Bank's foreign exchange position reveals that the action of the Bank of America has merely served to precipitate the initiation of severe import and exchange restrictions which were in any case inevitable. As itemized above, current gold and exchange assets prior to the recent sale of gold amounted to $5 748 544. Taking into consideration outstanding gold-secured loans from the Bank of America of $2 155 000 and the non-liquid character of the $500 000 deposit with the International Monetary Fund, liquid foreign exchange assets totalled only $3 093 500. (This represents a decline of $2 170 250 from the comparable balance on December 31, 1946 of $5 263 800[2]). As against this, collection accounts payable aggregated $1 200 000[3] and pending import orders to approximately $5 000 000[4]. With estimated foreign exchange receipts during August-December estimated by the National Bank at only $1 500 000[5], the end of the year will, even assuming the discontinuance of all import licenses and non-import dollar transactions, find the National Bank with an exchange deficit for the year well in excess of $6 000 000, and dollar-bankrupt. Resumption by the Bank of America of its loan obligations would, in view of the stringent repayment terms provided by the loan contract, only reduce the pending deficit by about $1 000 000 for the current year.

It is difficult to adequately explain how such a situation could have come about - especially by August when the heavy dollar receipts of January - June from coffee, sesame, lumber, gold and other exports are usually reflected in a substantial exchange surplus. The following comparative tabulation of National Bank foreign exchange operations during the first half of 1947 illustrates not only a yet-unexplained rise in receipts, but also highlights an unprecedented volume of exchange sales. With the total outlay on import account during the first half of 1947 at only $6 000 000, according to the Manager of the National Bank, the difference of over $7 000 000 may tentatively be attributed to precautionary foreign exchange-hedging by politically favored "Somocistas".

---

[1] By Rafael Huezo, Manager of the National Bank.
* *C$ is the symbol given in the original document for the Nicaraguan córdoba.*
[2] See Report of the February 11, 1947 (Nicaraguan Foreign Exchange Position).
[3] According to Rafael Huezo.
[4] Deposits (60%) with the National Bank against imports amounted on July 31 to C$14 900 517.
[5] According to Rafael Huezo.

January-June

Foreign Exchange	1945	1946	1947
Receipts	US$3 362 159	3 475 294	11 176 655[6]
Sales	2 537 380	3 456 292	13 048 602[7]
Balance	+ US$ 824779	+ 19 002	- 1 871 947

Source: Monthly Statement of National Bank, Issue Dept.

As stated to me yesterday by Rafael Huezo, the anticipated foreign exchange shortage has led to the decision to restrict all future import applications to only scarce and essential items. Pending the elaboration of a new schedule by the National Bank, no new import applications are being accepted. He assured me, however, that existing dollar obligations are being fulfilled, and in illustration stated that only $200 000 is left of the $525 000 sale of gold last week to the Federal Reserve Bank of New York. Further gold sales are contemplated. It is also planned to liquidate the loan account with the Bank of America in the event the latter does not see its way clear to comply with the loan contract.

From the political viewpoint, the incident is generally interpreted as having been related to economic sanctions by the United States, and has reportedly reinforced the belief of opposition leaders, including General Chamorro, that "further" sanctions will soon eventuate. I shall, of course, do my utmost to discreetly disabuse them of this idea as running counter to our repeatedly-declared policy of non-intervention.

The foregoing belief is, so far as can be ascertained, based on: a widely publicized prediction from Washington by Dr. Fernando Sacasa during the first days of August that economic sanctions were in the offing; the wording of the Federal Reserve Bank's refusal to grant the requested 90-day loan; and the apparently evasive policy of the Bank of America. The following excerpts from telegrams sent by the Bank of America indicate an apparent desire to convey the impression that the American Bank's "inability" to continue with the advances provided in the loan agreement was due to pressure from the Department rather than mere caution:

August 4

"Unable to confirm credit $500 000 your cable August 1, pending approval our State Department."

August 13

"We today received wire from Secretary of State declining to approve further operations under loan agreement. We are continuing to seek State Department's approval. Suggest you do everything you can at your end."

Although under the circumstances virtually swamped by appeals for information from the press, businessman, and "politicos", the Embassy refrained from any comment pending news from the Department. Following an earlier statement to General Chamorro that there was no reason to believe sanctions were contemplated, comment was restricted to conversations with General Somoza, Rafael Huezo and the Panamanian Minister in which I expressed the opinion that the matter was of a legal rather than political nature. This was confirmed to Rafael Huezo upon receipt of the Department's telegrams No. 187 and 190 of August 14 and 16, and made public following a concurrent telephone call from Jose's Sandino in Washington to the then

[6]Does not include advances by the Bank of America of $2 335 000.
[7]Does not include loan repayments to the Bank of America of $180 000.

"the Department of State has not and is not exercising sanctions in accordance with its already well known international policy." It is still, however, apparently considered in both official and opposition circles that sanctions are either in effect through coercion on the Bank of America or were discontinued in the face of an unexpectedly strong reaction.

It appears that the net results of the incident has been to further weaken Somoza's political position and encourage opposition hopes that international action will force him out.

Respectfully yours,

(signed)
Maurice M. Bernbaum
Chargé d'Affaires a.i.

851
MMBernbaum:bjm
To Department in hectograph
Copies to Guatemala, Honduras, Costa Rica and Salvador.

8. GUATEMALA SEEKS A LOAN FOR RECONSTRUCTION (1949)

From: Guatemala Considers Foreign Loan for Rehabilitation and Reconstruction; Despatch No. 590 from Foreign Service of The United States of America, Guatemala, to Secretary of State; October 26, 1949; 814.517/10-2049.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNCLASSIFIED

814.51/10-2649

Guatemala, October 26, 1949

No. 590

SUBJECT: Guatemala Considers Foreign Loan for Rehabilitation and Reconstruction.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to report that Guatemala is considering a foreign loan for rehabilitation and reconstruction.

During the latter days of the week of October 16-22, the press reported that the Guatemalan Government might seek such a loan. *El Imparcial*, on October 21, mentioned a loan of $5 millions. Other reports have named sums up to $50 millions. The *Official Daily* of October 22, while not mentioning any specific amount, stated as follows with regard to the possibility of a loan:

> "Deputy Silva Falla also told the representatives his opinion that a loan is necessary for the recovery of the national economy. A demand for credit by the country people and Guatemalan farmers will follow shortly, he said, and Guatemala - will not have the means to help these Guatemalans with not credits they request to replant.
>
> "Representative Silva Falla announced that the National Emergency Committee considers that the only way to resolve the catastrophe is a loan and that this Committee will formulate a project suggesting the expediency of a loan to the Executive. Of course, he said, the loan would be made after a careful study. Many countries that have not experienced a calamity such as Guatemala's have obtained loans for the improvement of their national economies; for example, Chile, Costa Rica, Cuba, etc., and Guatemala has greater reason, being in danger of losing its harvest completely, with which loss the economy of the country would be ruined and chaos would follow.* With the modern standards for agricultural equipment loans there is nothing to fear, said Silva Falla and it should be clear that it (a loan) is Guatemala's only salvation."

*The *New York Times* reported what the Guatemalan Government called "the worst flood in Guatemala's history." Seventy-two hours of "torrential rains" caused the most severe damage in the northern and southern parts of the country, in the Departments of Escuintla, Quezaltenango and San Marcos, where the entire coffee crop was destroped, and in the Departments of Santa Rosa, Jutiapa, Jalapa and Sacatepequez. ("Heavy Floods Kill 1 000 Guatemalans", *New York Times*, October 19, 1949, p. 59; and "Guatemalan flood Toll is 4 000; Damage Is Placed at $40 000 000", *New York Times*, October 20, 1949, p. 1.)

Agreement on the need for: loan is not unanimous, however. Both the *El Imparcial* and *La Hora* of October 22 advise caution, and an *El Imparcial* writer says that the catastrophe is merely a new pretext for a loan and raises the question of where the means will come from to pay off the loan if the economy of the country is in such bad shape.

On October 24 both *La Hora* and *El Imparcial* printed stories of interviews with prominent people. In the latter paper the Minister of Finance, Alfonso Padilla, came out strongly against the loan. He declared that he would oppose a loan; that it is unsound. He said his opinion is based on his knowledge of the country's finance from the time he was an accountant in the Government Accounting Office up to the present. He said that future generations should not be saddled with the burden of a loan; that Guatemala should first exhaust internal resources; that a foreign loan would lead to disequilibrium and eventual devaluation. The new sub-secretary of the Ministry of Finance, Alfonso Marroquin, agreed with the Minister, opposing a loan.

In favor of a loan are the Minister of Foreign Relations, Gonzalez Arevalo, the Minister of Defense, Jacobo Arbenz, the Minister of Government, Cesar G. Solis, the Minister of Economy, Alfonso Bauer Paiz, and the Minister of Communications, Aldana Sandoval. The Minister of Education, Raul Osegueda, advised caution and a careful study, but is not opposed. The Minister of Economy apparently is the main proponent of a loan.

The Embassy's quarterly financial report, No. 189 of October 24, 1949, summarized the *available* statistical information. A review of certain data leads to the conclusion that the Minister of Finance knows what he is talking about and that from a financial standpoint Guatemala is not in a good position to assume the burden of a foreign loan.

1. For the first ten months of fiscal 1948-9, July 1948 through April 1949, Government income[1] was $37.8 millions, expense $39.6 millions. A deficit for the year seems inevitable.

The Government's financial position has worsened in recent years. For fiscal 1947-8 the budget surplus was reported as $1.9 millions, the smallest in years. Because of peculiarities of Government accounting, however, there is some doubt as to whether published figures are completely reliable. The difference between current income and expense in fiscal 1947-8 was a deficit of $6.3 millions.

The Government has recently been short of cash, indicating a weak financial position. The Embassy's despatch No. 566 of October 11, 1949, reported that the Treasury could not pay budgeted appropriations in the Denby case.

2. Foreign trade figures[2] for the first 7 months of 1949, January through June, show imports of $41.6 millions and exports of $34.2 millions. At this rate 1949 will end with an unfavorable trade balance probably of at least $10 millions. Imports for 1949 are at about the rate of 1948 imports, which year (1948) ended with an adverse trade balance of about $18 millions. Merchandise operations are, of course, the largest single factor in the balance of payments. For 1948 there was an adverse payments balance of $3.3 millions, the Bank of Guatemala reported. An adverse balance for 1949 seems probable.

3. Foreign exchange reserves[3] on September 30, 1949, were $41.6 millions. On September 30, 1948, reserves were $47.7 millions. Reserves on March 31, 1948, the peak month, were $55.6 millions; on the same date in 1949 they were $50.1 millions. Obviously, here has been a decline in the reserves in the last 2 years. On the basis of 1949 foreign trade figures for the first 7 months, and after the recent storms, it is reasonable to expect that the downward trend will continue. It may be more pronounced in 1950.

So far Guatemala has been fortunate in not having import and exchange controls. As the Minister of Finance suggests, however, a large foreign loan, in excess of the ability to repay and unwisely used could be the turning point leading to controls. A large internal loan resulting in inflation, excess purchasing power and a demand for imports exceeding the supply of foreign exchange, would also bring about the same result. Guatemala would do well to proceed cautiously at this point.

---

[1]Source: Boletín de la Dirección General de Estadística, April and June 1949.
[2]Source: Monthly statistical reports from Customshouse, January-July, 1949.
[3]Boletines del Banco de Guatemala, 1949.

A special commission consisting of financial experts of the Bank of Guatemala, the Ministries of Economy, Communications and Finance has been appointed to study national rehabilitation and will determine the need for a loan. The idea expressed at present is that foreign loan proceeds will be handed over by foreign banks directly to successful bidders on reconstruction projects and that loan proceeds for agricultural credits will be turned over to local Government banks with the understanding that the credits will be used only for such purposes.

Further significant developments will be reported.

Respectfully yours,
For the Ambassador:

(signed)

Gilbert E. Larsen
Attaché (Economic)

9. PUBLIC FINANCE IN THE REGION (1956)

From: U.S. Department of Commerce, Bureau of Foreign Commerce, American Republics Division, *Investment in Central America: Basic Information for U.S. Businessmen.* Study prepared by firm of Albert O. Hirschman and George Kalmanoff, Economic Consultants (Bogotá, Colombia, December 1956), pp. 30-33.

FINANCE

The financial system of the Central American countries is of interest to the potential investor not only because of the resources supplementary to his own funds which this system may make available to him, but also because the public finance and the monetary and banking structure of any country are an important component of the general climate within which the investor operates.

Public Finance

The development of public finance in the five countries during recent years shows many similarities. All budgets have grown rapidly, as shown in Table 1. Larger proceeds from exports of coffee and other commodities were followed by increases in imports and, consequently, in customs revenue, which in all of these countries is a major component of total Government receipts. On the expenditure side, all of the Governments undertook public works and economic development programs, so that the increase in income was easily absorbed.

Table III.9.1

NATIONAL BUDGETS, BY COUNTRIES, 1950-54

(In millions of dollars)

	1950	1951	1952	1953	1954
Guatemala					
Revenue	45	49	60	63	[a]
Expenditure	50	51	65	64	[a]
El Salvador					
Revenue	35	47	51	56	[a]
Expenditure	35	49	53	50	[a]
Honduras					
Revenue	17	20	23	24	25
Expenditure	16	19	22	26	28
Nicaragua					
Revenue	11	15	19	24	26
Expenditure	11	14	28	22	27
Costa Rica					
Revenue	20	24	28	32	35
Expenditure	19	21	24	29	33

[a]Data are not available.
Note: When only July-June fiscal year statistics were available,calendar-year data were obtained by averaging two fiscal years.

Nevertheless, the size of Government budgets remains comparatively small in Central America, and the importance of the public sector of the economy is minor, particularly in view of the fact that the revenues and expenditures of the capital cities normally are included in the National budgets and other Provincial and municipal budgets are greatly reduced.

The budget figures are not strictly comparable for a variety of reasons and the national income totals are even less reliable, but the ratio between the budget and national income gives an indication of the importance of Government operations in the economic life of each country. This ratio varies from slightly more than 10 percent in Honduras and Guatemala to as much as 16 or 17 percent in Costa Rica. These are definitely low levels for this very general indicator, not only in comparison with the more developed, industrial countries, but also in relation to such Latin American countries as Brazil, Mexico, and Colombia.

Import duties constitute from one-third to one-half of total Government receipts. Export duties also have become important in recent years, particularly in the two principal coffee-exporting countries, Guatemala and El Salvador. Other important components of Government revenue are excise taxes levied on beer and cigarettes, and on liquor except where the production of distilled beverages is organized as a Government monopoly.

Income taxation is of minor importance as a source of Government revenue. The ratio of income and capital taxes to total receipts is highest in Costa Rica and Honduras-approximately 20 percent-and is less than 10 percent in the other three countries. However, the relative importance of income taxation may be expected to increase, since most countries have recently introduced income-tax laws or raised their rate schedules and are perfecting their collection procedures.

A large part of Government expenditures is absorbed by general administration and by the costs of national defense and police. The Costa Rican budget is burdened also by relatively large expenditures (more than 10 percent of the total) for servicing the public debt, which was incurred largely through nationalization of the country's commercial banks in 1948. However, expenditures for public health, education, and economic development have been expanding considerably in all of the countries as total Government revenue increased, and such expenditures in all countries now amount to approximately one-half of the budgets. Among these expenditures, those for transportation generally have first place. An exception is Costa Rica, where the main emphasis has long been on public education.

Central Banking, Money, and Prices

The monetary structure of the Central American countries has undergone considerable modernization since World War II. In 1945-46 the Guatemalan central bank was given a completely new statute. In 1950 a central bank was organized in Honduras, and in Costa Rica a large styate-owned bank, which exercised both commercial and central banking functions, was divided into two separate institutions. El Salvador has had a central bank since 1934. Nicaragua alone of the Central American countries has no separate central banking institution; its National Bank is the only bank of issue and the largest commercial bank in the country. In addition to their importance as managers of the countries' money and foreign exchange, the central banks are generally also the best-equipped centers of economic research and information.

The central banks of Guatemala, Honduras, and Costa Rica, being of recent origin, have statutes incorporating the latest advances in central banking theory and are endowed with broad powers of monetary management, such as the variation of reserve requirements and the influencing of commercial bank lending through the establishment of differential rediscount rates. Many of these powers have not been used. However, the Central Bank of Honduras has attempted to restrict credit expansion by upward changes in reserve requirements and the Central Bank of Costa Rica has pursued the same objective by setting portfolio ceilings for the commercial banks.

El Salvador's central bank, having been established during an earlier period, has powers less broad than those of like institutions in the other Central American countries, but it has acquired great prestige as a result of excellent management over a period of many years and can effectively influence the policy of the commercial banks through moral suasion. Moreover, El Salvador's central bank enjoys the greatest degree of freedom from Government intervention in its management, the Government having merely the right to approve or veto the person elected as president of the bank.

In the central banks of the other countries, the Minister of Finance is a member of the board of directors. However, provision is always made for representation on the board of the principal sectors of the economy and for a certain degree of independence of central bank management from the executive branch of Government. The banking laws also contain provisions limiting the right of the National Treasuries to obtain advances from the central bank.

Table 2 shows that the money supply of the Central American countries at the end of 1954 consisted in large part of checking deposits. The banking habit appears to be widespread, particularly in Costa Rica and Nicaragua; in Guatemala, possibly as a result of cash hoarding, more than two-thirds of the total money in circulation consisted of notes and coins. Expressed in United States dollars per capita, the money supply is highest in Costa Rica; El Salvador and Nicaragua are in second and third place, respectively, and Guatemala and Honduras last.

Table III.9.2
TOTAL AND PER CAPITA MONEY SUPPLY, BY COUNTRIES, END OF 1954

Country	Total money supply (millions of dollars)	Bank deposits as percent of total money supply	Money supply per capita (dollars)
Guatemala	76.1	29.0	23.8
El Salvador	77.1	45.5	35.7
Honduras	34.4	41.3	22.4
Nicaragua	38.0	52.7	31.1
Costa Rica	47.8	51.7	51.3

This ranking of the five countries corresponds to that noted in chapter II with respect to their per capita purchasing power. It reflects to some extent the general level of business activity and the degree to which money is used in the economy. For instance, the low figure for money supply per capita in Guatemala is easily explained by the large indigenous population, which is almost entirely self-sufficient and uses money only for a few transactions. In Honduras, also, a large segment of the population raises food primarily for its own consumption and has few commercial contacts.

Because there is still much room for expansion in the use of money in all of the Central American countries, and because national output has been increasing sharply, so that more money would have been needed to finance transactions even at constant prices, the money supply in all countries has increased to a much greater extent than has the price level. This is clearly shown in Table 3.

Table III.9.3
MONEY SUPPLY AND COST OF LIVING IN CAPITAL CITIES, 1948-54
(1948 = 100)

Year:[a]	1948	1949	1950	1951	1952	1952	1954
Guatemala							
Money supply	100	105	113	115	123	144	146
Cost of living	100	107	114	114	115	118	122
El Salvador							
Money supply	100	118	145	164	190	199	218
Cost of living	100	111	128	138	141	148	154
Honduras							
Money supply	100	98	102	126	139	158	182
Cost of living	100	105	114	118	120	128	136
Nicaragua							
Money supply	100	126	138	168	202	263	297
Cost of living	100	107	129	141	150	161	182
Costa Rica							
Money supply	100	111	115	124	147	162	180
Cost of living	100	109	118	120	117	119	126

[a]As of the end of year.

Prices have been subject to upward pressures in all of the countries because of the rise in world coffee prices and the consequent increase in bank lending and private spending. Government expenditures also have risen substantially as new public works and other economic projects were undertaken, but these expenditures cannot be considered to have caused the rise in prices since Government receipts increased simultaneously.

Of the five countries, Guatemala has maintained the most stable price level, probably in large part because of the general caution displayed by businessmen and investors up to the change of regime in 1954. Since 1950, Costa Rican prices also have remained relatively stable. Salvadoran and Honduran prices advanced by about 20 percent in the 4-year period 1950-54, a fairly moderate increase. The rise in prices during recent years has been most marked in Nicaragua, but that country-besides not having a separate central bank with broad powers of monetary management-has gone through a phase of exceptionally rapid economic expansion, stimulated by the cotton boom, so that control of inflation was a particularly difficult task.

Banks Dealing With the Public

The commercial banking systems of the Central American countries have certain common characteristics. In general, private initiative in providing credit facilities has long been so inadequate and so completely lacking with respect to certain important fields, such as agriculture, that in almost all countries, the Governments have helped in setting up banking institutions which, with the aid of National Treasuries and through special rediscount privileges with the central banks, have become the most powerful lenders.

The outstanding example of this situation has been Nicaragua, whose state-owned National Bank was for many years the only bank of any importance.[1] The situation has changed somewhat in recent years with the opening of two private banks in Nicaragua, which have become relatively successful in a short period. Costa Rica's Banco Nacional also occupies a predominant position; however, other banks, all nationalized since 1948, are actively competing with it for the commercial business. Guatemala and El Salvador have Government-sponsored mortgage banks whose portfolio each is larger than that of any other single bank; El Salvador, however, has a vigorous private banking system to which three new units have been added recently. The only country in which private banks have been dominant thus far is Honduras, where two banks, the larger one of which is owned by United States capital, were the only lenders until the establishment in 1950 of the National Development Bank (Banco Nacional de Fomento), which has since made important strides.

The National Development Bank of Honduras is a financial institution of mixed character since, in addition to its lending activities, it may engage in direct financing of agricultural and industrial projects which are important for the development of the country but for which private equity capital is not available or is forthcoming in insufficient amounts. Similar "fomento" institutions have been set up in Guatemala (Instituto de Fomento de la Producción, or INFOP) in 1948 and in Nicaragua (Instituto de Fomento Nacional) in 1953. The Guatemalan institution has become primarily an agricultural credit bank, specializing in small agricultural loans and in the financing of special crops, suh as cotton.

The principal activity of the National Development Bank of Honduras is to satisfy the great need for credit of small and medium-sized farmers. It is, however, also active in promotional activities. The Nicaraguan institution has devoted its major energies to the development of new enterprises, and, as a lender, it is financing primarily agricultural activities of a clear-cut developmental character, such as the starting of new coffee plantations, the opening up of new lands, and the purchase of pedigreed animals. The need for specialized lending institutions in the field of credits to small farmers is being supplied in El Salvador by a cooperative organization (Federación de Cajas Rurales de Crédito) and in Costa Rica by a special section of the Banco Nacional, devoted to providing supervised agricultural credit, whose work is a model of its kind.

Personal credit needs are in general not well attended by the banking system and are therefore supplied by private funds seeking investment at very high rates. In Costa Rica, however, one of the nationalized commercial banks extends small credits to the customers of its savings deposit section,

[1]This bank, however, was originally founded by United States capital.

and in Guatemala a branch of Colombia's Banco Popular has recently been inaugurated for the purpose of supplying credit to salary and wage earners, as well as to small shopkeepers and industrialists.

On the whole, the banking systems of the Central American countries are in a period of expansion. Several new private and officially sponsored banks have been established in the area in the past few years. The banks are slowly realizing that, with the development of these countries, new segments of the population are becoming creditworthy. They are also taking a greater interest in industrial ventures, as distinct from their traditional preference for financing import and export transactions, real estate loans, or loans guaranteed by cattle or commercial crops, such as coffee.

Effective interest rates, including fees and commissions, vary between 6 and 10 percent, depending on the term, the collateral, and the risk factor. Rates tend to be lowest in El Salvador and highest in Nicaragua.

The banks of El Salvador and Honduras Traditionally maintain a very liquid position, so that they always have funds available for sound, promising projects. The resources of the Guatemalan banking system have remained small because of the inability of the banks to attract savings deposits, and also because of the capital flight and hoarding resulting from uncertain political conditions in recent years. In Nicaragua rapid economic expansion since 1950 has resulted in a great demand for credit so that all banks are using their rediscount privileges at the National Bank. Ceilings have been imposed on certain types of commercial-bank lending to restrain further credit expansion. The general portfolio ceilings to which the Costa Rican banks are subject naturally have limited the availability of bank credit in that country.

Capital Markets and Savings

Capital markets are in their infancy in Central America. No country has a stock exchange and only El Salvador and Costa Rica have some trading in the stock of domestic enterprises. Customarily, corporations are formed through contributions from a few families and continue thereafter to be closely held so that the public at large normally does not have an opportunity to subscribe or buy shares. Consequently, savings have traditionally taken the form of cash hoards, often deposited abroad, or they are invested in land or urban real estate, or in the purchase and expansion of individually owned business enterprises. Substantial funds also are invested in personal or mortgage loans at very high, usury-type rates of interest.

The financial systems of most of the countries have done little to provide attractive media for the investment of personal savings. Some progress has been made in recent years, however. In El Salvador, for example, the Mortgage Bank (Banco Hipotecario) and the Lempa River Commission (Comisión Ejecutiva Hidroeléctrica del Río Lempa) have been able to place sizable bond issues with the public and financial institutions. Costa Rica is the only country in which a successful effort has been made to attract savings deposits to the banks. The availability in Central America of small savings, indicative of the rise of a middle class, has also been demonstrated by the success of the several building and loan associations which have been established recently in some of the Central American countries.

Chapter IV

DIRECT INVESTMENT

This chapter deals with direct investments in several sectors and regional economic integration.

A. DIRECT INVESTMENT

1. A REGIONAL SURVEY (1926)

From: Robert W. Dunn, *American Foreign Investments* (New York: The Viking Press, 1926), pp. 107-119.

AMERICAN FOREIGN INVESTMENTS

COSTA RICA

The estimates of American capital in Costa Rica run from $20 million to $30 million. Our investment totals about the same as the British but the dominant company in the country is easily the United Fruit Co.

According to the *Annual Report* of the United Fruit Co. in 1923, its investment in plantations and equipment in Costa Rica was $8 585 268. This investment includes ownership of 322 of the 404 miles of railway in the country in addition to a large acreage in banana and other fruit lands.

Oil has been another interest of American capital in Costa Rica and "there is ground to hope for very optimistic results in this line."[1]

The Sinclair Central American Oil Corporation owns a large concession on a million acres, and has carried on development work through the Costa Rica Oil Co., itself a subsidiary of the Sinclair Consolidated Oil Corporation.[2]

A mining interest closely associated with the United Fruit and Minor C. Keith enterprises was the Abangarez Gold Fields of Costa Rica which owned several formerly independent properties, as well as the entire stock of the Costa Rica Esperanza Mining Co.[3] This company was reported dissolved in 1924.

There is also the American Manganese Manufacturing Co. (Pa.) which in 1917 acquired the holdings of the Costa Rica Manganese and Mining Co., including several thousand acres of land, four mines, water transport facilities, and railways.

All American Cables, Inc., has an extension into Port Limon.

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[1]Moody's *Governments and Municipals*, 1925, p. 362.
[2]*Petroleum Register*, 1923, p. 381.
[3]Moody's *Industrials*, p. 452.

GUATEMALA

The International Railways of Central America, capitalized at $40 million including its lines in Salvador, is the chief investment of American capital in Guatemala. Its lines comprise 498 of the 575 miles of railroad in the country, 69 of the remainder being operated by the United Fruit Co. The gross revenue for 1921 amounted to $3 609 703.

The International Railways of Central America controls certain industrial subsidiaries. On January 1, 1923, it owned $77 160 of the shares of the Guatemala Marble and Granite Co., and a $580 967 investment in the Novella Cement Co.[4] It had also an investment of $260 000 in the Alotepeque Mines and $984 540 or almost all the shares of the Occidental Railroad, included in the mileage above stated.

Another recent and substantial investor in the country is the American and Foreign Power Co., formed in 1923 and controlled by the General Electric Co. It owns the electric lighting system of Guatemala City (Guatemala Tramways and Power Co.), an enterprise worth $1 250 000, formerly controlled in part by the International Railways of Central America. The American and Foreign Power Co. concession granted by the Government runs for more than 50 years.[5]

Closely associated with the International Railways is the United Fruit Co., whose investment in Guatemala in 1923 amounted to $3 944 762 and whose lands comprise approximately one-fifth of the total area of the country including 25 500 acres of improved land, 114 500 acres of unimproved, and 67 300 under lease of which 1 770 are improved.[6]

The United Fruit Co., also operates a radio station in Guatemala and All America Cables, Inc., has properties there.

The Sinclair Exploration Co., and the Rickard Exploration Co. are negotiating for oil concessions, and the Benedum and Trees oil interests of Pittsburgh are said to have entered into an agreement with the Petrolera Izabel, a local oil development corporation, for drilling wells on a two million acre tract near Peten. If successful, a $30 million dollar corporation is to be formed.[7]

The New York Engineering Co., is behind a gold dredging project in Guatemala.[8]

The American Chicle Co., controls large areas of chicle producing lands in Guatemala.[9]

Americans associated with the financing of coffee plantations established the Bank of Guatemala, the leading bank of the republic, in 1905. At least a part of its shares are owned by Americans.[10] The American International Corporation through G. Amsinck & Co., controls and operates Quezada & Co., coffee exporters.

The latest estimate in 1920 places the total American capital in Guatemala at $15 million.[11]

HONDURAS

In 1920 the American investment in Honduras was estimated by Ingalls at $18 million, a gain of $8 million since 1916.[12] The two major investments then, as now, were the United Fruit Co. and the New York and Honduras Rosario Mining Co. It is probable that the total investment is now at least $40 million, for the United Fruit Co.'s plantations and equipment alone in 1923 amounted to $24 232 275.

The United Fruit Co.'s investment includes the ownership of 392 out of 488 miles of railway in the country, as well as extensive banana, coconut and rubber lands. The growth of the interests of

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[4]Moody's *Governments and Municipals*, p. 483. United Fruit *Annual Reports*, 1923. International Railways of Central America, *Report*, 1924.

[5]Poor and Moody, *Public Utilities*, p. 941.

[6]Moody's *Governments and Municipals*, p. 482.

[7]*New York Times*, Feb. 25, 1924. *Annalist*, v. 25, p. 132.

[8]*Mineral Industry*, 1923, p. 291.

[9]Moody's *Industrials*, p. 832.

[10]*Boston Transcript*, Oct. 15, 1922.

[11] Ingalls, *Wealth and Income*, p. 56.

[12]Ingalls, *Wealth and Income*, p. 56.

United Fruit in Honduras has been significant. According to the *Annual Report* of the Company, 1923, the increase has been as follows:

Table IV.1.1
HONDURAS: INCREASE ININVESTMENT BY UNITED FRUIT COMPANY, 1900-1923

1900	$45 628
1916	7 614 535
1919	9 983 288
1920	13 118 067
1921	16 323 299
1922	19 077 752
1923	24 232 275

The United Fruit Co., works also through certain subsidiaries, one being Vaccaro Bros. & Co., and another Hubbard, Zemurray & Co., banana plantation owners.[13] Vaccaro Bros., banana exporters, controls the Banco Atlantida and owns and operates some 93 miles of railway and a line of steamers. The Standard Fruit and Steamship Co. (Del.) took over the Honduran interests of Vaccaro Bros. on Jan. 1, 1924, though no change took place in the financial control. The plan was to segregate the steamship, fruit, and railways business of Vaccaro Bros. from their other properties in the country. Some 196 miles of railway are now run by the Standard Fruit and Steamship Co.[14]

Cuyamel Fruit is another large fruit company, its acreage running over 50 000, some 12 000 acres under cultivation in bananas. The company controls the Cortes Development Co., banana producers, and through another subsidiary the Sula Sugar Co. Cuyamel is engaged in sugar growing and owns a sugar mill handling 150 tons of cane a day.[15] It operates also some 47 miles of standard gauge railway and 75 miles of narrow gauge. The Ramal del Ulua Railway, a subsidiary of the Cuyamel, operates, in addition, 100 miles of road, a fleet of fruit-passenger-freight ships, warehouses, docks and other facilities. The Cuyamel operates also in Nicaragua, its investment in the business of both countries amounting to nearly $25 million.

An important American mining company is the New York and Honduras Rosario Mining Co. Its capital stock outstanding is $2 million; its total assets in 1921 amounted to $3,795 378. "This long-established American company has been highly successful, and its record of silver production is probably the best for any silver mine in Central America during modern times."[16]

Other American companies are the West End Consolidates Mining Co. (Ariz.), whose property is operated in Honduras by the West End Opoteca Mines Co.,[17] and the Antigua Gold and Copper Co., and American concern incorporated in 1917 with a capital of $2 million.[18]

There seems to have been some exploration for petroleum carried on by the Central American Petroleum Co., which holds altogether 4 million acres, a part in Colombia and a part in Honduras. The Honduras Petroleum Co., presumably American controlled, has also prospected for oil in four states of Honduras.

American companies are interested in port development, in railroads, in steamboat operation and in automobile roads. The International Railways of Central America, it is reported, will eventually extend its lines some 90 miles through Honduras.

The National Railways of Honduras have since 1920 been under the management of American interests represented by the Cia. Agricola de Sula.[19]

[13]U.S. Federal Trade Commission, *Report on Cooperation in American Export Trade*, v . 2, p. 176.
[14]U.S. *Trade Promotion Series*, No. 5, p. 67.
[15]Moody's *Industrials*, p. 1935.
[16]U.S. *Special Agents Series*, No. 169, p. 425.
[17]Moody's *Industrials*, p. 1637.
[18]U.S. *Special Agents Series*, No. 169, p. 531.
[19]Moody's *Governments and Muncipals*, p. 488.

Fruit companies, mining companies, railway and banking interests comprise the major connections between the United States and Nicaragua.

1. *Fruit growing.*

The United Fruit Co., is only slightly interested in the country, its holdings covering but 171 000 acres of unimproved lands and the investment of approximately $170 000.[20]

The Atlantic Fruit Co., however, has a 132 000 acre tract almost wholly under cultivation, while the Cuyamel Fruit Co. imports bananas which are grown by the New Orleans and Blue-fields Fruit and Transportation Co. (a subsidiary of Cuyamel) the latter company holding in its own name about 150 0000 acres of land in Nicaragua.

2. *Mining*

The Central American exploration Co. is a small company owning a gold gravel mine and an exploration concession covering 4 million acres.

The La Luz and Los Angeles Mining Co., owned by Pittsburgh interests, has been producing since 1901.

The Gold Mines Co. has carried on some exploration work. Contracts for the exploration of petroleum lands were signed in 1923 between an American company and the Nicaraguan Government, the territory covered being about 200 000 hectares. The full text of the report is as follows:

> "The Government has signed a petroleum contract with an American citizen granting him permission to explore for petroleum in certain parts of the Departments of Bluefields, Chontales and Nueva Segovia. The land to be explored is 200 000 hectares in extent, divided into 40 lots of 5 0000 hectares each, from which during five years from the publishing of the contract (October 1 and 2, 1923) competitors are to be barred. At the end of the exploratory period the concessionary may exploit any oil wells for 40 years. The Government is to receive 12 1/2 per cent royalty on the gross oil products if the yield is not equal to or over 100 000 barrels per day, and 20 per cent of the gross production exceeding that amount. A $10 000 deposit is required, to be returned in five years if the conditions are fulfilled. All material brought into the country for the works of the concession are to be free of import duties. Half of the workmen must be Nicaraguans."[21]

The Tonopah Mining Co., a large American concern owning a majority of the $1 million stock of the Eden Mining Co., has also carried on construction and development work in the gold fields. It owns a controlling interest in the Tonopah Nicaragua Co., operating the Santa Rita Mines.[22]

3. *Railroads*

The Pacific Railway or National Railway of Nicaragua is now after several years of shared control with American bankers again owned by the government, but is still under the management of J.G. White & Co.

Several of the fruit companies operate short branch lines; Cuyamel now has some 10 miles under operation.

A contract was signed not long ago between the Government and an American corporation for the construction of a railroad which will be a link in the International Railways of Central America line. This railway project is known also as the Pan American Railway.[23]

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[20] United Fruit Co., *Annual Report*, 1923.
[21] Pan American Union, *Bulletin*, v. 58, p. 190.
[22] U.S. *Special Agents Series*, No. 169, p. 435
[23] *South American Handbook*, 1924, p. 548.

4. *Miscellaneous Interests*

The Brangman's Bluff Lumber Co. in 1923 obtained a concession through Leroy T. Miles for 20 000 hectares of nationally-owned land. The right to construct sawmills, wharves, wireless stations and railways is included in the concession. Six miles of railway tract have already been laid.[24]

An oil concession was granted Robert J. McKinley of Kansas in 1924. It covers several departments. A $50 000 deposit was given for the franchise.[25]

Keilhauer and Hebard of New York in 1925 signed a contract with the President of Nicaragua for a paving and sanitation project and for the construction of a railroad to the Atlantic Coast, at a cost of approximately $12 million.[26]

The Nicaraguan Government in 1920 granted a 49-year timber concession to Manuel Pena, an American citizen, covering timber exploitation and resin export.[27]

The Central American Corporation owns 24 000 acres in lands devoted to banana, sugar cane and pineapple cultivation. The properties of the company include railways, wharf and warehouses.[28]

The National Bank of Nicaragua, formerly controlled by Brown Bros. & Co., and J. and W. Seligman & Co., was bought back by the Nicaraguan Government in 1924, the new directorate, however, still including three Americans, Robert F. Loree, President of the Bank of Central and South America, Abram F. Linberg, financial expert, and Jeremiah Jenks.[29]

Other American firms reported to be operating in Nicaragua in addition to those above mentioned, are the following: Cia. Mercantile de Ultramar, the Grecia Mines, San Albino Mines, Casa Commercial and Moravian Mission, Bluefields Tanning Co., Samuel Weil & Co., Astor Mahogany Co. (through its subsidiary, the Nicaraguan Mahogany Co.), I. T. Williams & Sons, Wawa Commercial Co., Friedlander Commission Co., H. F. Springer, A. Fagot & Co., Central American Saw Mills, Constancia Gold Mines, Nicaragua Mining Co., and Mendel & Co. Other American firms have interests in radio, railroads, street paving and public works.

Over 70 per cent of the foreign trade of the country is conducted with the United States.

EL SALVADOR

The International Railways of Central America owns 158 of the 252 miles of railway in the country with an extension of 138 additional miles now under construction. The gross receipts in 1921 amounted to $400 589.[30]

Prior to the taking over of the International Railways of Central America by United States interests, a correspondent of the London *Economist,* with a British point of view, wrote:

"With slight exceptions, the steamship and railway transport arrangements in Central America, including El Salvador, have passed under the domination of North American interests, at the head of which stand Mr. Minor C. Keith, president of the International Railways of Central America, and his associates. During the lifetime of Mr. Mark J. Kelly, for many years chairman and managing director of the Salvador Railway Company (and formerly of the Salvador Steamship Company), strenuous efforts were made to exclude these enterprises from American domination; hitherto the railways has been spared absorption. It would appear, however, that this British-owned enterprise may ultimately be engulfed by irresistible North American interests, which have ever regarded the system...with envy, and as destined to form part of the Pan-American Railway project."[31]

Several mining companies, among them the Central American Mines, Inc., with $3 million capital, and the Comararan Gold Mining Co., presumably financed in the United States, are operating in Salvador.

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[24]U.S. *Trade Promotion Series*, No. 5, p. 91.
[25]*Annalist*, v. 24, p. 452
[26]*Ibid.*, v. 25, p. 586
[27]*Latin-American Year Book*, 1920, p. 525
[28]Moody's *Industrials*, p. 1159.
[29]*Annalist*, v. 24, p. 285.
[30]Moody's *Governments and Municipals*, p. 602. Internal Railways of Central America, *Annual Report*, 1923.
[31]*Economist*, v. 95, p. 577.

R. W. Hebard & Co. (also interested in the International Railways of Central America), has the contract for constructing sanitary works for the city of San Salvador estimated to cost $3 million. René Keilhauer has other interests in the country, in addition to those represented by his connection with the International Railways of Central America.

The Occidental Bank, with a capital of $5 million, is the most important bank of Salvador and was organized by David Bloom and his associates of San Francisco, as a result of their commercial undertakings in that country.[32]

Salvador external bonds of 1923 to the amount of $6 million are handled through the New York banking house of F. J. Lisman & Co., which through the terms of the contract acquires complete control of the customs collections in case of default in the loan.[33]

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[32] *Boston Transcript*, Oct. 15, 1923.
[33] *Commercial and Financial Chronicle*, v. 117, pp. 1615-16. v. 117, pp. 452, 479.

2. FOREIGN INVESTMENT IN BLUEFIELDS, NICARAGUA (1930)

From: Foreign Investments in Latin America; Required Report from American Consul Samuel J. Fletcher; Bluefields, Nicaragua to Department of State; March 24, 1930; 811.503110-STATISTICS/9; Central Decimal Files, 1930-39; Record Group 59; NARA.

REQUIRED

(In compliance with the Department's Multigraphed Instruction of March 6, 1930, File No. 811.503110 Statistics/2.)

VERY CONFIDENTIAL

FOREIGN INVESTMENTS IN LATIN AMERICA

From American Consul

(signed)
Samuel J. Fletcher

American Consulate,
Bluefields, Nicaragua.

Date of completion: March 24, 1930
Date of mailing: March 24, 1930

In compliance with the Department's Very Confidential Instruction of March 6, 1930, the tables compiled and furnished by the Department of Commerce, which show the estimated totals of American, British, and combined other foreign investments in each of the Latin American States as of December 31, 1928, have been studied, and the following table has been prepared to bring the estimate of American foreign investments in the Bluefields Consular District up-to-date.

This table was originally compiled on September 6, 1929, in compliance with the Department's Multigraphed Instruction of August 8, 1929, File No. 811.503100/36.

Declassified
NARA Date: 6-23-88

Table IV.2.1
AMERICAN FOREIGN INVESTMENTS BLUEFIELDS CONSULAR DISTRICT

Names and addresses of American corporations, firms and individuals	Nature of investments	Location of property	Approximate value
Allen, Mrs. Mary Rama, Nicaragua	Real estate	Rama	$25 000
American Fruit Company Bluefield, Nicaragua	Banana plantations, offices	Rio Grande Bluefields	200 000
Atlantic Fruit Company (not operating)	Banana plantations	Pearl Lagoon	50 000
Brand, A. B. San Juan del Norte	Mercantile	San Juan del Norte	5 000
Bonanza Mines Company Pis-Pis District	Gold mines	Pis-Pis District	250 000
Bluefield Ice & Bottling Works (Factory owned by an American, H.F. Springer) Bluefields, Nicaragua	Ice factory	Bluefields	5 000
Bluefields Tanning Company Bluefields, Nicaragua	Tannery & shoe factory	Bluefields	40 000
Bluefields Mercantile Co. Bluefields, Nicaragua	Mercantile	Bluefields	250 000
Bragmans Bluff Lbr. Co. Puerto Cabezas, Nicaragua	Loggers, banana growers and shippers	Puerto Cabezas	12 000 000
Brayshaw & Brayshaw Bluefields, Nicaragua	Clinic	Bluefields	5 000
Central American Sawmills (W.J. Green) Cape Gracias, Nicaragua	Sawmill	Cape Gracias	5 000
Clancy, Michael J. Bluefields, Nicaragua	Real estate	Bluefields	5 000
Cukra Development Co. Bluefields, Nicaragua	Banana growers and shippers	Bluefields Rio Grande Rio Escondido Punta Gorda	2 500 000
Draper, Alonzo Boco Mico, Rama	Banana plantations	Rama	5 000
Driscol, John Rio Escondido	Banana plantation	Rama	5 000
El Cocal El Cocal Plantation	Coconut groves	South of Bluefields	50 000
Fagot, Albert Cape Gracias	Mercantile	Cape Gracias	10 000
Fagot & Wendt (Conrad Fagot, American partner) Bilwi, Puerto Cabezas	Mercantile	Puerto Cabezas	25 000
Franklin Baker Co. Corn Island	Coconut groves	Corn Island	10 000

Table IV.2.1 (concluded)

Names and addresses of American corporations, firms and individuals	Nature of investments	Location of property	Approximate value
Fagot, H.E.	Mercantile	Puerto Cabezas	2 000
International Agency Bluefields, Nicaragua	Mercantile	Bluefields	5 000
La Luz y Los Angeles Mining Company Pis-Pis District	Gold Mining	Pis-Pis District	500 000
Marchand, John L. Bluefields, Nicaragua	Clinic	Bluefields	2 000
McCoy, Clayton O. Staten Island, N.Y.	Lands	Cukra River Corn Island Pis-Pis District	5 000
Moravian Mission Bluefields, Nicaragua	Buildings and land	Principally at Bluefields, missions in practically every small village	163 000
Nicaragua Mahogany Co. Bluefields, Nicaragua	Offices and equipment	Bluefields	60 000
Prinzapolca Sawmill (not operating)	Sawmill	Prinzapolca	5 000
Seat, W.H.	Mercantile	Cape Gracias	5 000
Skaling, Harold M. Rama, Nicaragua	Banana plantation	Rio Mico	3 000
Springer H.F. Bluefields, Nicaragua	Mercantile	Bluefields	30 000
Stern, Natsie Rio Escondido	Banana plantation	Rama	5 000
Tally, Burke Rama, Nicaragua	Banana plantation	Rama	10 000
United Fruit Company Bluefields, Nicaragua	Wireless stations & lands	Bluefields	125 000
Vrooman Co. Ltd, S.B. Bluefields, Nicaragua	Office and equipment	Bluefields	50 000
Wawashon Sugar Co. (not operating)	Lands	Pearl Lagoon	5 000
Waters, Thomas W. Bluefields, Nicaragua	Real estate	Bluefields	7 000
Weil & Co., Samuel Bluefields, Nicaragua	Mercantile stock	Bluefields	2 000
GRAND TOTAL			**$16 429 000**

B. COMMUNICATIONS

3. A WIRELESS STATION IN RUATAN, HONDURAS (1923)

From: Wireless Station at Ruatan, Honduras; Voluntary Report from Consul Robert L. Keiser, Tegucigalpa, Honduras to Department of State; May 3, 1923; 815.74/40; Central Decimal Files 1920-29; Record Group 59; NARA.

Voluntary Report

WIRELESS STATION AT RUATAN, HONDURAS

From Consul — Robert L. Keiter, (signed)

Tegucigalpa, Honduras — Date of preparation: April 29, 1923

Date of mailing: May 3, 1923

(Further supplementing report of March 5, 1925, file 874,
subject: Wireless Station to be erected in Bay Islands, Honduras)

As mentioned in a report of March 12, 1923, file No. 874, on the above subject, the United Fruit Company has presented to the Government of Honduras a contract setting forth the terms upon which the company will construct and maintain on the island of Ruatan a wireless station.

It is believed that the initiative in this project has come from the United Fruit Company rather than the Government and that the company desires the station for its own future uses.

A copy of the contract and a translation thereof are transmitted herewith. It is understood that Executive approval will be given to the contract.

The undersigned Secretary of State

For the Department of Fomento, Public Works and Agriculture

DECLARES:

That on this date the following application has been filed in this office:

RUATAN WIRELESS STATION

I, Ernest Lazarus, of legal age, married and residing in this city, as representative for the Tropical Radio Telegraph Company and recognized by the Department of Fomento, Public Works and Agriculture, respectfully come to state as follows:

The Tropical Radio Telegraph Company as requested by you, has taken into consideration the building of a wireless station at or near the port of Ruatan, in the island of the same name, in the Department of Bay Islands, to provide a rapid and safe means of communications between those places and the capital by which the Government and the Departmental authorities will profit, inasmuch as the actual method of communication is slow, subject to the effects of weather, and further irregular. Due to the small amount of private business carried on a Ruatan town and the island the income derived from the public and the press service would be negligible, and it is for this reason that there has been proposed in the contract submitted to you that the Government pay to the Tropical Radio Telegraph Company the estimated amount to pay salaries for operators, fuel and maintenance of the station for proper service and operation; and with this end in view I submit to you the following projected contract:

The Government, through the Chief Clerk of the Department of Fomento, Public Works and Agriculture, hereinafter known as the Government, as party of the first part and the Tropical Radio Telegraph Company, hereinafter known as the Contractor, as party of the second part, hereby agree to enter into the following contract:

1. The Contractor hereby agrees to build, maintain and operate a wireless station at or near the port of Ruatan in the Island of the same name in the Bay Islands of Honduras, this to be of sufficient capacity and power to communicate between the port of Ruatan and the capital of Honduras, either directly or through the other stations on the North Coast of the Republic which the Contractor may be able to use, not only to receive but to transmit as well as official messages of the National Government and those of the Departmental authorities of Ruatan.
2. The Contractor further agrees to equip this wireless station with the necessary personnel and employees so as to provide an efficient service and full operation of the plant in order that the official messages between Ruatan and Tegucigalpa or vice-versa may not be subject to delays and to establish between Ruatan Island and the other stations actually used by the contractor an efficient and permanent wireless service.
3. The Contractor agrees to supply at all times during the term of this contract the material, fuel, repairs and other fixtures necessary to the perfect operation of the wireless station at Ruatan, without cost whatsoever to the Government. The Government hereby declares this station to be a public necessity and utility, consequently the Contractor shall be exempt from the payment of fiscal, municipal, ordinary and extraordinary duties and taxes, now effective or later established, during the term of this concession or extension of same, on the land used as site for the station, or on the machinery, apparatus, tools, implements, material, or any necessary effects either imported or acquired by the Contractor, for the construction, exploitation or maintenance of said wireless station and its appurtenances. Likewise, messages transmitted and received shall not be taxed. Exemption of taxes also includes consular fees and Peaje and Sanitary taxes.
4. The Contractor agrees to transmit all Government messages sent from Ruatan to Tegucigalpa and those from Tegucigalpa sent to Ruatan, as well as those official messages of the Government between Ruatan and other stations operated by the Contractor in Honduras,

free of cost to the Government excepting those hereinafter expressly subject to charge; however, the Contractor is authorized to accept messages from the public and the press sent from or to Ruatan charging for this service a tariff which may be established from time to time jointly by the Government of Honduras and the Tropical Radio Telegraph Company. Messages connected with the operation, maintenance or working of the station, or those arising from the service thereof or those of employees shall not be subject to charge and the Contractor is authorized to use Ruatan Station whenever necessary as a transit station between other stations operated by or connected with those of the Tropical Radio Telegraph Company.

5. The Contractor agrees to have the station herein referred to ready for service within two years, duly proven Acts of Providence or force majeur excepted, the term to be counted from the date on which the National Congress passes the present contract; and he further agrees to equip the said station with modern instruments of wireless telegraphy and the required installations to provide for an efficient official and public service herein proposed by him in this contract; and the Government upon receipt of notice from the Contractor that the work is completed shall appoint such a Technical Commission as it may deem fit to report on said work, and declare upon receipt of the report of the Commission whether or not the Contractor has complied with the obligations of this contract.

6. The Government hereby declares that the work herein referred to shall be considered a public necessity and utility, consequently the Contractor, his successor or causahabientes shall be exempt from all fiscal, municipal, ordinary or extraordinary taxes, now or later established, which might affect in any way the material, land or property by them acquired for the construction, exploitation and maintenance of the wireless station, its annexes or appurtenances; further the Contractor shall be exempt from any taxes on the income derived from the operation of the station, the Government agreeing to grant the Contractor for the construction herein mentioned a necessary land-site as chose by the Contractor free from any cost and said land shall be considered at all times as dependency of the work herein referred to.

7. The Government agrees to transmit to the Custom-House at Ruatan the necessary instructions to secure the free introduction of the material for construction and those for maintenance of the plant and its appurtenances as set forth in article 3 of this contract, against the simple presentation of the respective Bills of Lading and Consular Invoices inasmuch as the distance and lack of proper means of communications between Ruatan and the seat of the Government would effect a great loss of time if the Contractor had to obtain from Tegucigalpa the usual permit for the free introduction of material.

8. The Government agrees not to grant, during the term of this contract any concession, or to permit the installation or operation of any wireless station in Ruatan Island or in any other of the Bay Islands, but the Government shall have the right to establish any station for its official service.

9. In consideration of the capital invested by the Contractor in the construction of the work and its appurtenances and of the cost of operation of the wireless station, including the salaries of the employees and engineers, the Government shall pay to the Contractor the amount of $5 000.00 dollars U.S. Currency annually during the term of this contract this amount to include the official telegraphic service for the Government and the Island of Ruatan; this amount to be paid in monthly installments of $416.66 American gold through the Custom-House at Tela against the receipt presented by the Contractor at the end of each month, this to be effective from the time the Government has issued the declaration referred to in Article 5 of this contract.

10. The Government shall have the right to purchase the wireless station with all its annexes and appurtenances at the expiration of the present contract in preference to any other interested party.

11. The term of this contract will be a period of 30 years counted from the date on which the National Congress gives its approval thereto; and in the event of the Government not using its right to purchase the wireless station as above mentioned, the Contractor, if so desired by him, may continue to use the rights and privileges as granted by this contract for a further period

of 30 years, and shall then fix for the services rendered a reasonable compensation that shall be mutually agreed between the Government and the Contractor.

12. The operators and employees of the wireless station herein referred to may import free from customs duties or any other taxes that might be collected by the Custom-Hose all furniture, household utensils and foodstuffs needed by them during their stay in the island.

13. The Contractor, his successors or causahabientes, even if all or any of them be foreigners, shall be subject to the jurisdiction of Honduras in all matters of which the cause or action may take place within its territory; extraterritoriality shall never be alleged in connection with this contract; they shall only have and exercise the rights granted by the Laws of Honduras to the Hondurans; therefore foreign diplomatic and consular agents cannot interfere in said matters; and it is hereby expressly agreed that no diplomatic recourse may be had no matter upon what grounds such a claim might be founded.

14. Any difference arising from this contract between the Government and the Contractor shall be submitted to the decision of two friendly arbiters who shall be persons of good and recognized reputation, appointed one by each party and authorized to appoint a third arbiter in case of disagreement. Should they not agree as to this appointment, the designation shall be made by nominating four candidates of the same qualifications as the former and proposed one half by the Government and the other half by the Contractor. If one party should not propose a candidate within the term assigned by the Judge the nomination of said candidates shall be made by this official. Arbitration shall be effected in the capital of the Republic and the functions of the Jury shall be executed in this place unless both parties agree to decide upon another place. The decision of the majority shall be binding on both parties and there shall be no recourse against it.

15. The present contract shall be submitted to the approval of the National Congress at its next session for the necessary legal effects.

Tegucigalpa, April 20, 1923

Earnest Lazarus

The above is hereby made public to comply with the law.

MARCIAL LAGOS

C. RAILWAYS

4. THE RAILS OF COMMERCE (1925)

From: U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Transportatin Division, Trade Promotion Series No. 5, *Railways of Central America and the West Indies*, by W. Rodney Long (Washington: Government Printing Office, 1925), pp. III-VII, XVI, 1-157.

DEPARTMENT OF COMMERCE

Bureau of Foreign and Domestic Commerce

Julius Klein, Director

TRADE PROMOTION SERIES - No. 5

RAILWAYS OF CENTRAL AMERICA

AND THE WEST INDIES

By

W. Rodney Long

Transportation Division

LETTER OF SUBMITTAL

Department of Commerce,
Bureau of Foreign and Domestic Commerce,
Washington, December 1, 1924.

Sir: There is submitted herewith a report on the railways of Central America and the West Indies, prepared (from a great variety of sources) by W. R. Long, of the Transportation Division of this bureau. The monograph presents very detailed information with respect to all the railways in this territory, covering such phases as the development of the line, the mileage, operating officials method of purchases, finances, traffic statistics, characteristic of the right of way, number of employees, motive power and rolling stock, repair shops and equipment.

The report was prepared through the cooperation of various locomotive and car building companies, manufacturers of railway equipment, exporters of crossties, and other interested companies with the Transportation Division, the Machinery Division, and the Iron and Steel Division of the bureau.

Special assistance has been rendered in the preparation of this handbook by Mr. C. E. Babcock, librarian, Pan American Union; Miss E. O. Cullen, assistant librarian, Bureau of Railway Economics; Mr. V. M. Cutter, vice president, United Fruit Co., of Boston; the R. H. White Management Corporation, of New York; the International Railways of Central America; Vacarro Brothers, of New Orleans; the Cuyamel Fruit Co., of New Orleans; the Panama Canal Office; other small industrial roads with home offices in this country, which have provided the necessary information on each of their respective railroads; Trade Commissioner Frank E. Coombs, whose reports on the Cuban railways were of great assistance; Mr. L. W. James, whose remarks on the Porto Rican railways were helpful; and the following American consular officers, from whose reports minor and major information as to the details given in this book was obtained: John C. Watson, Barbados; B. S. Rairden, Curacao; Charles B. Hosmer, Santo Domingo; Charles A. Day, Haiti; Charles L. Latham, Jamaica; Henry D. Baker, Trinidad; W. W. Early, British Honduras; Henry S. Watson, Costa Rica; Arthur C. Frost, Guatemala City; George P. Shaw, Honduras; Harold Playter, Nicaragua; Lynn W. Franklin, San Salvador; and George Orr, Panama.

The Bureau wishes to express to the Pan American Union its appreciation of the courtesy shown in loaning photographs for use as illustrations in this book.

Respectfully,

Julius Klein,
Director of Bureau.

To Hon. Herbert Hoover,
Secretary of Commerce.

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*This document is an edited and abridged version of the original.

RAILWAYS OF CENTRAL AMERICA AND THE WEST INDIES

Part 1. CENTRAL AMERICA

GUATEMALA

GENERAL FEATURES OF COUNTRY

The Republic of Guatemala is the most northern of the Central American countries, lying between the Atlantic and Pacific Oceans, with Mexico on the north and west, British Honduras on the north east, and Honduras and Salvador on the south. The Pacific coast line extends 300 miles, from the Mexican border on the north to the Salvador border on the south. The total area of the Republic is approximately 50 000 square miles. Its greatest length from north to south is 360 miles, and its greatest width from the Atlantic to the Pacific is 390 miles.

The surface of the land is irregular, being generally mountainous with high plateaus in the central and southern parts and plains along both the eastern and western coasts. The land is well drained by rivers, which are of little commercial importance. The lakes are numerous, and some are found at high altitudes. A chain of mountains crosses the Republic, with spurs extending in many directions. The western and southern portions, comprising about two-thirds of the country, are mountainous, with several volcanoes. The coast lands in the northern region are low and covered with tropical vegetation.

The climate of Guatemala varies according to the altitude, ranging from tropical heat along the coastal regions to occasional snow in the mountains.

The country itself is essentially an agricultural one, the principal products being coffee, sugar cane, tobacco, cacao, bananas, and other tropical fruits. Coffee is the chief agricultural product, with 220 0000 acres under cultivation, while a little over 54 000 acres of sugar cane are cultivated.

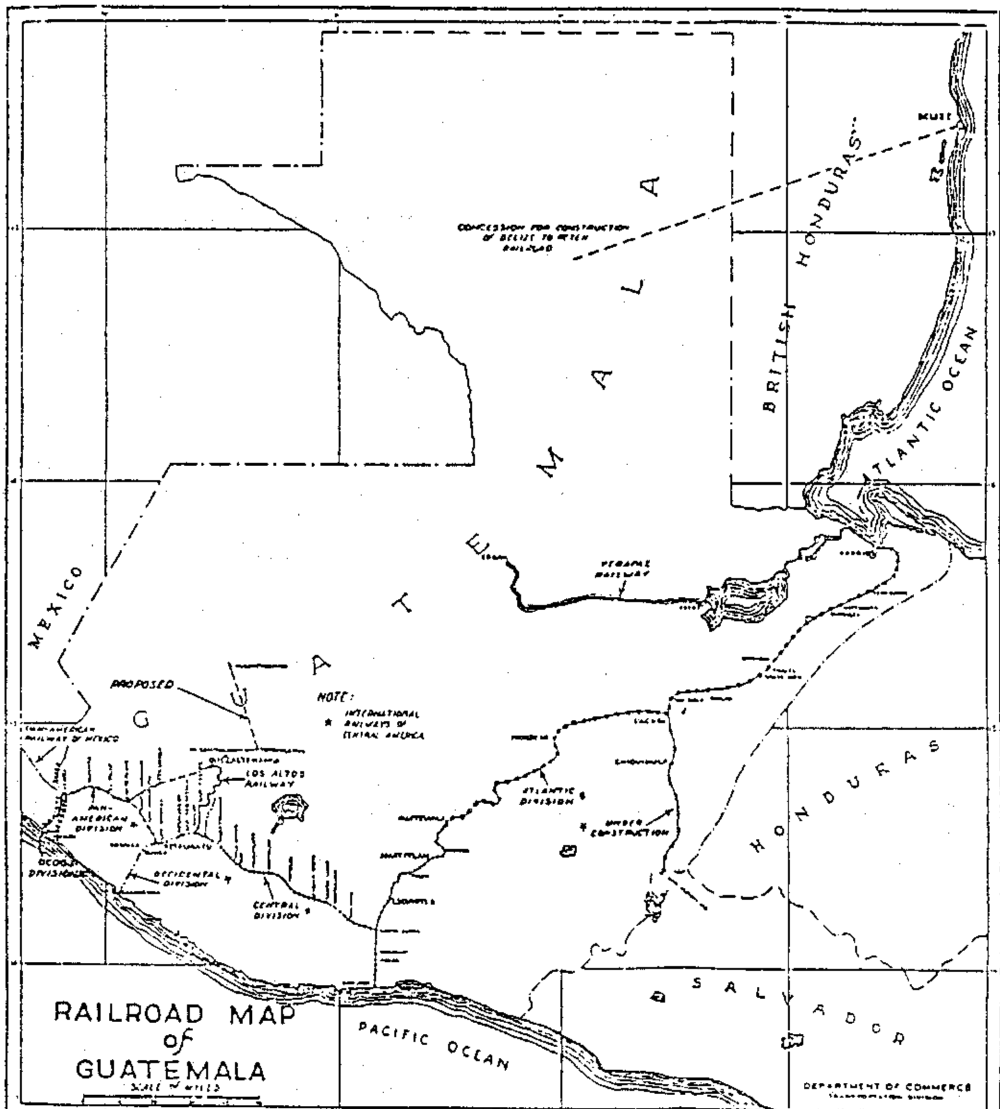
Puerto Barrios, on the Atlantic coast, is the principal port. It is the terminus for the Northern Railway. Vessels drawing 21 feet can be berthed at the wharves, where they can be unloaded directly into railway cars. The principal commodities moving through this port are bananas and other tropical fruits.

Ocos, the most northern port on the Pacific side, has an extremely deep harbor, vessels anchoring about one-half mile from shore. Champerico is on the Pacific Coast and is connected by the International Railway System. There is an iron wharf 1 777 feet in length equipped to handle about 400 tons of cargo per day. Warehouses are connected with the pier by two narrow-gauge railway tracks. The principal exports from this port are coffee, hides, and mahogany.

San Jose, the most southerly Pacific port of Guatemala, is connected with Guatemala City by a narrow-gauge railway. The port is provided with an iron wharf 900 feet long with facilities for handling 600 tons of cargo per day and with cranes capable of handling as high as 15-ton loads. Ships lie about half a mile from the pier and load and unload by lighters. The chief exports are coffee, hides, mahogany, salt, and bananas.

Transportation facilities are fair. The principal railroads, with the exception of the Verapaz Railway, are controlled by the International Railways of Central America. Among the industrial roads are those of the United Fruit Co. Outside of the railroads, transportation is confined to animal-drawn carts which can haul approximately 250 pounds. Some new highways are being constructed which will provide suitable roads for automobile traffic between inland cities.

Trade Promotion Series No. 5



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

INTERNATIONAL RAILWAYS OF CENTRAL AMERICA

ORGANIZATION AND DEVELOPMENT

The Guatemala Railway was incorporated on June 8, 1904, under the laws of the State of New Jersey, U.S.A. The name of the company was changed to the International Railways of Central America on April 19, 1921, by certificate filed and recorded in the office of the Secretary of State of New Jersey. The purpose of the organization was that of constructing, acquiring, and operating railways in Central America. It has secured concessions from the Governments of Guatemala and Salvador. These concessions granted a right of way 100 feet wide for the whole length of the line and a greater width where it was necessary for the purposes of the railroad. Freight and passenger rate are to be paid in gold on all railways constructed and acquired in both countries. The concession from the Government of Guatemala is perpetual, with the Government possessing the right to take over the railroads at the end of 99 years at a valuation to be arrived at by arbitration. The concession from the Government of Salvador is for 99 years, at the end of which time the railroads become the property of the Government without payment. The Government, however, has the right to take over the railroads at the end of 70 years at a valuation to be arrived at by arbitration. Both concessions give exclusive rights of railroad construction within a zone of 20 miles on each side of its lines and the preferential right to construct other railroads in the respective countries. Both countries have granted freedom from taxes, duties, stamp duties, and imposts on all machinery, rolling stock, etc., required for the construction, equipment, and maintenance of the railroads, which may be operated by steam or electricity in either country.

The Salvador Government granted a subsidy of $7 000 gold for every kilometer ($11 200 per mile) of railroad constructed. This subsidy was guaranteed by 14 per cent of certain specified import duties, and by $6 gold per ton of coffee exported, and has been regularly paid. The Guatemala Government granted a subsidy of $12 000 gold per mile on certain railways and $5 000 per mile on other railways. In addition it has granted a block of 22 acres of land for terminals. The company itself owns, in addition, a block of 42 acres about three-quarters of a mile from the city. The company has entered into a contract with the United Fruit Co. for the carriage of the whole of its product within the region served by the railway. When the company was reorganized in 1922 it joined a composite organization of the following railroads: The Guatemala Railroad, the Guatemala Central Railroad and its Pan-American extension, the Occidental Railroad, and the Ocos Railroad. A brief summary of these roads follows.

NORTHERN RAILWAY (GUATEMALA RAILROAD)

The idea for the construction of the road afterwards called the Guatemala Railroad originated with Gen. Justo Rufino Barrios, and it was sponsored by the Liberal Government. In 1883 President Barrios issued a decree for the construction of the Northern Railroad, the work to be directed by the Government. However, his death in 1885 put an end to the operations. The work constructed under his auspices consisted of some 15 or 20 miles, laid with 33-pound rails. From that time no work of importance was done on the line until the administration of Gen. Jose Maria Reyna Barrios, in whose administration the line was completed as far as Rancho.

During the administration of President Manuel Estrada Cabrera several contracts were entered into, but none with definite results until, on January 12, 1904, a new contract was made with Percival Farquhar, as representative of Minor C. Keith and William C. Van Horn, for the completion of the Northern road, a distance of 51.4 miles. The concession reserves to the Government the right to purchase the entire railway 99 years from the date of approval of the contract, or April 9, 2003, and if this right is not exercised the railway belongs to the concessionaires in perpetuity. On April 4, 1904, this concession was approved by Congress, and on June 11, 1904, it was transferred to the Guatemala Railroad, organized for that purpose. The company was incorporated under the laws of New Jersey on June 8, 1904, for $40 000 000.

EXTENT AND CHARACTERISTICS OF ROAD

The railway, leaving Puerto Barrios, passes over the end of a long spur of mountains, dividing the Rio Motagua from Lake Izabal, and then reaches the valley of the Motagua at Tenedores. Following the valley of the Motagua the road extends to El Rancho; the alignment is generally good and the grade is slight. The valley is narrow in some places and the line has to follow along the slope at the foot of the hills, which necessitated heavy side-hill work and some river protection.

The length of the railway is:

	Miles
Guatemala City to Puerto Barrios	194.3
Connection to the Guatemala Central	.6
Total	**194.9**

CENTRAL RAILROAD

In 1873, under the régime of the local Government, the first contract for the construction of the road from San Jose to Guatemala City was signed. This contract was undertaken by Mark J. Kelly, but the undertaking failed on account of financial difficulties. The Government then signed a contract with William Nanne on April 7, 1877, for the construction of a railway between San Jose and Escuintla. Mr. Nanne was assisted by Louis Schlesinger, and actual work was commenced on June 20, 1880. The contract, as defined, expires 99 years from the date on which the road was officially opened to traffic, which was June 20, 1880.

On July 13, 1880, another contract was secured by the same men, covering the construction of a line from Escuintla to Guatemala City, and in 1882 the rails had reached the city of Amatitlan. The road was finally completed and through train service from San Jose to the capital was inaugurated on July 19, 1884. The concession is to continue 99 years from this date.

In 1885 the Guatemala Central Railroad Co., a California organization, was incorporated and took over the above existing roads and concessions. On July 9, 1889, the Occidental Railroad was incorporated, of which corporation the Guatemala Central Railroad owned 26 000 of 30 000 shares issued. The company also operates a short line between Guatemala City and Guarda Viejo, where it maintains a park and pleasure resort. This makes the total mileage of the road as follows:

	Miles
Guatemala City to San Jose	74.5
Santa Maria to Mazatenango	60.1
Palo Gardo to San Antonio	3.5
Branc to Guarda Viejo	2.8
Total	**140.9**

OCCIDENTAL RAILWAY

The construction of this road, originally called the Guatemala Western, was provided for in a concession granted to J. H. Lyman, D. P. Fenner, and J. B. Bunting on March 12, 1881, for the construction of a railroad from the port of Champerico on the Pacific to Caballo Blanco and from there to Retalluleu. The concession expires 99 years after the road is opened to the public or on September 24, 1984, the road having been opened in 1882. This concession was approved by the President on June 20, 1881, with the understanding that the company always be considered a Guatemalan corporation. On July 9, 1889, the Occidental Railway Co., was incorporated under the laws of Guatemala and took over the concessions above mentioned, together with the road constructed.

On February 12, 1890, a concession was granted to the Occidental Railroad for the extension of its line to San Felipe. The concession expires on September 24, 1983. The road was carelessly constructed, the track following closely the natural surface of the ground, resulting in a faulty alignment and many short and continually varying curves. On December 11, 1895, another concession was granted to this company for the construction of a branch from Mulua to Mazatenango which was completed on November 21, 1903. The concession expires on the same date as the others. By means of this branch, connection is made with the Santa Maria-Patul branch of the Central. The Occidental Railway traverses a distance of 41.8 miles and serves as an outlet for the products of the country and an inlet for imports.

The mileage of the road is as follows: Champerico to San Felipe, 41 miles; branch from Mulua to Mazatenango, 10 miles; total, 51 miles.

On April 18, 1902, a concession was granted to Antonio Macias del Real for a railroad from Caballo Blanco (Las Cruces) to Coatepeque. The concession was valid for 99 years from the date of opening the railroad to the public, the road being completed in 1913. The concession was somewhat modified by later decrees and was transferred in full to the Guatemala Central Railroad Co. on March 8, 1909. On May 30, 1908, a concession was granted to the Guatemala Central Railroad to construct a road from Coatepeque to Vado Ancho (Ayutla) on the Mexican frontier. This has been called the Pan American extension of the Central. The lease is valid for 99 years. The distance of the through line, Las Cruces to Ayutla, is 20 miles.

On April 24, 1912, the control of the Occidental Railway passed into the hands of the International Railways of Central America, which took over the Guatemala Central Railroad Co., including the 26 000 shares of the Occidental Railroad which was owned by it. The International Railway now owns 28 208 of the 30 000 shares of this company.

OCOS RAILWAY

On September 23, 1895, a concession was granted to Enrique Neutze for the construction of a railroad from the port of Ocos on the Pacific to Santa Catana. The concession expires 75 years from the date on which the road was opened to the public, or September 13, 1973, the road having been completed in 1898. On July 23, 1898, the Ocos Railroad Co. was organized and took over the above concession and road. On March 11, 1905, it was purchased at public auction by Schwartz Bros., of San Francisco. They sold it to the Guatemala Central Railroad on October 15, 1910. Operating from Ocos it extends as far as Vado Ancho, a distance of 23 miles. It connects at Ayutla, on the Mexican border, with the Mexican Pan-American Railroad, which stops on the Mexican side of the Suchiate River, and also with the extension of the Occidental line at Las Cruces.

DIVISION FOR PURPOSE OF OPERATION–MILEAGE OF SYSTEM

The railroads described above which have been joined together under the name of the International Railways of Central America have been divided into districts for the purposes of operation. Under this arrangement the Guatemala Railroad is known as the Atlantic District and the Central Railroad and Pan-American branch, the Occidental Railroad, and the Ocos Railroad as the Pacific District.

The mileage of the combined system in operation as of December 31, 1912, is as follows:

	Miles
Atlantic District	195.10
Pacific District:	
Central Division	138.54
Occidental Division	51.10
Ocos Division	22.46
Pan-American Extension	14.00
Salvador Division	40.00
Total miles of main line and branches	**461.20**
Miles of sidings	45.00
Total	**506.20**

From 1912 to 1921 various improvements have been made; projects that were uncompleted in 1912 have been finished, or further advanced, and new concessions have been obtained. The former separation into districts has been changed into one of divisions so that now there are the three divisions-Guatemala, Salvador, and Honduras.

Of those branches which are entirely new since 1921 there are only two, neither in Guatemala, namely, the Illopango to Texistepeque, for which no concession has been given, and the extension through Honduras to Nicaragua. The latter was authorized on October 7, 1912, in a concession granted by Honduras to Rene Keilhauer for a railway from the frontier of Salvador (connecting with the International Railways) to a point on the Nicaragua frontier, to be determined by surveys, with a branch to Fonseca Bay. The concession is valid for 99 years from February 28, 1913. It was later transferred to the International Railways.

The combined mileage system of the road on December 31, 1921, is as follows:

In Operation

	Miles
Guatemala Division:	
Atlanta Division	197.445
Central Division	138.772
Occidental Division	50.243
Ocos Division	12.103
Pan-American Extension	41.097
Salvador Division	156.119
Total miles main line and branches	**595.779**
Miles of sidings	58.721
Total mileage in operation	**654.500**

Under Construction

Salvador Division: Salvador frontier to Santa Ana	50.00
Construction Contemplated	
Guatemala Division:: Zacapa to frontier of Salvador	0.57
Salvador Division:	
Santa Ana to Ahuachapan	.31
Illopango to Texistepeque	.55
To connect with line in Honduras	.20
Honduras Division: Through Honduras to frontier of Nicaragua	.88
Total contemplated	**2.51**

OPERATING OFFICIALS

The operating officials of the road are as follows:

Board of directors:
Minor C. Keith.
Henry M. Keith.
Henry H. Hanson.
Edward S. Hyde.
H. I. Miller.
B. W. Palmer.
Amdred W. Preston.
Rene Keilhauer.
President: Minor C. Keith, New York.
Vice president: Henry M. Keith, New York.
Comptroller: Henry H. Hansen, New York.
Secretary and treasurer: E. S. Hyde, New York.
Acting general manager: R. M. Aylward, Guatemala City.
Resident engineer: C. R. Chandler, Guatemala City.
Acting general auditor: E. Lehnhoff, Guatemala City.
Superintendent transportation: J. T. Cheek, Guatemala City.
Locomotive and car superintendent: Mr. Turton, Guatemala City.
General freight and passenger agent: R. A. Naune, Guatemala City.
Material superintendent: J. E. Farrell, Guatemala City.
Salvador Division, general manager: W. E. Mullins, La Union, Salvador.
London agent: A. J. Shepherd, Dashwood House.

TRAFFIC STATISTICS

A comparison of passenger traffic for the calendar years 1912 and 1921 is as follows:

Table IV.4.1

GUATEMALA: PASSENGER TRAFFIC, INTERNATIONAL RAILWAYS OF CENTRAL AMERICA, 1912 AND 1921

Items	1912	1921
First-class passengers	123 259	194 674
Second-class passengers	684 044	1 000 560
Total number of passengers	807 293	1 195 234
Total passenger miles	20 499 465	---
Passenger miles per mile of line	63 347	58 104
Chair-car tickets sold	2 232	1 357
Average distance traveled (miles)	29.98	28.58
Average number of passengers on a train	55	---
Average number of passenger cars per train	3.76	---
Revenue from chair-car tickets	$298 621.98	$730 650.92
Average revenue per passenger	$0.48	$0.61
Revenue from chair-car tickets	$7 003.79	$4 688.52
Average revenue per chair-car ticket	$3.14	$3.46
Average revenue per passenger per mile	$0.0153	$0.0214
Average earnings per passenger train-mile	$1.6164	$2.1228

Following is a statement of combined freight traffic statistics:

Table IV.4.2

GUATEMALA: COMBINED FREIGHT TRAFFIC STATISTICS, INTERNATIONAL RAILWAYS OF CENTRAL AMERICA, 1912 AND 1921

Items	1912	1921
Bunches of bananas firsts	1 397 559	3 978 165
Tons of bananas	45 449	113 378
Tons of other exports	49 885	73 883
Tons of imports	35 222	39 887
Tons of local freight	136 583	161 187
Tons of commercial freight	267 139	388 335
Tons of company freight	53 981	100 992
Tons of express freight	1 228	8 110
Tons of free freight	559	466
Tons of freight carried	322 907	497 903
Ton-miles of bananas	1 817 960	6 012 356
Ton-miles of other exports	5 369 134	5 842 940
Ton-miles of imports	4 536 244	4 736 643
Ton-miles of local freight	7 171 429	7 529 815
Total ton-miles of commercial freight	18 894 767	24 121 754
Ton-miles of company freight	4 420 550	9 426 877
Ton-miles of express freight	120 952	—
Ton-miles of free freight	52 989	15 880
Total ton-miles of freight	23 489 258	33 564 511
Ton-miles of commercial freight per miles of line	63 465	41 032
Average mileage of commercial freight	72.96	62.12
Average mileage of all freight	74.16	67.41
Revenue from bananas	$139 755.96	$609 985.30
Revenue from other exports	$393 595.36	$803 788.37
Revenue from imports	$586 936.46	$769 077.90
Revenue from local freight	$397 913.75	$668 232.84
Total revenue from commercial freight	$1 518 201.53	$2 851 084.41
Revenue from company freight	$68 005.62	$49 484.73
Revenue from express freight	$21 772.44	$83 374.83
Total revenue from freight traffic	$1 607 979.59	$2 983 943.97
Earnings per ton of commercial freight	$5.79	$7.34
Earnings per ton of all freight	$5.04	$5.99
Earnings per ton-mile of commercial freight	$0.082	$0.1182
Earnings per ton-miles of all freight	$0.0695	$0.0889

FERROCARRIL DE LOS ALTOS

The Department of Fomento, under Minister Lic. Alberto Mecas, has appointed nine Guatemalan engineers to construct the Ferrocarril de los Altos, which is to extend from San Felipeo –one of the terminals of the Occidental Road–to Quezaltenango, a distance of about 60 miles. San Felipe is about 1 000 feet above sea level, while Quezaltenango has an altitude of 9 000 feet. It is planned to develop a hydroelectric plant, power for which will be supplied by the Samala River. The power derived from the plant is to be used in the operation of this road. The road is to be of 3-feet gauge.

On September 25, 1924, a contract was signed between the Government of Guatemala and Otto Rusche, representative of the Allgemeine Elektricitaets Gesellschaft, for the completion of construction of the Los Altos Railway and the electric plant at Santa Maria. The principal details of this contract are as follows:

The Government will emit bonds in the amount of $3 000 000 American gold, which will be called "Bonds of the Los Altos Railroad of 1924." The bonds will be given in payment to the construction company, the A.E.G., and will draw interest annually at the rate of 8 per cent. They will be dated September 1, 1924, and will fall due on September 1,1934. Interest will be paid in semiannual installments on the 1st of September and the 1st of March of each year.

The Government grants, as a guaranty of the payment of the bonds, a first, irrevocable line on the following taxes:

(a) On one-half of the 6 per cent and on one-half of the 4 per cent consular invoice fees which, at present, are collected in conjunction with customs duties, and which, by Decree 874 of September 1 of this year, have been assigned to the construction of the Ferrocarril de los Altos.

(b) From August 1, 1926, on a part of the aguardiente tax, which is 3 pesos per bottle and is now assigned to the construction of the Ferrocarril de los Altos, in accordance with Decree 874.

(c) On the annual net profits of the above-mentioned railroad and the hydroelectric plant, which at present are under construction.

The proceeds from the taxes pledged shall be deposited by the Government in a bank designated by the financial agent.

FERROCARRIL VERAPAZ

EXTENT AND GENERAL CHARACTERISTICS OF LINE

The construction of this line, which extends 28 miles from Panzos to Panacajche, was commenced in January, 1896, and completed in 1897. The road was built with German-American capital and was reorganized in 1907. On the latter date it was partly owned by American interests, chiefly by Allan Foster Willard, the balance of the stock being distributed among the coffee growers of the Alta Verapaz district. In 1922 Schlubach, Sapper & Co., a leading German import, export, and banking firm of Guatemala City, bought out the interests of the Willard heirs, and at the present time this company is in complete control of the railroad.

The city of Panzos is on the banks of the River Polochic, from which the mail boat makes a weekly trip to Livingston. The Verapaz Railway acts as a feeder for the water transportation of the company, which is carried on by steel lighters and two boats from Panzos, the terminal of the railway, to the port of Livingston. The railway is used to transport coffee, the sole product of importance, over the worst part of the country--that is, from the wagon road to the head of navigation at Panzos.

The mileage is: Main line, 28 miles; yard, track, and sidings, 3 miles; total, 31 miles. It has been planned to extend the road an additional 10 miles during 1924, from Pancha to Tucuru.

TRAFFIC STATISTICS

There is but one passenger train a week. Import cargo is very limited in volume, and exports consist almost entirely of coffee. The exports of coffee from Livingston in the five-month period, October 1, 1922, to February 28, 1923, amounted to 16 994 quintals.

EMPLOYEES

One hundred employees are engaged in the work on the road--60 on maintenance, 20 on operations and 20 in repair shops. All are natives.

EL SALVADOR

GENERAL FEATURES OF COUNTRY

The Republic of Salvador, although the smallest, is the most densely populated of the Central American Republics. It lies southeast of Guatemala and south of Honduras and has as its southern boundary the Pacific Ocean. The total area of Salvador is about 13 000 square miles, and the coast line is 160 miles in length. The country is crossed by two mountain chains, among which are numerous valleys of great fertility. The most important river is the River Lempa. The climate in the low country is tropical, but in the higher altitude it is very pleasant.

Methods of communication are better than in most Latin American countries. Even in the rainy seasons the highways are passable. In addition to the roads, the other methods of communication are by three railways-the Salvador Division of the International Railways of Central America, the Salvador Railway (Ltd.), and the San Salvador to Santa Tecla Railroads (electric). Two tramways are in operation, one in Sonsonate and the other in San Salvador. The methods of communication are fairly satisfactory and, no doubt, will be improved within the next few years, when the northern part of Salvador is developed. Plans are under way for the construction of new railway lines and highways.

INTERNATIONAL RAILWAYS OF CENTRAL AMERICA, SALVADOR DIVISION

SURVEY OF DEVELOPMENT

This railroad was started at the port of La Union under the administration of Gen. Santiago Gonzalez. The first contract called for the construction of the road from La Union to San Miguel and from San Miguel to the Guatemala frontier. This contract was drawn between the Government of El Salvador and Juan Bucron in 1872. Fifteen years later –in 1887– the provisions of the contract had not been complied with. The Government subsequently entered into several similar contracts, none of which was fulfilled. In 1895 the Government undertook the work of building the road, but little progress was made, and in 1898 work was suspended. From 1900 to 1907 the Government entered into contracts with several other private organizations, and on May 9, 1908, the National Legislative Assembly of the Republic of Salvador passed a decree authorizing Rene Keilhauer to construct a road from the port of La Union, passing through the city of San Miguel, to connect with the Guatemalan frontier at the junction of the line extending from Zacapa, Guatemala.

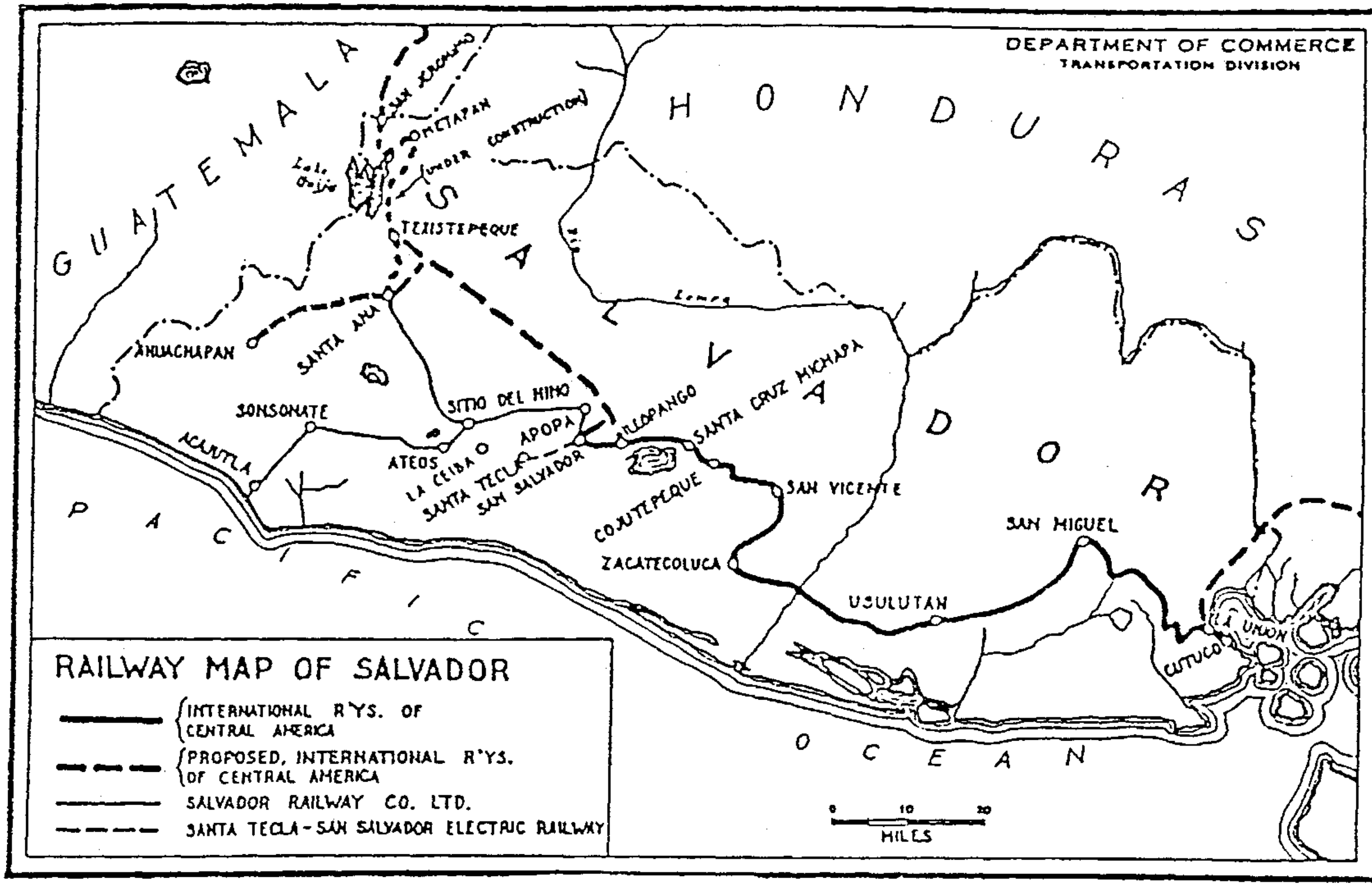
On June 3, 1908, a concession was granted by the Government of Salvador to Rene Keilhauer for the construction of a railway from the port of La Union, on the Pacific coast, via San Miguel, Usulutan, and San Vicente, to the frontier of Guatemala; this concession included the construction of a wharf at La Union. The road reverts to the Government 99 years from the date when construction is begun, with the right of the Government to purchase at appraised value at the expiration of 70 years. On June 24, 1908, the section connecting with the wharf at La Union and the railway from La Union to San Miguel and from Santa Ana to the frontier and to Almachapan was transferred to the Guatemala Railway. The remaining section was transferred to Henry M. Keith on July 24, 1908, and transferred by him to the Guatemala Railway February 29, 1912.

MILEAGE

The mileage of the uncompleted road as it was taken over originally by the International Railways of Central America was 39 miles from Punta Cutuco to San Miguel.

The International Railways extended the road to Vicente in 1915, to Cojutepeque in 1920, and to San Salvador March 15, 1922, in accordance with their contract with the Salvadorean Government. The extension of the road from San Miguel to San Salvador is 117 miles.

Since the completion of this line travelers from San Salvador can reach Tegucigalpa, Honduras, in 22 hours, and Managua, Nicaragua, in 26 hours.



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

The proposed extensions on this road in accordance with the concessions now owned by the International Railways are as follows:

	Miles
Santa Ana to Guatemala frontier	50
Santa Ana to Ahuachapan	31
Texistepeque to Illopango	63
Total	**144**

Of the above extensions, two have actually been surveyed and are in the process of construction, while one, the Texistepeque to Illopango line, has simply been considered.

A brief description of each of these branches follows.

SANTA ANA TO AHUACHAPAN BRANCH

The line extending from Santa Ana, Salvador, through Chalchuapa, Atiquizaya, and Jacapa to Ahuachapan, a total distance of 31 miles, is to be constructed on the estimate submitted by B. H. Bryant. The line will have an elevation of from 2 100 to 2 400 feet above the sea.

The maximum grade ascending to the west from Santa Ana is 2.65 per cent. The maximum grade descending to the west, between the summit and Chalchuapa, is 1.25 per cent. The maximum grade ascending to the west on this section is 1 per cent. The maximum grade descending to the west, between Chalchuapa and Atiquizaya, is 1.50 per cent. This grade continues to a point nearly 3 miles west of Atiquizaya. From that point to Almachapan the grade is 2 per cent. The station at Ahuachapan will be 2 376 feet above sea level. The estimated cost of construction of this branch is $922 315, or about $33 129 per mile. This includes laying all rails, establishment of 25 miles of telegraph lines, construction of water stations, building of turntables, and the purchase of the right of way through 100 acres of coffee lands and 260 acres of other lands.

GUATEMALA & EL SALVADOR RAILWAY

The Guatemala & El Salvador Railway extends from Santa Ana to the Guatemalan frontier. The cost of construction is estimated at $1 847 064, which includes grading, bridges and curves, track, water service, buildings, tools, telegraph, fencing, and right of way, for 50 miles of main line.

The line as projected lies well in on the supported grades, great care being taken where lines lie alongside streams to protect them against high water. The grading will be made of loose rock, and 60-pounds rails are to be used, with creosoted ties. Five water stations are to be placed in service. Fifty miles of telegraph line is to be erected. Equipment is to consist of 2 consolidated freight locomotives, 2 ten-wheel locomotives, 50 flat cars, 50 box cars, 4 passenger cars, 2 baggage cars, and 20 freight cars.

PROPOSED TEXISTEPEQUE TO ILLOPANGO BRANCH

This line, as planned at present, will run from Illopango (mile 151 on the road running from La Union to San Salvador) to Texistepeque, on the road running from Santa Ana to the Guatemalan frontier. No concession has yet been awarded for the construction of this road.

Table IV.4.3

GUATEMALA AND EL SALVADOR RAILWAY: PASSENGER TRAFFIC STATISTICS, 1921

	1921
Total number of passengers	234 185
Number of passengers carried 1 mile	5 936 776
Average distance traveled (miles)	25.35
Revenue from passenger traffic	$138 140.08
Average revenue per passenger	$0.59
Average revenue per passenger per mile	$0.0233
Average earnings per passenger train-mile	$4.3380

TRAFFIC STATISTICS

The following statements give statistics of traffic over the Salvador Division of the International Railway systems:

SALVADOR RAILWAY CO.(LTD.)

Table IV.4.4

EL SALVADOR: FREIGHT TRAFFIC STATISTICS FOR CALENDAR YEAR 1921

(Short tons)

	1921
IMPORT FREIGHT	
Oils greases and lubricants	456
Hardware	298
Dry goods	592
Flour	885
All other	1 159
Total	**3 390**
EXPORT FREIGHT	
Coffee	8 757
All other	1 339
Total	**10 096**
LOCAL FREIGHT	
Sugar	1 830
Coffee	570
Hardware	217
Fruit and vegetables	615
Dry goods	370
Lumber	1 085
Corn and beans	7 574
Salt	4 128
Tobacco	293
Wines and liquors	159
Express freight	1 614
All other	7 030
Total	**25 485**
SUMMARY	
Total commercial tonnage	38 971
Total company tonnage	43 816
Total	**82 787**

SALVADOR RAILWAY CO.(LTD.)

SURVEY OF DEVELOPMENT

The Salvador Railway was originally undertaken by the Government of Salvador in 1882 and at that time was called the National Railroad. The first section was constructed form Acajutla to Sonsonate, a distance of 12 1/2 miles; from there it was extended 16 miles to Armenia, and through Ateos to La Ceiba, a distance of 13 miles in 1892.

It was the intention of the Government to build a line into San Salvador, through Santa Tecla on the south side of the volcano of San Salvador via the route of the present San Salvador-Santa Tecla Railway. At La Ceiba it was found that to proceed it was necessary to construct a bridge across a large creek into Colon, and, as funds were not forthcoming, work on this branch stopped, and since that time the branch from Ateos to La Ceiba has been discontinued.

In 1889 the Government secured a loan of £300 000, bearing 6 per cent interest and 2 per cent accumulative sinking fund from British bankers. The security for this loan was 10 per cent of the customs duties and the rights of the Government in the railway from Acajutla to Ateos, a distance of 35 miles, and in the proposed extension of the railway. Out of the proceeds of the loan the Government paid off a £183 000 mortgage on its interest in the section of the road between Acajutla and Sonsonate.

The extension of the railroad was continued for a distance of only 7 miles from Acajutla to La Ceiba.

On April 25, 1891, a concession was granted to Alberto J. Scherzer to continue the construction of this railway from Ateos to Santa Ana, including telegraph and telephone lines to main stations. Under the terms of this concession the Government undertook to pay the concessionaire for the construction of the railway the sum of £500 000 by the issue of 6 per cent Government bonds. The proceeds of the sale of these bonds were to be deposited for payments of expenses incurred in construction. For meeting charges on these bonds the Government allocated 10 per cent of the import duties received and additional funds to the extent necessary from general revenue. The bonds were to be acceptable at face value in payment of import duties and all other taxes. A fund of 5 per cent of all payments made on account was to be set aside by the bank administering the fund until it reached the sum of £15 000 to guarantee faithful performance on the part of the concessionaire.

The expiration of time allowed in the contract for completion of the railway found the work scarcely under way. The concession was therefore canceled, and on April 1, 1984, a new contract was made with the Central American Public Works (Ltd.), which was organized by the previous concessionaire.

After the revolution of April, 1891, the provincial government tried to obtain more favorable concessions from the company, and on December 17, 1894, the government and the Central American Public Works Co., entered into another contract supplementing the previous one.

On August 1, 1895, a company called the Salvador Railroad Co. was formed to take over the concession from the Central American Public Works Co. Proposals were laid before the bondholders of the 1889 and 1892 loans to convert their bonds into first-mortgage debentures of the railroad company. Some of the bondholders declined to join in this scheme, and consequently it was not found possible to arrange for the release of the mortgage on the first section of the railroad. As a result, the Central American Public Works, which had undertaken in this contract to deliver to the Government all the bonds by December, 1898, approached the Government for the purpose of securing further legislation in order to get over the difficulty. In this they were not successful, and the Government declined to pay the company the sum due it under the guaranty for the half year ended December 31, 1898.

On February 8, 1899, a contract was entered into between the Government and M. J. Kelly, representing the Central American Public Works. The following are the principal provisions:

1. The company was to hand over to the Government for cancellation the outstanding 1889 and 1892 bonds (about £725 000) within six months from the date of ratification of the contract by Congress. The company might, however, leave outstanding £60 000 of the bonds if it could not make delivery of the whole of them, but on these they were to pay on their own account the same interest (6 per cent) and amortization (2 per cent) as the Government was under obligation to do.

2. The Government was to pay the company for 18 years from January 1, 1899, a fixed annual subsidy of £24 000 in lieu of the previous guaranty, and to hand over all the railways free of charge. The subsidy was to be secured on 15 per cent of the import duties, in respect of which the Government was to issue special customs notes. These notes were to be handed to a bank named by the company, which was to sell them and collect the proceeds.

The company engaged to complete the line to the capital by June 30, 1900. If the bonds of the external debt were not handed over within the period stipulated, the Government was to have the right, subject to existing hypothecations, to take possession of the railways.

In April, 1899, an agreement was entered into between the council acting in conjunction with the committee of 1889 bondholders and the Central American Public Works for the transfer to the Salvador Railway Co. (Ltd.) of the railways and concessions held by the works company, including the subsidy payable under the contract of February 8, 1899, on such terms as might be agreed between the works company and the railway company.

The railway company was to issue:

1. Prior line debentures to the amount of £163 000, forming part of a total authorized issue of £250 000, and bearing 5 per cent interest and 1 per cent accumulative sinking fund, to be applied by purchase or drawings at par-such issue to be for the purpose of providing the funds for the completion of the railway, repairs, working capital, and expenses.

2. Five per cent mortgage debentures to the amount of £660 000 to provide for the cancellation of the outstanding bonds of the 1889 and 1892 loans, the debentures of the Public Works Co. (£150 000), and other claims.

These debentures to be redeemable by an accumulative sinking fund of 1 per cent per annum, commencing from August 15, 1906, to be applied by purchases or drawings, at the price, in the case of drawings, of £103 for each £100 of debentures.

The holders of the 1889 bonds to receive, in respect of each £100 bonds, £100 mortgage debentures of the railway company, bearing interest from August 15, 1899 –the 1899 bonds to be deposited with the council against the issue of negotiable receipts, with two coupons of £2 10s. each attached, payable out of the first two installments of the subsidy in respect of the coupons on each bond of £100 due February 15 and August 15, 1899.

This arrangement was accepted by the holders of the bonds of the 1889 and 1892 loans, who by the necessary majorities authorized the trustees of the loans to release the respective mortgages. It was also approved by the holders of the debentures of the Public Works Co., and was duly carried into effect.

The concession which the railroad holds is for 88 years from April, 1894, at the expiration of which term the railroad and all its accessories are to become the property of the State, while the Government has reserved the right at the expiration of 50 years to purchase the railroad at a price to be agreed upon or fixed by valuation. The company is protected from competition and has preferential rights (except as against the Government) for constructing future extensions. Payment of the subsidy provided in the contract of February 8, 1899, of £24 0000 per annum for 18 years from January 1, 1899, was suspended during the years 1915 and 1916, as the consequence of the adverse effect of the European war; £3 000 of this was paid during the year 1916-17 and £1 000 was paid in 1918, leaving £44 000 with interest due. This they undertook to pay off gradually with interest.

Because of the defaulting on the subsidy, the railway was unable to meet the mortgage debenture. A new scheme in 1916, approved by the mortgage debenture holders and sanctioned by the court, consented to the suspension of the debenture sinking fund until August, 1918, and agreed to accept in the meantime deferred interest certificates for any amount of interest that the income available would not permit to be paid in cash. In 1918, the arrangements of the 1916 scheme were extended until August 15, 1921, and in August, 1921 they were further extended to August 15, 1931. No dividend or bonus is to be paid on any part of the share capital unless at the date of such payment the company shall, as regards the prior line and mortgage debentures, respectively, have redeemed the full amounts thereof, respectively, originally required under the trust deeds securing the same, and shall have redeemed all deferred interest certificates issued under the schemes.

Under the control of this company the road was extended so that now it has in operation lines from Acajutla to Santa Ana completed in 1896 and from Sitio del Nino to San Salvador in 1900.

The officials of the company are A. J. Sumner, manager, San Salvador, and A. J. Gillingham, submanager, San Salvador.

Purchases for this road are made through the Salvador Railway Co. (Ltd.), Vashwood House, New Broad Street, London.

The mileage of the road in 1921 was 90.

TRAFFIC STATISTICS

The following traffic statistics are available for the fiscal year ended June 30, 1913:

Table IV.4.5

SALVADOR RAILWAY CO. (LTD.): TRAFFIC STATISTICS, FISCAL YEAR ENDED JUNE 30, 1913

		1913
Number of passengers carried		295 111
Receipts from passengers		£27 331 5s. 2d.
Receipts per passenger		1s. 10d.
Receipts per passenger-mile		1s 12d.
Goods traffic:		
Coffee	(long tons)	15 941
Sugar	(long tons)	4 994
Flour, maize, etc.	(long tons)	14 758
Dry goods	(long tons)	4 719
Building materials	(long tons)	5 228
Live animals	(long tons)	1 458
All others	(long tons)	31 398
Total goods tonnage	**(long tons)**	**78 496**
Train-miles run,		160 017
Vehicle miles run		1 262 735
Receipts per train-mile.		15s. 3 1/4d.
Working expenses per train-mile		8s. 5d.
Net profit per train-mile		6s. 10 1/4d.
Miles of line open		100
Proportion of working expenses to receipts		49.07%
Number of passenger coaches		23
Number of freight cars		172
Gasoline motor coach		1

The annual report of the Salvador Railway Co. (Ltd.) for the year ended June 30, 1920, has become available.

The following data were obtained for the report:

Table IV.4.6

SALVADOR RAILWAY CO. (LTD.): PASSENGER TRAFFIC FREIGHT TRAFFIC AND GENERAL STATISTICS FISCAL YEAR ENDED JUNE 30 1920

	1920
PASSENGER TRAFFIC	
First class (49 506 passengers)	Pesos 132 271
Second class (298 084 passengers	Pesos 262 221
Passenger miles:	
First class	1 489 908
Second class	5 741 912
Average journey:	
First class (miles)	30.09
Second class (miles)	19.26
Both classes (miles)	20.80
FREIGHT TRAFFIC	
Tonnage carried:	Per cent of total
Imports: 15 953 short tons	17
Exports: 30 991 short tons	34
Local: 45 196 short tons	49
Total: 92 140 short tons	**100**
GENERAL STATISTICS	
Number of passengers carried	347 590
Receipts from passengers	Pesos 170 172
Receipts per passenger	Pesos 0.485
Receipts per passenger per mile	Pesos 0.0225
Total tons of freight carried	92 140
Revenue from freight carried	Pesos 651 725
Train-miles run	133 491
Revenue per train-mile	Pesos 6.22
Expenses per train-mile	Pesos 4.70

SAN SALVADOR & SANTA TECLA RAILWAY

The San Salvador & Santa Tecla Railway was completed and opened to the public on February 17, 1894. The road was built under a concession granted to Pablo Orellano and Miguel Trigueros by the Salvador Legislature April 28, 1891, and approved by the President May 9, 1891. The road at the present time is operated by private interests and does not receive governmental guaranty or subsidy. The stock is reported to be valued at 574 000 colones.

OFFICERS

The principal offices are as follows:

Board of directors:
Angel Guiola.
Herbert de Sola.
Recaredo Gallardo.
Eugenio Araujo.
Eduardo Guirola.

Manager and chief engineer: J. Federico Mejia, San Salvador, Salvador.

Purchasing agents:
De Sola Bros. & Pardo, 106 Front Street, New York City.
Railway Storage & Battery Car Co., 50 Broad Street, New York City.
Hellman Bros., 22 Battery Street, New York City.

MILEAGE

The extent of the line in operation is 3 936 feet in the cities and about 8 miles between the cities. Plans are now being drawn up for the electrification of the road, and these are to be presented for approval at the meeting of the board of directors at the end of the year 1923. It is proposed to install a trolley system to replace the Edison battery cars now running on the main line; the latter are to be used merely for trips through the main streets of the city and to the stations of the Salvador Railroad Co., and the International Railway of Central America.

TRAFFIC STATISTICS

Approximately 95 per cent of the freight carried on the railroad is baggage; a very small amount of sugar and corn is carried between the two cities. Traffic figures for two representative years are: Year 1913 –Passengers, 315 800; freight, 3 960 000 pounds. Year 1922– Passengers, 432 728; freight, 4 620 000 pounds.

HONDURAS

GENERAL FEATURES OF THE COUNTRY

Honduras is the second largest Republic of Central America, with an area of about 45 000 square miles, located between 13 and 16 north latitude and between 86 and 92 west longitude. Its coast line extends for 400 miles on the Atlantic and 60 miles on the Pacific. The country is very mountainous and abounds in mineral deposits. The climate along the Atlantic and Pacific coasts is generally torrid; in the higher altitudes of the interior the climate is temperate. The temperature in the neighborhood of Tegucigalpa averages 74 degrees. Communications in the country are very poor. Aside from the industrial roads operated by the various fruit companies, which, however, have assumed proportions of public carriers, there is only one railroad, the National Railroad. Highways are poor and do not offer satisfactory arteries to the rail lines in operation.

HONDURAS RAILWAY

SURVEY OF DEVELOPMENT

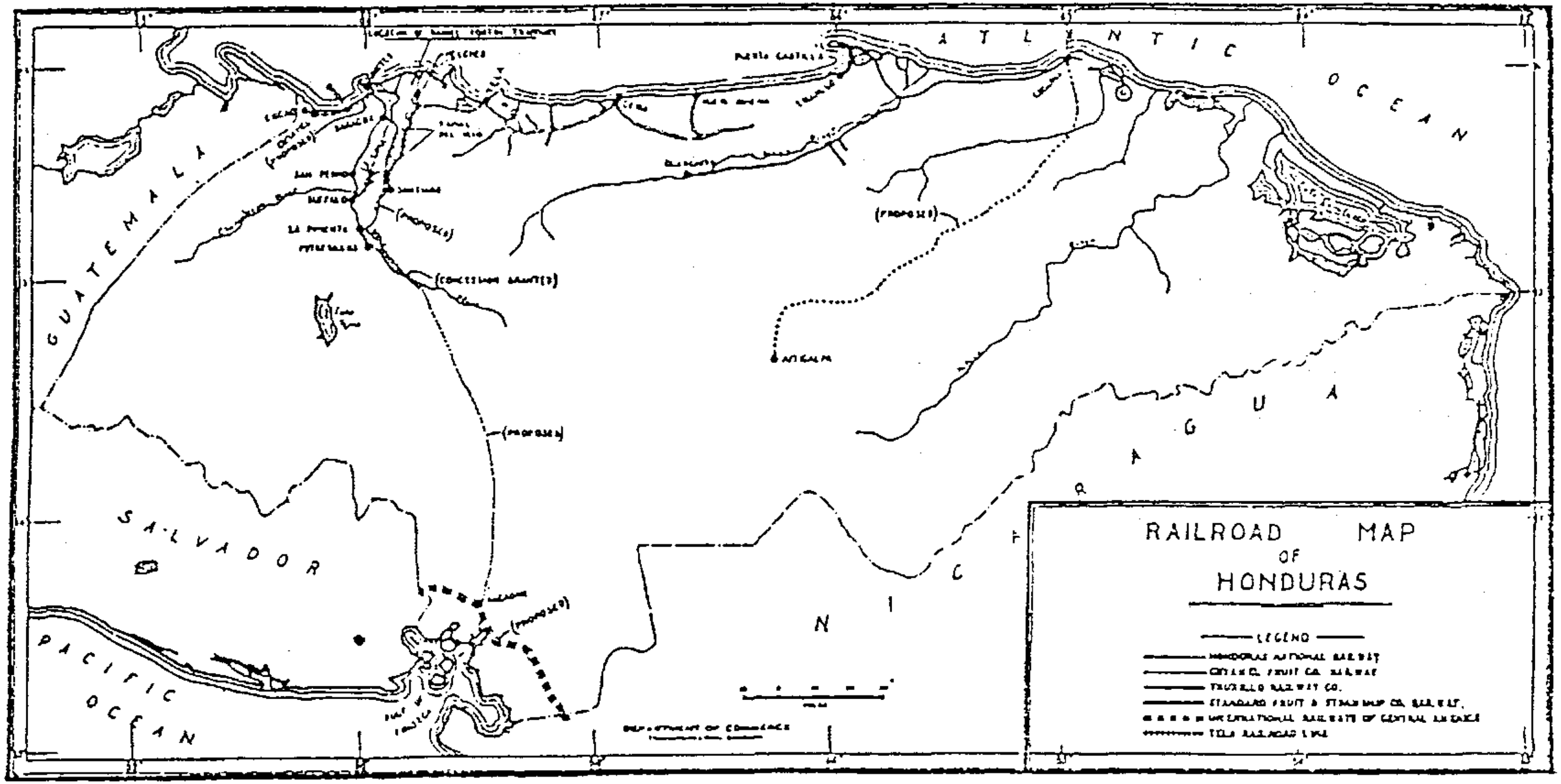
During the years 1850-1852 the idea was conceived of constructing a railway across the Republic of Honduras from Port Caballos to the Bay of Fonseca. Accordingly the matter was taken up in 1853; a commission was sent to report on the proposition, returning in the same year with a favorable report. On June 23, 1853, a concession was granted to George L. Squires by the Government, and a company was formed in New York for this undertaking. It was dissolved soon after as a result of the opposition encountered from the promoter of the Panama Railroad line. The promoters then took the proposition to European markets and after two years succeeded in forming a mixed company –that is, English, French, and American– with its headquarters in London and under the direct sanction of the British Government.

The company formed in London made a complete survey of the line during the years 1857-1858, the sum of £80 000 having been paid by the directors personally. At that time the Civil War broke out and so many unfavorable circumstances arose that the proposition was dropped, and the concession became void.

In 1867 the Government of Honduras, being convinced that the best means of developing the country would be by an interoceanic railroad, contracted in England loans to the amount of £1 000 000 for the execution of a third part of the work, mortgaging the railroad before construction work was begun.

The loan was to bear 10 per cent interest. It was issued at 80 per cent by Bischoffsheim & Goldschmidt. The interest was secured upon the railway and its revenues and the produce of the mahogany forests. The Government undertook to provide an annuity of £140 000 for 15 years from December 31, 1869, for the service of the loan, and promised the subscribers half the profits of the proposed railway for 15 years after its redemption. In October, 1868, work was formally begun at Puerto Cortes, but only 50 miles of the railroad were laid, at a probable cost of £1 500 000 before financial difficulties put a stop to construction. Loans obtained in 1869 amounting to £2 490 108, bearing 6 2/3 per cent interest, were issued in Paris by Dreyfus & Co., at 75 per cent, redeemable at par in 17 years by half yearly drawings. In 1870 a 10 per cent Government railway loan amounting to £2 500 000 was secured. From this time until 1873 only 38 miles of road were in actual operation, since the destruction of an iron bridge extending over the Chamelecon River rendered the remaining 12 miles useless.

All four loans went into default, and the obligations to the bondholders were assumed by a bond company called the Honduras Interoceanic Railway Co., which went into liquidation in 1882. In that year the Council of Foreign Bondholders formed a committee to protect the bondholders' interests. In 1887, Mr. Binney, the consul general of Honduras in London, obtained a concession for the completion of the Interoceanic Railway, which also included a settlement of the defaulted external debt in which the obligation of the Government to effect this settlement was fully recognized. Unfortunately the concessionaires were unable to find the necessary funds, and the proposals fell through.



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

The concession expired in 1892, and the Government declined to renew it. The Government thereupon granted a similar concession to an American company, which, however, contained no provisions for the settlement of the external debt; this concession was cancelled in 1893.

In 1896 a new concession for the completion of the railway (embracing the settlement of the external debt) was granted to an American company, the Honduras Railway Co., which, it appears, was the successor of the company formed in 1892. The terms were not satisfactory to the committee, and accordingly the concession lapsed.

In 1897 an American syndicate, called the Honduras Syndicate, which was the successor of the Honduras Railway Co., concluded a contract with the Honduras Government for the completion of the road, the establishment of a bank charged with the collection of the customs duties, and the settlement of the foreign debt. Each £100 external debt bond, with arrears of interest, was to be exchanged for £25 of new 1 per cent bonds redeemable within 25 years and secured by a guaranty from the bank and a first charge upon the railway. The contract did not specify the date at which interest on the new bonds would begin, nor the length of time allowed for the conversion. All new bonds not claimed within the period allowed by the syndicate were to be divided between it and the Government. The committee consented to negotiate on this basis, provided that they were satisfied with the security offered, that the interest would commence forthwith, and that the conversion would remain open for a reasonable time. Disputes arose between the Government and the syndicate over the latter's having failed to carry out its contract as regards both the construction of the railway and the settlement of the debt, which led to the concession's being annulled in 1900.

On May 26, 1900, a new concession was obtained, which was silent as to the settlement of the external debt and merely leased to the syndicate the completed portion of the railway for a term of 25 years at a rental of $15.00 gold per annum. Under penalty of forfeiting the lease the syndicate undertook to carry out within a specified time the following work in connection with the extension of the railway: To erect a bridge over the Ulua River and to reconstruct that over the Chamelecon River within 2 years; to reconstruct the existing line within 4 years; to build and open to traffic the line from Ulua to Comayagua within 5 years, to construct 15.5 miles of railway within 2 years, and to compete the line to the Gulf of Fonseca within 7 years. It also obtained a preferential right to construct branch lines, and, for 15 years from the fulfillment of the first three stipulations, the right to construct a line from the northern coast parallel to the existing section.

On March 7 the Government granted the syndicate an extension of its lease for 12 months –that is, until May 26, 1903. Notwithstanding the extension of time granted by the Government, the syndicate again failed to carry out the contract, and on May 26, 1903, the Government took possession of the railway.

From this time until August 1, 1908, the line was operated by teh Honduran Government. In June, 1908, the Government of Honduras granted a concession to lease the railroad to Washington S. Valentine for a period of 30 years. The terms of the concession did not protect the bondholders. It provided for a payment of 25 000 pesos per year for the first four years and an increase of 5 000 pesos per year for each four-year period thereafter. The contract further provided that the Government could at any time reassume control of the road by giving three months' notice, paying the unearned rental, and paying for the betterment and equipment that had been put on the road. Three years' rental in cash was paid at the signing of the contract. In February, 1912, the Honduran Government reassumed control of the railroad by order of the President.

From this time until May 16, 1920, the affairs of the railroad were managed by the Honduran Government. Track was relaid between Puerto Cortes and Mile 59. In 1914 a steel bridge with one 400-foot span and one 100-foot span was constructed across the Ulua River at Pimienta.

On May 16, 1920, the road was leased to the Agricola de Sula (a subsidiary of the Cuyamel Fruit Co., of Delaware) line.

The Agricola de Sula has been taken over by the Cortes Development Co., also a subsidiary of the Cuyamel fruit Co. At present the railroad is owned by the Government of Honduras, but is being operated by the Cortes Development Co.

Since the Cuyamel Fruit Co. interests assumed active control of the road they have reballasted the whole line, relaid 18.6 miles with new rail, put in new crossties over the whole line, rebuilt bridges of creosoted timber, purchased considerable new equipment, overhauled the machine shop, and put in electrically driven machines, and built a 400-foot reinforced-concrete bridge at Laguna, Puerto

Cortes. The company has also constructed 4.3 miles of spurs at Choloma for the private cane planters, a spur of 3/4 mile between Miles 24.2 and 24.8, and a spur of 2 miles at Villa Estera.

In 1918 the Cuyamel Fruit Co. made a contract with the Government to operate the trains of its private line, the Ramal del Ulua, over the first 13.6 miles of the National line, as far as Baracoa Junction. It agreed to pay for this privilege the sum of $500 per kilometer per year, and also to pay the cost of the maintenance of this section of track. This has averaged about $895 per month since the contract has been in operation.

MILEAGE

A comparison of the mileage of the road for the calendar years 1913 and 1923 is as follows: 1913 –Main line, 59 miles. 1923– Main line, 59 miles; Choloma branch, 4.3 miles; Villa Estera branch, 2 miles; spurs, 0.75 mile; total, 66.05 miles.

It has been proposed for some time to extend this railroad from its present terminus at Potrerillos to or a little beyond Amapa, a distance of about 13.6 miles. The route for this extension has been located, but it is doubtful when the track will be laid.

OPERATING OFFICIALS

The operating officials of the road for the calendar year ended December 31, 1923, were as follows:

Samuel Zemurray, president, New Orleans, La.
H. V. Rolston, vice president, New Orleans, La.
W. E. Turnbull, manager, Puerto Cortes, Honduras.
J. B. Richards, special manager, Puerto Cortes, Honduras.
F. Canales Salazar, superintendent, Puerto Cortes, Honduras.
M. J. Ferrer, auditor, Puerto Cortes, Honduras.

TRAFFIC STATISTICS

The following is a statement of the traffic moving over the road for the 12 months July, 1922, to June, 1923:

Table IV.4.7

HONDURAS RAILWAY: FREIGHT TRAFFIC STATISTICS, JULY 1922 TO JUNE 1923

Revenue freight only	July, 1922, to June, 1923	
	Metric tons	Per cent of revenue
Merchandise, n.e.s.	13 417	42.27
Bananas	12 768	26.45
Sugar cane	30 634	15.76
Cattle	2 187	2.44
Ice	2 134	5.96
Lumber	558	1.77
Wood, fuel	9	---
Sand and gravel	558	.73
Gasoline and kerosene	404	1.52
Barbed wire and staples	286	1.21
Cement	56	.16
Machinery	10	.08
Wheat	639	1.65
Total	**63 660**	**100.00**

CUYAMEL FRUIT CO. RAILWAY

SURVEY OF DEVELOPMENT

Construction of this road was begun by William F. Streich in 1902, and in 1903 about 5 miles of track had been laid from Vera Cruz to Cuyamel. In 1914 the line was extended from Vera Cruz to Omoa, a distance of 9 miles. Omoa is a seaport, and the railroad has a wharf where deep-water steamers may come alongside. In 1918, 9 miles additional were finished to Cacao Plantation. A further 5 miles was were graded and partly laid to Chachahualilla. The last 5 miles was taken up in 1923 on account of there being too little available banana land along the line and on account of its location in the disputed territory between Honduras and Guatemala. A survey was made in 1918 from Chachahualilla to Macuelizo, in Quimistan Valley, a distance of about 32 miles. This contemplated extension taps a good timber and agricultural country. In addition the road took over the E.P. Morse Timber Co. The road was built to handle the private traffic of the Cuyamel Fruit Co., about 95 per cent of which is the transportation of bananas to the seaboard. No subsidy is granted the road by the Government.

MILEAGE

A comparison of the mileage for the calendar years 1913 and 1923 is as follows: 1913 –main line, 17 miles; branches, 6 miles; total, 23 miles. 1923– main line, 34 miles; branches, 13 miles; total, 47 miles. There are no lines under construction at the present time.

In addition to the above-named line, the Cuyamel Fruit Co. has about 75 miles of tram-car track, running through its banana plantations and acting as feeders to the standard-gauge road.

OPERATING OFFICIALS

The operating officials of the road for the calendar year ended December 31, 1923, were as follows:

Samuel Zemurray, president, New Orleans, La.
H. V. Rolston, vice president, New Orleans, La.
W. E. Turnbull, manager, Puerto Cortes, Honduras.
P. H. Myers, chief engineer, Puerto Cortes, Honduras.

TRAFFIC STATISTICS

The following figures are indicative of the traffic moving over the road for the calendar year 1923: Bananas, 26 579 tons (of 2 000 pounds) or 885 963 stems; commercial freight, 6 645 tons; passengers carried, 8 718.

RAMAL DEL ULUA

The survey for this railroad was begun in 1918. A special agreement was made with the Honduran Government to operate the company's equipment over the line of the Ferrocarril Nacional de Honduras, a distance of 13.6 miles to Baracoa Junction. This concession was granted to Samuel Zemurray, Junta de Fomento, under decree No. 93. Construction work on the main line from Baracoa Junction began in 1919. The road has been steadily extended until at the present time it has 100.3 miles in operation. It is a subsidiary of the Cuyamel Fruit Co.

MILEAGE

The mileage of the road for the calendar year 1923 was as follows:

	Miles
Main line: Baracoa Junction to La Lima	33.5
Branches:	
Indian spur	2.0
Mopala spur	1.8
Santiago branch	17.3
Santa Ana branch	1.2
San Juan branch	3.1
Copen branch	3.1
Refinery spur	6.2
Cane Field spur	6.2
La Lima yards	5.5
Puerto Cortes yards	8.0
Passing and loading tracks (about)	3.1
Cane-loading tracks (totaling about)	4.3
Tram roads (30-inch gauge)feeding main line	5.0
Total	**100.3**

OPERATING OFFICIALS

The operating officials of the road are as follows:
Samuel Zemurray, president, New Orleans, La.
H. V. Rolston, vice president, New Orleans, La.
W. E. Turnbull, manager, Puerto Cortes, Honduras.
P. H. Myers, chief engineer, Puerto Cortes, Honduras.

TRAFFIC STATISTICS

The traffic statistics for the calendar years 1922 and 1923 are as follows:

Table IV.4.8

RAMAL DEL ULUA RAILROAD: TRAFFIC STATISTICS CALENDAR YEARS 1922 AND 1923

Commodities		1922	1923
Banana	Tons [a]	30 942	35 284
	Stems	1 202 207	1 449 061
Sugar cane:	Tons	22 806	55 762
Sugar, raw:	Tons	3 532	8 326
Commercial freight:	Tons	[b]	42 550
Passengers carried		[b]	99 656

[a] Of 2 000 pounds.
[b] No record.

STANDARD FRUIT & STEAMSHIP CO. RAILWAY

SURVEY OF DEVELOPMENT

Construction of this railroad was started in 1905 by the Vacarro Bros., of New Orleans. The line began at a place called Salado Bar and ran south to La Ceiba, a distance of 7 or 8 miles. From that time onward the line was extended eastward from La Ceiba and westward from La Union. During this construction 4 miles of railway and some equipment operated by the Tropical Timber Co., was absorbed by this company. The organization of the company to-day is practically the same as at the beginning. The company now owns a dock at La Ceiba and also controls a line of steamships which operate between that port and the United States. During the construction of the road no financial guaranty or subsidy was offered the company, but it received some land grants from the Government. A comparison of the mileage for the years ended March 1, 1913 and 1923, is as follows:

	1913	1923
Main line	38	80.83
Branches	29	82.28
Yard track and sidings	8	33.36
Total mileage in operation	**75**	**196.47**

At the present time there is possibly 16 miles of road under construction, and it is proposed to build 15 more miles in the future.

On January 1, 1924, the Standard Fruit & Steamship Co., incorporated under the laws of Delaware, took over the interests of the Vacarro Bros. in Honduras from their other properties.

OPERATING OFFICIALS

The operating officials for the road are as follows, all located at La Ceiba, Honduras:

H. D. Scott, local manager.
M. Carey, superintendent.
W. J. Klerk, superintendent of transportation.
Louis Joanni, master mechanic.
Otto Rickle, master car builder.
H. H. Dolby, chief engineer.
O. M. Suter, supervisor, bridges and buildings.
A. E. Barefield, roadmaster, East Lines.
S. Kipina, roadmaster, West Lines.

TRAFFIC STATISTICS

Traffic statistics are not available for 1913. In the year ended March 1, 1922, bananas constituted 70 per cent of the total tonnage of freight moved.

INTERNATIONAL RAILWAYS OF CENTRAL AMERICA

On October 7, 1912, a concession was granted by the Government to the International Railways of Central America for 99 years for the construction of a railroad commencing at a point on the frontier of Salvador in connection with their railroad lines in that country and extending to a point on the frontier of Nicaragua to be determined by a survey, together with other rights and advantages necessary for the maintenance and operation of a railroad. The proposed line is to be about 71 miles long, extending through the districts of Choluteca and Dalle, which have valuable agricultural and mineral resources.

At the present time no actual work has been done on this proposed branch, on which the Government of Honduras has notified the International Railways of Central America that the concession has lapsed. The company has protested this decision, and the matter is held in abeyance at the present time.

TELA RAILROAD

SURVEY OF DEVELOPMENT

The Tela Railroad was incorporated under the laws of the State of Delaware on October 7, 1912. The company was organized to take over a concession granted on April 8, 1912, by the Government of Honduras to H. V. Rolston for the construction and operation of a railroad with its terminal at the port of Tela. Mr. Rolston transferred this concession to Samuel Zemurray on June 10, 1912, and he in turn transferred it to the Tela Railroad Co. on March 4, 1913. The road at that time consisted of 7.6 miles of terminal at Tela and 0.6 mile of main line west. Since then it has been extended to 175.8 miles. At the end of 1922 the mileage was made up as follows:

	Miles
Public lines, branch and freight	104.3
Tela terminal	12.9
Branch, fruit lines, spurs and sidings	58.6
Total	**175.8**

In addition the company has under construction 3.8 miles. It is intended to extend the road an additional 30 miles as soon as possible.

OPERATING OFFICIALS

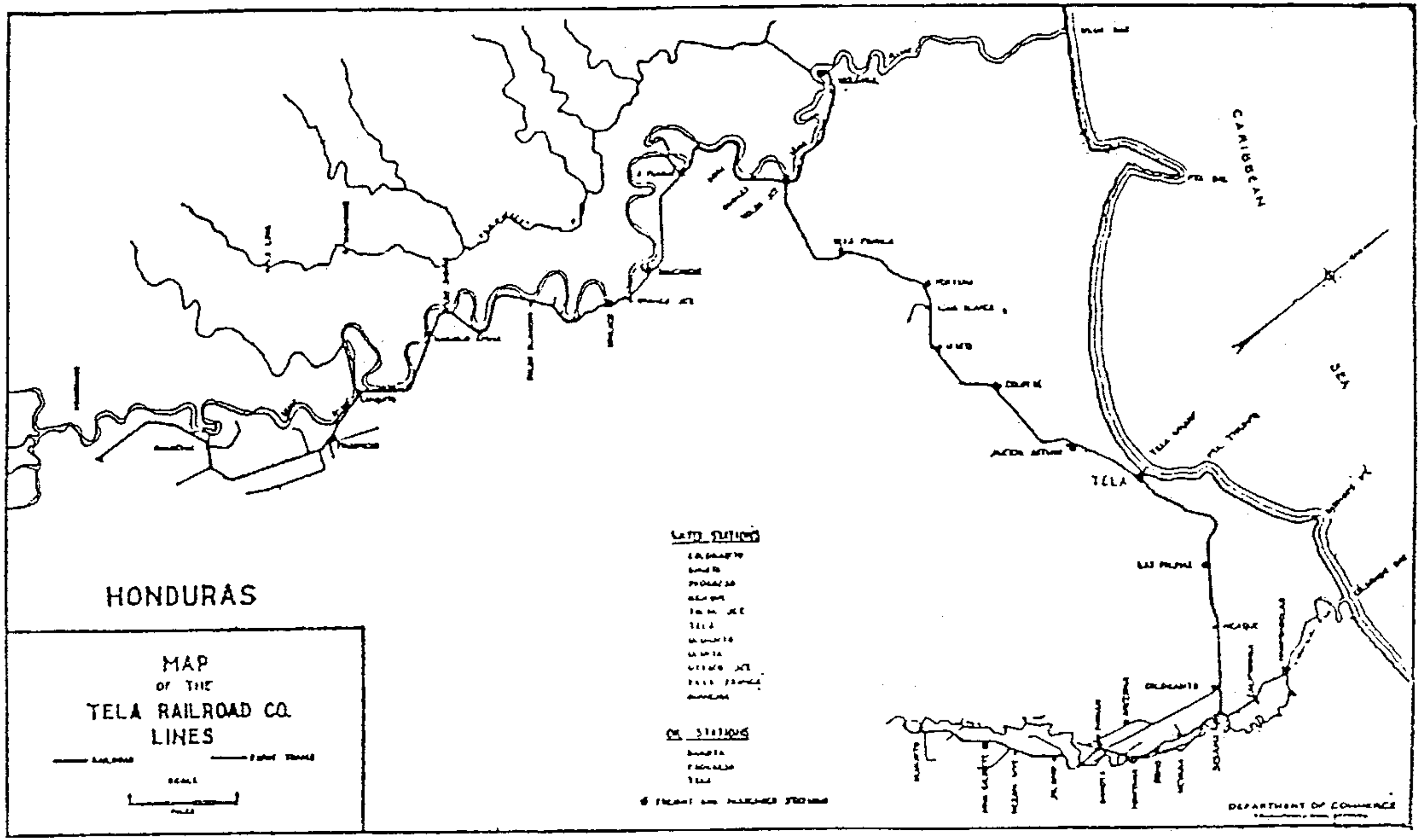
The operating officials of the road are R. H. Goodell, manager, Tela, Honduras; W. C. Yarbrough, accountant, Tela, Honduras; T. J. Barnett, chief engineer, in charge engineering, transportation, and motive-power departments, Tela Honduras.

TRAFFIC STATISTICS

From the meager traffic statistics available it can be seen that bananas constitute the principal article of transport. Of the other freight hauled, about 50 per cent is classed as company merchandise, the rest consisting of native products. The following table notes the character of the traffic:

Table IV.4.9
TELA RAILROAD: FREIGHT TRAFFIC STATISTICS 1916 AND 1922

	1916		1922	
Freight	Tons	Per cent of total	Tons	Per cent of total
Bananas	14 499	97	195 876	88
Other fruit	2 057	3	5 755	12
Total	**16 556**	**100**	**201 631**	**100**



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TRUJILLO RAILWAY CO.

SURVEY OF DEVELOPMENT

The Trujillo Railway Co. was chartered under the laws of the State of Delaware. The company is now operating and constructing railroads in the Republic of Honduras. The construction of this road began in 1913. During the years of the World War, on account of the shortage of experienced men and power, the actual construction was approximately 20 kilometers per year.

The name of the terminal, Rincon, was officially changed by the Honduras Government to Puerto Castilla and the port was opened during the month of August 1921. During this period the company absorbed the railroads of the Honduras Rubber Co., about 6 miles in length, and the Camors Railway, with a small mileage. Both of these roads have completely lost their identity in the fusion. At the beginning of the fiscal year construction under way was: main line, Mile 79.53 to Mile 83.

MILEAGE

The road as of June 30, 1923, had the following mileage:

	Miles
Main line (Puerto Castilla to Cusuna)	79.53
Aguan branch	60.00
Trujillo branch	8.00
Spurs, sidings, yards, etc.	38.52
Total	**186.05**

Plans are under way for construction of the main line to Juticalpa, a distance of approximately 100 miles beyond Cusuna. It is not proposed to electrify any of the road in the near future.

OPERATING OFFICIALS

The operating officials of the road are as follows (all at Puerto Castilla, Honduras):

W. E. Brown, manager.
R. A. Timlin, chief engineer.
R. S. Worwin, auditor.
J. Ramsey, superintendent of railways.
J. Oberle, master mechanic.

FINANCIAL STATEMENT

A summary of the revenue and expenses of this road for the calendar year 1921 is as follows: Freight revenue, $10 031.65; passenger revenue, $18 372.98; total operating expenses, $381 428.20.

TRAFFIC STATISTICS

The traffic handled consists mostly of bananas, which form approximately 85 per cent of the total traffic. Other commodities are vegetables, grain, domestic lumber, crossties, and livestock. The total freight carried for the calendar year 1921 was 9 373 tons. The freight ton-miles totaled 393 666, passengers numbered 52 962, passenger miles totaled 1 059 240 and locomotive miles 106 448. During the calendar year 1922 approximately 4 000 carloads of bananas were moved and 147 871 passengers carried.

NICARAGUA

GENERAL FEATURES OF THE COUNTRY

Nicaragua is the largest of the Central American Republics. It has an area of about 49 000 square miles, and its population is estimated at 750 000. Its Atlantic coast line extends for 300 miles, while the Pacific coast line is 200 miles long. The country is crossed by two mountain ranges, causing a diversity in climate and products. Rain is very frequent during the entire year in the eastern part of the country. In the western part there are wet and dry seasons from May to November and December to April.

There are two large lakes--Lake Nicaragua, about 110 miles long and 45 miles wide, navigable throughout, and Lake Managua, connected with Lake Nicaragua by the River Tipitapa. This lake is 38 miles long and from 10 to 16 miles in width. The principal river is the San Juan, connecting Lake Nicaragua with the Atlantic, on which a regular steamship service runs between Greytown and Granada. The Bluefields River is navigable for 65 miles from Bluefields to the city of Rama. In addition to the lakes and rivers, transportation is afforded by fair roads and a small amount of railroad mileage. The principal railroad in the country is the Pacific Railroad, which has 156 miles of track in operation. The other railroads are privately owned and operated and are used for industrial purposes. Some concessions have been granted by the Government for the construction of new roads which, if carried out, will prove valuable additions to the transportation arteries of the country. The railroads are taken up individually as follows:

PACIFIC RAILWAY OF NICARAGUA

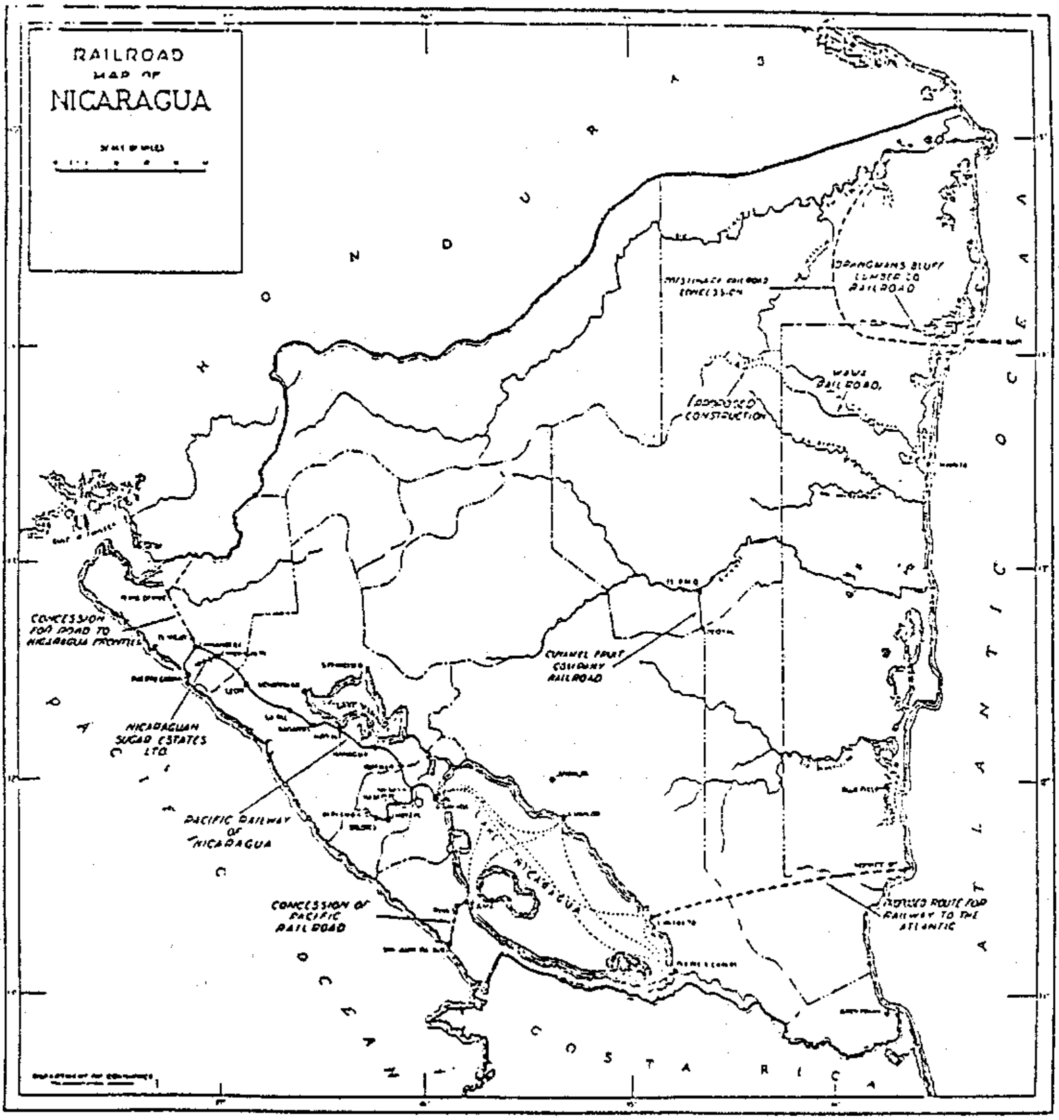
SURVEY OF DEVELOPMENT

Railroad construction of Nicaragua dates back to the year 1878, when the Government proposed to construct a road from Corinto to Granada via Lake Managua. The work was divided into two divisions, the western and the eastern division. The former, the western division, was to start at Corinto and extend through Chinandega, turning abruptly and extending to Momotombo, a port on the western shore of Lake Managua. The eastern division was to begin at Managua, the capital of the Republic and a lake port, and run by way of Sabana Grande to Granada, its terminus on the northern shore line of steamers running between Momotombo and Managua.

The first section of the road to be constructed was that between Corinto and Chinandega on the western division, which was open for service on January 1, 1881. The first shipments were made under rather unfavorable circumstances; the lack of a bridge connecting the island, on which Corinto is situated with the mainland, made it necessary to run two trains, one on either side of the strait. This difficulty was overcome on March 1, 1882, by completion of the Paso Caballos Bridge, a structure of 54 25-foot spans, supported on mild-steel screw piles 12 inches in diameter, which were driven through the mud and sand into the rock.

The line was extended from here to Leon, and the western division was ormally opened to traffic on November 15, 1882, although it was not completed until December 30, 1883, when the road reached its originally called-for port terminus at Momotombo, a distance of 58 miles.

The original contract called for the completion of the eastern division simultaneously with the western, but that division was not opened to traffic until April 5, 1885, and then only from Managua as far as Masaya, a distance of 19 miles. Granada, 12 miles distant, was reached on March 1, the following year. The branch extending to the wharf was completed three months later. The distance covered by the western section at this time was 58 miles, while that on the eastern division was 31 miles, there being a total of 89 miles of road constructed. During this period from 1884 to 1903, communications between Momotombo and Managua were carried on by means of five small steamers on Lake Managua which ran between these two points carrying passengers and freight. In February of the year 1903 the center section of this line between Momotombo Junction and Managua, a distance of 38 miles, was completed. This provided an all-rail route from Corinto to Granada, a distance of 127 miles. Upon the completion of this center section, the branch running from Momotombo to Momotombo Junction, a distance of 8 miles, was abandoned.



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The next step in the development of the road was the construction of a branch line running from Masaya to Diriamba, a distance of 27 miles, in April, 1899. While this road had been first projected by the Government in 1889, it was not until the above year that it was completed. In 1895 a branch line was constructed, running from Chinandega to El Viejo, a distance of 3 miles. This was abandoned in 1917 on account of insufficient traffic. Up to the year 1905 the Government not only had charge of the construction of the road, but of its operation as well. In that year the road was leased to a private syndicate which operated it until 1909; at the end of that time it was returned to the Nicaraguan Government, which operated the line until negotiations where entered into with Brown Bros. & Co. and J. W. Seligman & Co. in March, 1912. Under this agreement the present corporation, the Ferrocarril del Pacifico de Nicaragua, was formed, and the bankers were given the option of purchasing 51 per cent of the capital stock of the new corporation. This purchase was effected in October, 1913, for $1 500 000, the bankers thereby acquiring control of the property. The J. G. White Management Corporation was appointed operating manager of the line for the bankers.

The concession granted to the bankers, which extends for 99 years from June, 1912, exempts the company from all taxes in Nicaragua for a period of 30 years and from all duties on materials imported for its use. Transportation services rendered the Nicaraguan Government by the company are at one-half the regular rates, and free passes are extended to certain officials and employees of the Government. Maximum freight and passenger rates are established, and numerous other provisions are contained in the concession.

In February, 1919, the corporation took over a concession for the construction of a railroad between San Juan del Sur, a Pacific seaport, and San Jorge, a port on Lake Nicaragua. This line was originally projected by the Government in May, 1887, when the Government ordered a number of engineers to prepare studies for the construction of this railway. The line as projected was to extend from San Juan del Sur along the coast to Nacascota Bay by way of Baston, La Calera Jocote, La Chocolata, and up to Rivas, and from there to San Jorge. The line is estimated to be about 22 miles in length and to cost in the neighborhood of 1 000 000 pesos.

On October 5, 1920, by contract, the bankers sold back to the Republic the 51 per cent of railway stock purchased in 1913, the Republic again becoming sole owner of the property. The Republic paid the bankers $300 000 in cash and $1 450 000 in Nicaraguan Government treasury notes. This contract provides for the creation of a committee, or board, of five members to supervise the construction and operation of the line when constructed to the Atlantic coast of Nicaragua and to supervise the operation of this road. At the present time the plans for the road to the Atlantic have not yet been carried out, the committee has not yet been appointed, and no change has been made in the management of the above road.

MILEAGE

A comparison of the mileage in operation for the fiscal years ended June 30, 1914 and 1922, is presented below:

	1914 (miles)	1922 (miles)
Main line	120.046	120.046
Momotombo branch	8.9	[a]
El Viejo branch	3.72	[b]
Diriamba branch	27.05	27.015
Yards and sidings	9.66	9.66
Total	**169.341**	**156.721**

[a] Abandoned.
[b] Discontinued 1917.

OPERATING OFFICIALS

The following is a list of the operating officials of the roads:

President: Frederick Strauss, New York City.
Vice President: James Brown, New York City.
Secretary-treasurers: Earle Baile, New York City.
Assistant secretary-treasurer: Hugo Kohlman, New York City.
Operating managers: The J. G. White Management Corporation,
43 Exchange Place, New York City; Joseph K. Choate, vice president; cable address, "Whitemanco, New York."

In Nicaragua

General manager: Thomas O'Connell, Managua, Nicaragua; cable address "Tomconnell, Managua."
Assistant manager: J. B. Gaylord, Managua.
Engineer of maintenance: G. Saathof, Managua.
Superintendent of motive power: R. Delgade, Managua.
Auditor: E. Schulz, Managua.
Cashier: F. Mora, Managua.
Storekeeper: J. C. Diaz, Managua.
Supervisor fuel and water service: J. R. Foley, Managua.
Traveling auditor: L. Kemper, Managua.
Physician: D. Campari, Managua.
Nurse: R. O'Connell, Managua.

FINANCES

The company has outstanding 33 000 shares of capital stock at a par value of $100 per share. It has no bonded or floating indebtedness except current operating accounts. Under the articles of incorporation the company may issue bonds on the resolution of the board of directors. The net corporate income for the nine fiscal years (ended June 30), 1914 to 1922, inclusive, has amounted to $2 368 433, an average of $263 159 per year. Under the present management and up to June 30, 1922, dividends totaling $1 630 275 have been paid; of this amount the Nicaragua Government received $926 622 and the New York shareholders $702 652.

The cost of the line and its equipment when the present company was formed in 1912 was fixed at $3 243 783, or $22 218 per mile. The book value of the systems on June 30, 1922, was figured at $3 916 549.

TRAFFIC STATISTICS

For the fiscal year ended June 30, 1922, 54 per cent of the transportation earnings of the railway were from freight and 46 per cent from passenger traffic. The volume of passenger traffic carried during this fiscal year was about 30 per cent normal. First-class passengers may carry 66 pounds of baggage free; second class, 44 pounds. First-class fare is 3.6 cents per mile; second class, 44 pounds. First-class fare is 3.6 cents per mile; second class, 1.6 cents. The additional charge for chair-car service is 0.8 cent per mile.

Of the freight traffic moving, manufactured goods, mostly imports, constituted 51 per cent of the total tonnage, while agricultural products formed 34 per cent, products of forests 12 per cent, products of animals 2 per cent, and products of mines and unclassified articles 1 per cent. The absence of low-grade commodities accounts for the high average receipts per ton-mile. The steamship traffic on Lake Nicaragua amounted to 1 706 tons of freight and 12 955 passengers carried. The total operating revenue was $24 353, of which 66 per cent was derived from passengers carried and 26 per cent from freight. The average receipts per passenger carried were $1 247; per ton of freight, $3 718. The metric system of weights and measures is used.

The following statements are indicative of the traffic on the road for the fiscal year ended June 30, 1922.

Table IV.4.10

PACIFIC RAILWAY OF NICARAGUA: TRAFFIC STATISTICS FOR FISCAL YEAR ENDED JUNE 30, 1922

Item	Dollars	Number or quantity
Passenger traffic:		*Number*
First class	78 861	73 851
Second class	125 402	387 494
Special	126 174	14 835
Total	**230 437**	**476 180**
Freight traffic:		*Tons*
Products of agriculture	149 729	18 441
Products of animals	9 185	1 404
Products of mines	911	333
Products of forests	20 284	6 366
Manufactures--		
Sugar, refined	57 015	11 969
Imports	98 496	16 019
Miscellaneous	1 345	214
Total	**336 965**	**54 746**
Express traffic	52 531	5 088

Note: In revenue the percentages of the total are: Passenger, 37.17 per cent; freight, 54.36 per cent; express, 8.47 per cent.

WAWA RAILROAD CO.

Several years ago a group of American mahogany companies financed the construction of a railroad in the vicinity of Wawa on the Atlantic coast of Nicaragua. Those engaged in the project were the Wawa Commercial Co., the Astoria Mahogany Co., the Otis Manufacturing Co., and the Freiberg Mahogany Co. The main object of the road was for hauling mahogany. The road as built was 48 miles long and of standard gauge, 4 feet 8 inches. The original concession called for the construction of a 75-mile road to begin at the point on the Cuculaia River and run in a northwesterly direction following the course of the Bombana and Oconguas Rivers, ending in the mineral region of Pis Pis. In addition the Government gave to the concessionaire, for each mile of the road built, every alternate lot of 1 000 hectares on each side of the right of way. A large sum of money was spent on this construction, but it was not operated to any extent, and the Wawa Commercial Co. failed. Its liabilities mounted from $200 000 to $600 000. Its property was taken over by Mr. Rene Fransen, a Belgian resident of Bluefields, who was one of the principal creditors. Only 6 miles of road is now being operated by him, and that for logging purposes. The remainder of the line needs considerable repairs before it can be used. At the present time there are in use three Shay wood-burning logging locomotives and 22 flat cars. Water for locomotives is pumped into tenders from streams. Mr. Fransen expects to reconstruct a portion of the old road next year, but whether he will accomplish this is doubtful.

CUYAMEL FRUIT CO. RAILROAD

The Cuyamel Fruit Co. started building railroads in Nicaragua in March, 1921. At this time about 4 miles were constructed. Since that time 4 additional miles of sidings have been constructed. The road is owned and operated by private capital. The termini of the road are El Galo Farm and Ocotol Farm. The traffic on the road is confined mainly to the handling of bananas.

MILEAGE

The mileage of the main line is 8 and of the spurs 4. Additional branches are constructed to take care of additional planting when done.

OPERATING OFFICIALS

The Manager for this road in Nicaragua is Ernest Schultz, who may be addressed in care of the Cuyamel Fruit Co., El Galo Farm, Nicaragua.

BRANGMAN'S BLUFF LUMBER CO.

In March, 1923, Leroy T. Miles obtained a permit from the Government of Nicaragua to purchase 20 000 hectares of nationally-owned land in the vicinity of Brangmans Bluff at the rate of $2 per hectare. The Brangmans Bluff Lumber Co. was formed to exploit the pine region in that section. The concession granted by the Republic of Nicaragua authorizes them to operate sawmills, wharves, wireless stations, and everything pertaining to a port, as well as a railroad. The company plans to construct some 30 or 40 miles of standard-gauge railroad back from the coast. Six miles of track have already been laid, and the grading has been finished on 15 additional miles. The road will be used exclusively for logging purposes, but later, if sufficient capital can be invested, planting of bananas will be undertaken. The road has at the present time one locomotive and 10 cars. All purchases are made by the Salmon Brick & Lumber Co., 913-914 Whitney Central Bank Building, New Orleans, La.

PROJECT FOR RAILWAY TO THE ATLANTIC

While nothing definite is known as to the exact status of the railway to the Atlantic, it is known that in 1887 a contract was granted for the construction of a road to be known as the Atlantic Road running from the port of San Ubaldo (on the eastern side of Lake Nicaragua) to some point on the Atlantic or on one its navigable rivers. The contract was amended on July 29, 1891, and Rama was selected as the Atlantic terminus.

Apparently the original project has been dropped, for according to a survey made in 1920-21, the proposed route will extend from San Miguelito, on Lake Nicaragua, to Monkey Point, on the Atlantic, a distance of 117 miles. It is planned to construct a line of a 3-foot 6-inch gauge with a maximum grade of 2 per cent. The cost of equipment necessary for its operation was estimated at $6 215 798. This includes $978 414 for a breakwater and other port-development work at Monkey Point. It does not, however, include the purchase of lands for right of way or other railway and port-development uses. The line will not connect directly with the Ferrocarril del Pacifico de Nicaragua, as San Miguelito is at the eastern end of Lake Nicaragua while Granada, the inland terminus of the Pacific Railway, is at the western end. Connection will be made by water over the lake, a distance of 90 miles.

NICARAGUAN SUGAR ESTATES RAILROAD

The road which belongs to the Nicaraguan Sugar Estates (Ltd.) extends from the sugar mill to connect with the Pacific Railway at Chichigalpa. Its construction was authorized by a decree in 1916.

Purchases on this road are made by the manager of the Nicaraguan Sugar Estates Railroad, Chichigalpa, Nicaragua.

It has 6 miles of main track of 42-inch gauge and 7 miles of 24-inch track running through the cane fields.

CONCESSION FOR CONSTRUCTION OF ROAD TO NICARAGUA FRONTIER

On May 17, 1920, a contract was signed between the Nicaragua Minister of Fomento and a representative of Rene Keilhauer for the construction of a road from a point on the Gulf of Fonseca or from Playa Grande to Chinandega, at that point connecting with the Pacific Railroad. Provision was also made in the contract whereby the contractor will have to construct a branch to the Honduran frontier, to a point on the Rio Negro. The gauge of this road is the same as that of the rest of the Nicaraguan system. Preliminary surveys are to begin 90 days after the approval of the contract by the President, and final plans must be submitted within the four following months, contractors to have exclusive rights of the road without any interference from the Government. The railway company will be considered, from the time of the signing of the contract, as a public utility and will enjoy all the rights and privileges of such as conferred by the law; the Government will condemn any property necessary to be used as right of way. The right of way is to be 100 feet wide along the entire line except where switches, yards, etc., may be installed; the width of these places will be increased if necessary. The concession allows the company to construct a wharf on the Gulf of Fonseca or on the inlet of Playa Grande at its discretion. The Government reserves the right to purchase the road and wharf after 60 days from the date of beginning of work.

COSTA RICA

GENERAL FEATURES OF THE COUNTRY

Costa Rica occupies in Central America an area of 54 000 square miles, with a population of 379 000. The broken character of its surface, in which the mountain ranges alternate with plains, the variety of its climate, and the fertility of its soil, crossed regularly by large and small rivers, indicate that it is an agricultural country of great possibilities and one where railways may have extensive development.

That this development has been delayed is due to the absence of capital and immigration. The transportation facilities of the country are few and consist mainly of the two principal railroads, the Pacific Railroad and the Northern Railroad, together with their branch lines extending to various plantations. There is less than 40 miles of road suitable for traffic by heavy motor vehicles. The majority of the roads are suitable for use only by oxcart, and transportation to many of the smaller towns and the more remote villages is by means of mules and horses. The San Juan River, the most important stream, in Costa Rica, is navigable for a considerable distance by large vessels. Rivers and lakes are numerous and afford opportunities for the development of hydroelectric power.

Although Costa Rica is somewhat backward in the construction of railroads, it is interesting to note that Richard Trevithick, who disputes with Stevenson the honor of having invented the locomotive, was in this country during the years 1822 to 1827 and that he proposed the construction of a railway from the limit of navigation of the River Sarapiqui to the capital and from there to the mines of Aguacate and Machuca. If the project had been carried out at that time, Costa Rica would have had the distinction of being the first field of trial for an invention that has transformed the economic and social conditions of the world.

Before the railroads exportation and importation were carried on through the port of Puntarenas, on the Pacific, and then through Carrillo by oxcarts, the trip taking eight days to the central table -land from the coast. This route was in use until 1890 and resulted in the development of an ox-drawn cart in Costa Rica, which performed a service similar to that of prairie wagons in the United States.

The roads in Costa Rica occupy the central strip of the Republic, there being no rail communication to either the north or the south. Railroad construction was started in the year 1854, when Ricardo Farrer constructed, between Puntarenas and La Barranca, a "bloody" tramway, which was later abandoned. From this time onward railway development continued until, at the present time, a through route exists from coast to coast, consisting of the following railroads: Costa Rica Railway Co. (Ltd.), Northern Railway Co., Pacific Railroad, and the Guanacaste Railway Concession.

RAILROAD LAW

Until the promulgation of the railroad law of 1909 legislation on the subject did not exist in Costa Rica. The relations between the companies and the Government were regulated by contract and general laws controlling civil relations. The principal features of the railroad law of December 1,1909, are as follows:

All construction in Costa Rica of a railroad for general use requires authorization by the Congress. The concession which is agreed upon can not exceed 99 years and implies strick adherence to the laws of the Republic.

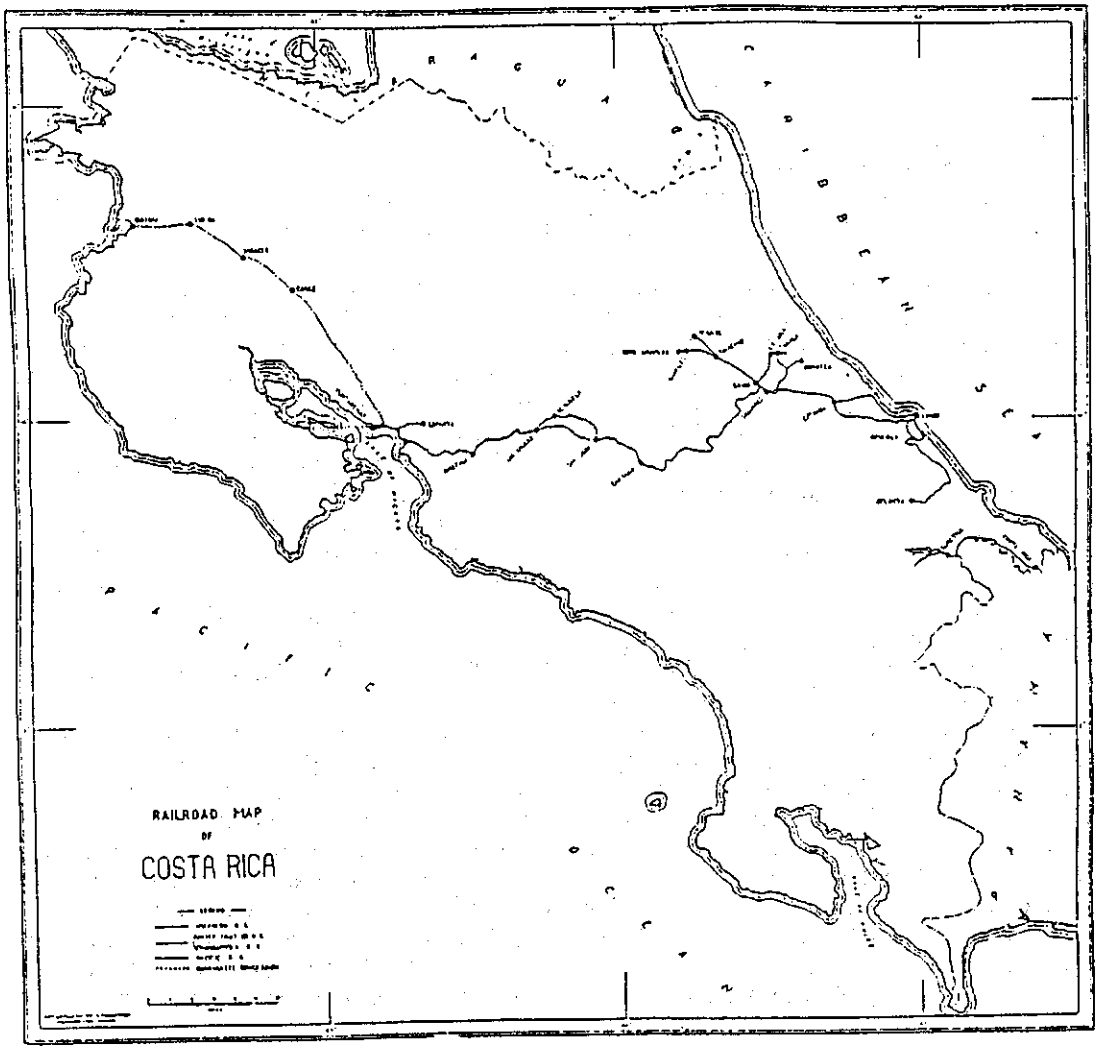
No concession can establish a monopoly in favor of an enterprise; however, the State may agree to subventions, advantages, and privileges.

Every conveyance of a railroad concession require the approval of Congress, but in no case can this be granted to a foreign government.

No State railroad can be leased without authorization of Congress. Whoever seeks a rail concession shall apply to the Ministerio de Fomento, and in case of approval the applicant shall put up such deposit as that department stipulates in order to guarantee compliance with the obligations of the contract.

Railroad companies may be organized abroad but must always be Costa Rican.

The State has the right to supervise, regulate, and inspect the railroad.



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

Proportionate tariffs are similar for competing roads.

No railroad company can object to its lines being crossed by other lines, public roads (highways), or canals.

Only in case of war or internal crisis can the Government order the suppression of railroad traffic, recompensing for damages and losses.

The companies will be responsible for losses which occur to persons or interests through deficiencies in the established service except when demonstrated that such deficiency is not traceable to the companies. No railroad can refuse to transport passengers or merchandise at the rates fixed by its tariff.

The tariffs will be "legal, general, or special." The first represent those that the company can not exceed and that are fixed by the respective concessions; the second are those that the companies establish. All others are special.

In the last group those based upon distance are "proporcionales" (proportional), while those established outside this criterion are "diferenciales" (differential).

Factors in rate making are distance and weight.

Complete carloads or trainloads also may be factors in rate making, and for this purposes the companies should establish the sizes of these in advance.

COSTA RICA RAILWAY CO. (LTD.)

SURVEY OF DEVELOPMENT

The Atlantic Railway Co. (Ltd.) was organized in 1871 to take over a contract for the construction of a railroad from Port Limon to San Jose and from San Jose to Alajuela. This concession was secured by Henry Meiggs from Manuel Alvarado, Minister of Public Works, acting for the Government of Costa Rica, on July 20, 1871. It was approved on August 18, 1871, by decree No. 34, and construction work was started at Alajuela in October of the same year. Mr. Meiggs, being actively engaged in railroad construction elsewhere, this time turned his interests over to Minor C. Keith, who undertook the construction. At this time a loan of £2 400 000 was secured. It may be pointed out here that the construction of the road was started inland and worked toward the coast. This was a political necessity and as such it may have been expedient, but it resulted in great waste of money, since the cost of transportation of a locomotive from Puntarenas to Alajuela overland by mule amounted to 400 000 colones.

In April, 1874, according to the resolution of November 7, 1873, this contract was terminated and the Government undertook to complete the work. At that time the railroad was complete and open to public service from Limon to Matina, 21 miles, and from Alajuela to Cartago, 27 miles. The roadbed was graded from Matina to the Pacuare River, 10 miles, and from Cartago to a point 10 miles east of Cartago. The cost of this work amounted to 8 000 000 colones. On October 4, 1875, a new contract was signed by the Government with Meyers and Douglas to complete the line from Matina to the Pacuare River. On February 14, 1879, the Government entered into a contract with Minor C. Keith to construct a railroad from the Pacuare River to Reventazon River, 7 miles. On September 14, 1879, the Government entered into a contract with Minor C. Keith to construct a railroad from the Reventazon River to Rio Sucio, 30 1/3 miles. This portion of the railroad was completed in March, 1882. Great difficulty was experienced in maintaining bridges on the last 8 miles of this line, and in 1893 the Government authorized the company to abandon the 8-mile stretch between the Rio Sucio and the Toro Amarillo River.

In 1883 a proposal was submitted to the Costa Rica Government by Minor C. Keith for the construction of a railroad from Cartago to join with the Limon-Rio Sucio line at the Reventazon River crossing, a distance of 51 miles. This proposal was accepted by the Government by decree No. 2 of April 21, 1884, which stipulated that Minor C. Keith furnish the capital for the work. Accordingly, a company was organized in London April 21, 1886, under the name of the Costa Rica Railway Co. (Ltd.), and approved by decree of December 31, 1886. The company had previously been called the Atlantic Railway. Construction was commenced at Cartago on August 20, 1886, and the railroad was connected up with the Limon-San Jose and Alajuel line and was opened to through traffic on December 7, 1890. Under this concession the Costa Rica Railway Co. (Ltd.) retains full ownership of the railroad for a period of 99 years from January 1, 1891. The road was operated under this name until 1905, when on July 1, of that year the Northern Railway Co. leased the above road from the Costa Rica Railway Co. (Ltd.) for the remaining period covered by their concession. Since that date the road has been operated jointly with the Northern Railway Co.'s properties. The following additional branches have been authorized:

Agreement No. 52, of September 13, 1900: The Cairo branch, 2 miles, costing 75 250 colones.

Agreement No. 83, of December 3, 1902: The extension of the branch as far as Rio Peje, 2 1/3 miles, costing 78 421 colones.

Agreement No. 27, of July 25, 1903: The extension to the estate La America, 2 1/3 miles, costing 54 825 colones.

Agreement No. 101, of March 5, 1904: The extension of the Cairo branch as far as Los Negritos, 3 2/3 miles, costing 200 000 colones.

Agreement No. 74, of July 30, 1904: "La Herediana" branch, 2 miles, costing 52 500 colones.

Agreement No. 163, of September 24, 1906: Branch from the town of Matina to the river of the same name, 5 miles, costing 56 860 colones.

A summary of the mileage and cost of the Northern Railroad in 1905 at the time when it took over the Costa Rican Railroad is as follows:

Lines	Miles	Cost, in colones
Costa Rica Railway		
Alajuela to Cartago	27	8 000 000
Limón to Siquirres	38	---
Siquirres to Guapiles	20	2 000 000
Cartago to Reventazón	52	8 764 422
Cairo branch	3 1/2	75 250
Ramal del Cairo prolongation	2 1/3	78 421
Ramal de "La América"	2 1/3	54 825
Ramal del Cairo, prolongation	3 2/3	200 000
Ramal de "La Herediana"	2	52 500
Ramal de Matina	5 1/2	56 861
Subtotal	**156 1/3**	**19 282 279**
Northern Railway Co.:		
Limón to Banano	9 2/3	---
Limón to Zent	21	---
Línea de Zent (special)	4 2/3	---
Ramal de la Luisa	9 2/3	---
Other branches	27 2/3	---
Subtotal	**72 2/3**	---
Independent	65 2/3	---
Total	**222**	---

FINANCIAL HISTORY

The Costa Rica Railway Co. (Ltd.) was registered April 22, 1886, to take over the then existing lines in Costa Rica and to construct additional lines, and, as part of an arrangement of the debt of the Republic of Costa Rica which was made in 1885, shares of the Costa Rica Railway were given for interest in arrears on loans that had been issued in 1871 and 1872. The Government transferred its railways for a period of 99 years from the completion of the new lines, which was January 1, 1891, free of any charge, and in addition conveyed to the company 800 000 acres of land in consideration of the allotment to the Government of one-third and to the Government bondholders of about one-third of the company's share capital.

The company raised capital by certain debenture issues, but the early years of its existence were filled with difficulties. A committee of investigation was appointed in 1895, and a long report was issued concerning the company's position and prospects. From the very first a number of disputes arose and a good deal of competition had to be faced from the Northern Railway Co. of Costa Rica, which was an offshoot of the United Fruit Co., and in 1904 lengthy negotiations took place with a view to eliminating this competition. Eventually it was arranged that the Northern Railway Co. should be granted a lease of the Costa Rica Railway for a period of the remainder of its concession, less the last two months.

This agreement was approved in the early part of 1905, and since July 1 of that year the operating of the company's venture, until the termination of the concessions less two months, was transferred to the Northern Railway Co. of Costa Rica (the whole of whose share capital of $1 000 000 is owned in Great Britain) with the understanding that the railway shall be kept in good working order and the right to construct branches transferred to the Northern Railway Co., which paid to the Costa Rica Railway Co. £131 100 for the year ended June 30, 1906, a similar sum for 1906-7, £135 600 for 1907-8, a similar sum for 1908-9, £150 1000 for 1909-10, £144 600 for 1910-11, and £149 100 for each of the 10 years to 1920-21.

The annual payment for the last 10 years is subject to an increase in the event of the prior mortgage debentures being increased from £380 000 to £400 000, while in the event of any complete issue of the debenture being paid off the rental is to be reduced by the amount of the annual service of such debentures. The performance of the obligations of the lease is guaranteed by the deposit with the trustees of the whole of the share capital of the Northern Railway Co. to the amount of $1 000 000.

The Northern Railway Co. itself is a comparatively weak undertaking which had been worked at a loss for some time previous to 1905. Its capital was small and it was certainly not in a position to provide much money if the sum were needed to fulfill its bargain. Consequently the directors of the Costa Rica Railway made every effort to get the above-mentioned agreement arranged with the backer of the northern Railway Co., the United Fruit Co. That organization, however, refused to be tied up in any manner with this concern. It might be well to point out here, as regards the performance of the obligation of the lease, that while this is guaranteed by the deposit of the share capital of the Northern Co. it is very obvious that this, being only in shares, might easily be of little value. According to the Stock Exchange Yearbook, the authorized capital stock is £1 800 000, with power to issue £655 000 first mortgage 6 (formerly 6) per cent debentures, £600 000 second 6 (formerly 6) per cent debentures, £200 000 5 per cent prior mortgage debentures (2d series).

NORTHERN RAILROAD CO.

SURVEY OF DEVELOPMENT

The origin of the Northern Railroad Co. dates back to decree No. 2, of November 8, 1892, which approved a contract between the Minister of Public Works and Richard Schutte, covering the construction of a railroad from Limon to the Rio Banano River. This concession was transferred to Minor C. Keith on February 27, 1893, and from Minor C. Keith to the "Compañía Industrial y Agrícola de Costa Rica" by decree No. 58, of October 14, 1893, and by them to the Tropical Trading & Transport Co. on February 28, 1895. It was transferred to Hoadley & Co. on March 8, 1895, and by them to the United Fruit Co. on Jyly 21, 1900, which transferred it to the Northern Railway Co. on July 1, 1901.

Decree No. 21, of February 28, 1894, approved the contract between the Minister of Public Works and Hoadley & Co. for the construction of a railway line from the Matina River to the Banano River. This was transferred to the Tropical Trading & Transport Co. on March 9, 1895, to the United Fruit Co. on July 2, 1900, and to the Northern Railway Co. by decree No. 1, of July 2, 1901.

On October 29, 1900, a Contract was approved between the Minister of Public Works and the Tropical Trading & Transport Co. to construct a branch ine railway on the right-hand side of the River Matina in the Estate La Luisa. This concession was transferred to the Northern Railway Co.

On July 1, 1905, the company leased the Costa Rica Railroad Co. line for the remaining period covered by its concession.

MILEAGE

The total mileage of the Northern Railway Co. in compared with 1913, is made up as follows:

	1913	1922
Costa Rica	163	189 4/5
Northern Railway (own property)	127	65 1/2
United Fruit Co. (plantation tramways)	79 1/2	75 1/2
Total	**369**	**331**

No construction work is going on, nor is any proposed.

TRAFFIC STATISTICS

The following table indicates the traffic over the roads for the calendar years 1913 and 1922:

Table IV.4.11

COSTA RICA: NORTHERN RAILROAD CO.: TRAFFIC STATISTICS, CALENDAR YEAR 1913 AND 1922

Items	1913	1922
Exports:	*Tons*	*Tons*
Bananas	276 423	133 419
Coffee	15 092	13 602
Sugar	2 225	4 395
Lumber	9 935	16 255
Cacao	979	5 274
Imports:		
Cereals	4 225	3 773
Flour	6 857	7 689
General merchandise	59 844	41 654
Miscellaneous	44 777	33 669
Total	**420 357**	**259 730**
	Number	*Number*
Passengers carried	678 873	973 321

OPERATING OFFICIALS

The following is a list of the officials of this road:

G. P. Chittenden, manager, Limon, Costa Rica.
M. M. March, superintendent, Limon, Costa Rica.
R. J. Salassi, accountant, Limon, Costa Rica.
F. Sheehy, trainmaster, Limon, Costa Rica.
R. Ferris, master mechanic, Limon, Costa Rica.
G. E. Kirk, roadmaster, Siquirres, Costa Rica.
F. W. Thomas, storekeeper, Limon, Costa Rica.
Y. Sorensen, wharfinger, Limon, Costa Rica.
M. O. Carter, general foreman, building construction, Limon, Costa Rica.
J. J. Carrana, telegraph and telephone inspector, Limon, Costa Rica.

PACIFIC RAILWAY

SURVEY OF DEVELOPMENT

Authorization for the construction of the Pacific Railway was provided for in agreement No. 14, of March 25, 1879. The road extends between San Jose and Puntarenas and is the property of the State, by which it was constructed. Under the agreement a section of 21 726 kilometers was constructed between Esparta and Puntarenas at a cost of 1 900 000 colones, the entire cost of the Pacific Railway being 12 000 000 colones. Construction of the railway proper was begun after the approval by Congress of the contract for its construction made August 6, 1879, between the Minister of Fomento and John S. Casement. This contract provided for the construction of a road between San Jose and Tivives, the only harbor on the Pacific coast. The total amount paid for the fulfillment of the contract was $2 998 971, American gold. Under this contract 69 kilometers were built between San Jose and Orotina, the work continuing slowly but regularly until it reached the valley of Santo Domingo de San Mateo, where it was ended, the contract being broken by mutual consent of the parties in December, 1902. The cost for this stretch amounted to 6 744 059 colones, which also included the equipment.

In the meantime the citizens of Puntarenas, seeing that their interests were threatened by having the road constructed to Tivives instead of Puntarenas, started a movement to have the road constructed to their port. This was authorized by Congress May 28, 1904. Under decree No. 10 of November 22, 1905, Congress authorized the executive power to continue the work on the Puntarenas-Esparta line and to construct a branch between Las Ciruelas and Alajuela. Under this authority, the president continued work on the line and constructed 15.2 kilometers between Orotina and Las Cruces at a cost of 242 848 colones.

On August 28, 1908, Congress approved the contract between the Minister of Fomento and Warren S. Knowlton, to finish the road and to establish direct communication to the Pacific. This was accomplished at a cost of 1 069 689 colones, and the line was placed in service in October, 1910.

From that time to the present the line has been administered by first one group and then another, until May, 1921, when an executive order delegated the direction, administration, and management of the railroad to an administrative council of five members, including one engineer, one farmer, and one merchant. This council is authorized to direct the exploitation of the railroad with the view, primarily, of developing the agricultural industry. Earnings adequate to return interest on the capital are not contemplated, but proper maintenance and expansion of the lines is to be provided out of railway revenue. The council appoints the administrator of the railroad and the administrative personnel. It regulates tariffs and passes upon projects for strengthening the lines, in general performing the functions previously delegated to the Secretary of the Interior.

The funds of the railroad will be deposited, day by day, in the national tax office in an account completely separate from that of the public treasury. This account can be drawn upon only by the admnistrator with the countersignature of the auditor, but those officials will not authorize any draft upon it which is not destined to cover some part of the budget or which is not provided for by some resolution of the council.

The auditor at the close of each day remits to the president of the council.

The board can, in case it is necessary to cover ordinary expenses in the administration, borrow money, but it must not compromise for the payment of such loan more than the balance of receipts after meeting the requirements of the current service. It will inform the Secretary of the Interior immediately for any such transaction.

For any other loan or for compromises the railroad must request legislative authorization through the secretary and must secure his approval.

OPERATING OFFICIALS

The road is operated by the Government under a body known as the Consejo Aministrativo de Ferrocarril al Pacifico, San Jose, Costa Rica. The administrator general is R. Yglesias. The operating officials are as follows:

General manager: Jose Cabezas.
Secretary: Manuel Barrionuevo.
General superintendent: Leon Rojas.
Cashier: Gonzalso Guiros.
Auditor: Manuel F. Quesada.
Traffic manager: Anibal Chacon.
Master mechanic: Jose Chavarria.
Master car builder: Arturo Flores.
Chief engineer: Vincent E. Gregg.
Road master: Ildefonso Mora.

FINANCES

A comparison of the road's revenues for the calendar years 1913 and 1923 is as follows:

Table IV.4.12

COSTA RICA: PACIFIC RAILWAY, COMPARISON OF REVENUES, 1913 AND 1923

Revenues	1913		1923	
	Kilos	Colones	Kilos	Colones
Freight:				
General merchandise	64 756 744	278 597.94	66 497 386	868 580.10
Lumber	19 658 493	87 651.40	23 412 489	197 426.60
Coffee	1 781 836	21 364.20	4 257 642	107 408.95
Hides and skins	60 935	730.61	1 113 868	39 181.70
"Encomiendas"	1 296 640	40 563.20	2 027 481	50 734.50
Baggage	34 320	4 003.10	66 219	6 168.75
Total Freight	**87 588 968**	**432 910.45**	**97 375 085**	**1 269 500.60**
Passengers	---	287 082.50	---	444 010.50
Storage	---	352.70	---	2 194.85
Special trains	---	18 936.75	---	66 283.65
Car movement	---	19 407.85	---	26 255.18
Total Revenues	**---**	**758 690.25**	**---**	**1 808 244.78**

MILEAGE

The mileage of the road for the calendar year ended December 31, 1923, is as follows:

	Miles
Main Line: San Jose to Puntarenas	68.35
Branches:	
Roble to Esparta	6.83
Ciruelas to Alajuela	4.97
San Jose to junction with Northern Railway	1.24
Subtotal	**81.39**
Yard trackage	5.09
Total	**86.48**
Under construction	5.2

CONCESSION FOR CONSTRUCTION OF RAILROAD IN PROVINCE OF GUANACASTE

A contract was concluded August 7, 1920, between representatives of the Costa Rica Government and H. H. J. Tost for the construction of a railway across the Province of Guanacaste.

According to the terms of this contract, the contractor agrees to organize a company, which may be either national or foreign, to construct a railway beginning at Puntarenas, crossing the Province of Guanacaste, touching towns of Canas, Bagaces, and Liberia and ending of at the bay of Coco or that of Culebra. If it proves impossible or entirely unfeasible to cross the estuary with the railway, the contract grants permission to begin the line at the most convenient point between Esparta and Puntarenas. The company must be organized within three months after final approval of plans.

The preliminary survey to be made by the contractor must be begun within six months from the day the law approving the contract is published and must be concluded within 18 months thereafter. Within that period detailed plans and specifications are to be submitted to the Secretary of Fomento, whose approval or disapproval must be given within 90 days after their receipt.

Failure to present plans and specifications or to organize the company within the periods designated makes the contract null and void, with no right of redress through legal action. The same course is to be followed if, after the company is organized, it does not begin construction within the specified period, unless war, strikes, or similar circumstances interfere with the transportation of supplies from the United States. In this case an extension of time, equal to the period of delay plus six months, is allowed.

A minimum of 25 kilometers per annum must be constructed and the railway must be finished throughout its extent five years after construction is begun. If, during the period, work should have to be suspended because of war or strife occurring in either Costa Rica, or the United States, or for any other equally valid reason, an extension, equal to the period of interruption, will be granted.

The contract gives permission for the use of coal, petroleum, or electricity for motive power. If electricity is used, water power existing in the concession may be used without payment to the Government.

Materials necessary for the enterprise may be imported free of customs and similar charges, both during construction and for subsequent maintenance. The company is also relieved, during the life of the concession, of all municipal and national imposts on railway enterprises.

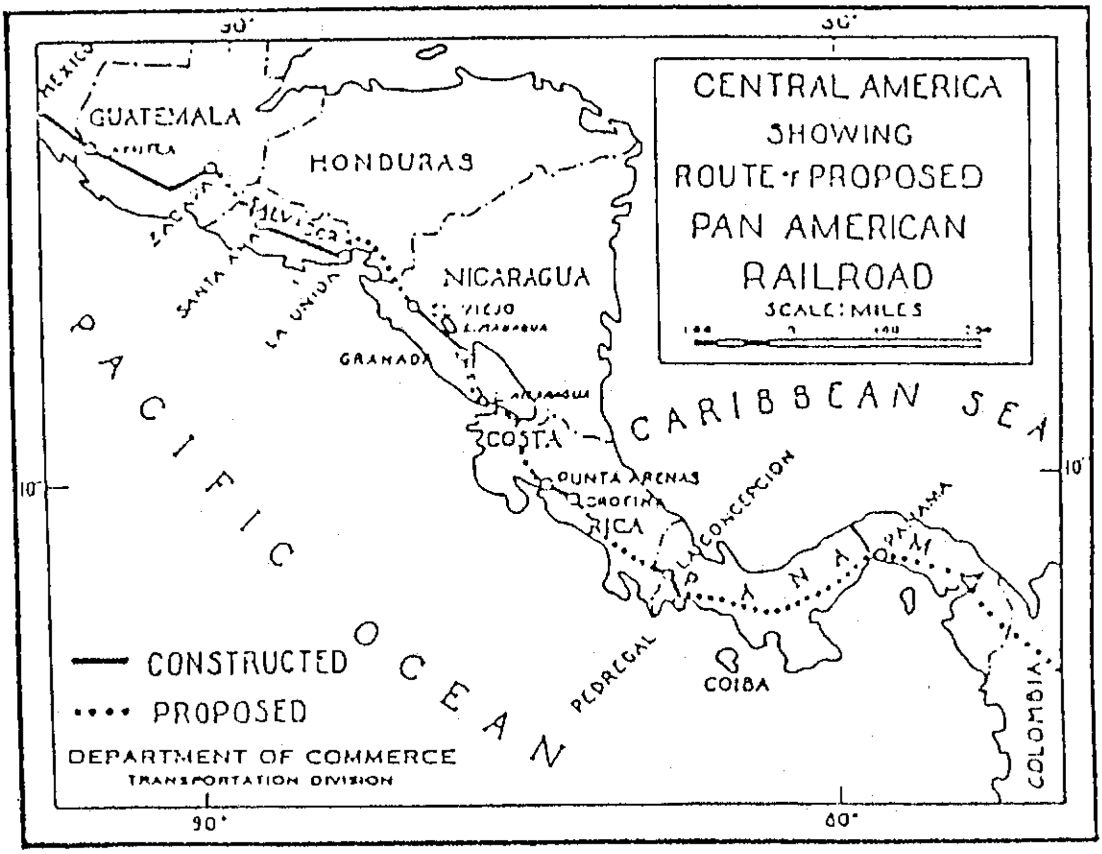
Beginning with the day when construction begins and for 20 years thereafter, the Government guarantees a 6 per cent return on the capital invested, up to a minimum investment of 4 000 000 pesos. If, within the 20-year period, a net return of more than 6 per cent is earned, half of the excess is to be devoted to amortization of advances made by the Government under its guaranty. This guaranty does not apply to branches, whose construction may be authorized.

Sixty years after the line is open wholly and officially to public traffic, the railway, including telephone, telegraph, hydroelectric, and all other properties, shall revert to the State, without payment, and must be handed over in good condition and free from every sort of obligation.

Within 90 days subsequent to the promulgation of the law approving this contract the contractor shall give a guaranty of $50 000 to provide for the fulfillment of the obligations of the contract.

PAN AMERICAN RAILROAD

Ideas for an international Pan American railway were entertained in the early eighties, but it was not until 1889 that any actual steps were taken toward the formation of a plan to bring about such a road. A resolution was adopted by the First International American Conference held in Washington in 1889-90, which recommended the construction of an intercontinental railroad extending from New York to Buenos Aires, passing through the republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Ecuador, Peru, Bolivia, and Argentina, an estimated distance of 10 116 miles. A committee was subsequently appointed to make surveys for the construction of this road, and a report covering this project was issued. The report is in five volumes, together with maps and profiles and detailed explanations of the route chosen. It is estimated that between 65 and 70 per cent of the entire road, taking advantage of available lines, was completed prior to 1914. Since that date construction has amounted only to a few miles.



The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations.

At the present time communication exists between New York and the Mexican-Guatemalan border. This border is formed by the River Suchiate. The trains of the Pan American Railroad of Mexico stop on the Mexican side of the river. Directly across the river is the town of Ayutla which is the terminus of the International Railways of Central America in Guatemala. The river is not bridged, and consequently both freight and passengers have to disembark on the Mexican side going south and on the Guatemalan side going north. From Ayutla, the line as projected will utilize the lines of the International Railways of Central America which are now in operation in Guatemala running from coast to coast. Certain sections of these lines will form an excellent feeder service to the main line of the company, which will be utilized as a section of the Pan American Railway.

From Zacapa, a point on the Guatemalan lines, the International Railways of Central America is intending to construct a line to the Salvadorean border. It has already secured a concession from the Government of Guatemala for this purpose, and some grading and construction on this line have been done. From this point on the Salvadorean border the same company has secured a concession from the Government of Salvador to construct a line to Santa Ana. At the present time work is proceeding on this section. Unfortunately, however, the company has not been able to secure a concession enabling it to enter Santa Ana to connect up with its other road which extends from La Union to this point. On completion of these two short stretches, through transportation will be afforded to La Union, the Pacific seaport of Salvador.

The International Railways have also secured a concession from the Government of Salvador for the construction of a line to extend from La Union to a point on the Salvador-Nicaragua border and from the Nicaraguan Government a concession for a line from this point on the Salvador-Nicaragua border to connect up with El Viejo, the terminus of the Pacific Railway of Nicaragua. The plans for the Pan American Railway call for the utilization of the Pacific Railway of Nicaragua as far as Grenada, located on the shore of Lake Nicaragua. As far this point little construction will be necessary, but the remainder of the distance from Grenada to the Colombian frontier is where most of the work will have to be done, since the through road can utilize practically none of the existing railroads in Costa Rica and Panama. Fortunately all connect with a terminus at some point on the through road, thus providing through service without additional connections. From Grenada it will be necessary for the company to secure a concession for a line to a point on the Nicaragua-Costa Rica border, and also to secure a concession from the Costa Rica Government for a line from this point to Puntarenas in Costa Rica. At this place the road will connect with the Pacific Railway of Costa Rica which it will follow as far as Orotina. In this country as well, fortunately the lines are all linked up with a point on the proposed through Pan American Railway and consequently no additional connection will have to be made. From Orotina it is intended to extend the road in a southerly direction to the Panama border. It will be necessary to secure a concession from the Government of Costa Rica for the construction of the road from Orotina to the Costa Rica-Panama border.

In Panama it is planned to obtain a concession to construct a line from the point on the Panama-Costa Rica border to LaConcepcion, one of the termini of the Chiriqui Railway. This road will be utilized to some extent and also will act as a feeder to the main line from La Concepcion. The Chiriqui Railway will be utilized as far as Pedregal, and from there plans call for the road to extend south until it reaches Panama City. From there it will follow the coast, keeping west of the mountain chain and continuing into Colombia. For the Panama section it will be necessary to secure a concession from the Government.

5. RAILROAD LOSSES IN GUATEMALA (1958)

From: International Railways of Central America; Memorandum for the Department of State; October 16, 1958; Lot file 60D 647, box 6, under heading "Guatemala - International Railways of Central America (IRCA)"; Records of the Office of Middle American Affairs, Department of State; NARA.

October 16, 1958

Memorandum for the Department of State

Re: International Railways of Central America

The Company, a New Jersey corporation, operates an extensive railroad system in Guatemala and El Salvador, supplying virtually all rail transportation in those two countries. This memorandum deals with its present desperate – virtually hopeless– position.

1. Enormous losses in Guatemala during 1958

Losses in Guatemala in 1958 have been so severe that the Company will soon be without resources to continue operations; suspension of operations will profoundly and adversely affect social and economic conditions. Whether the Company can continue operating in El Salvador, if obliged to suspend in Guatemala, is problematical because if operations in that country had to be burdened with all the Company's overhead expenses it is highly probable that those operations would no longer be profitable. This is especially to be feared in view of the extension of the El Salvador highway system and construction of the new port in Acajutla. Furthermore, much of the El Salvador traffic is through traffic to and from the Atlantic port in Guatemala of Puerto Barrios; this through traffic involves constant interchange of equipment (locomotives and cars) on a large scale.

A major crisis is at hand.

In 1958 through August 31, the Company lost $941 889 on Guatemala operations. Of this amount, $388 000 was for depreciation and amortization of reverting properties. Even if these necessary and proper charges were disregarded, the Company failed to cover *its actual out of pocket expenses* in Guatemala by about $554 000. This deficit had to be made up by sending cash to Guatemala from outside.

There were operating losses in Guatemala *in every month of 1958* except April, when there was a small profit of $62 977.

The operating loss in Guatemala for September 1958 is estimated to be $350 000.

The operating loss in Guatemala for the year 1958 is estimated at $1 600 000. Of this amount $580 000 represents depreciation and amortization of reverting properties. The estimated *out of pocket deficit* in Guatemala for the year 1958 is thus *over $1 000 000,* meaning that this amount of cash has to be provided from sources *outside* Guatemala to maintain service in that country.

The figures given regarding losses and profits do not take into account United States income tax credits or debits.

2. El Salvador operations are being used as a subsidy for Guatemala

In 1958 through August 31, operations in El Salvador show a profit of $659 000.

The overall operations in 1958 of the Company in both Guatemala and El Salvador through August 31, show a loss of $282 500. Present indications are that the overall operating loss for the year 1958 will be about $600 000.

The cash money to make up the deficit in Guatemala –that is, the difference between money received and money required to be paid out for wages, fuel oil and other supplies, etc. came from El Salvador and from the bank account of the Company in New York. Approximately \$350 000 was sent from El Salvador to Guatemala in the period May to August 1948 for payment of wages, etc. Thus, the El Salvador operations were in effect subsidizing the operations in Guatemala, and El Salvador receipts were being used to pay wages in Guatemala. This is obviously an unhealthy condition and cannot continue.

3. Capitalization of the Company

The Company has about \$3 000.00 in long term debt and a past due note of \$1 375 000 to a subsidiary of United Fruit Company. Interest on debt is about \$250 000 per year.

The Company (incorporated in 1904) has outstanding 100 000 shares of 5% cumulative preferred stock and 500 000 shares of common stock. United Fruit Company owns about 48% of the common stock, or about 40% of all stock outstanding, common and preferred.

There has never been a dividend on the common stock in the *54 years* of the Company's existence. No dividend has been declared on the preferred stock since October 1957 and only irregularly before that time. The dividend arrears on the preferred stock are \$48.50 per share or a total \$4 850 000.

The Company has cash on hand of only about \$1 500 000 now rapidly diminishing by reason of the drain to Guatemala.

The directors of the Company are with one exception citizens of the United States. 40% of the Company's stock is owned by a United States corporation. The preferred and common stock and the bonds of the Company are listed on the New York Stock exchange and owned predominantly in the United States.

4. Why are there losses in Guatemala?

The Company has had to reduce many of its rates to meet truck competition. The construction in Guatemala of a network of modern highways –encouraged and in a great measure financed from the United States– inevitably forces reduction of rail rates to meet the competition of trucks which is instant on the completion of any highway.

A new, modern highway is virtually complete between Puerto Barrios and Santo Tomas (ports on the Atlantic) and Guatemala City (the capital). Trucks are now operating over this route and the railroad has had drastically to reduce its rates to keep its business.

The Pacific Highway is now paved from Guatemala City to Retalhuleu. There has been a good highway for some time between San Jose and Guatemala City. Truck competition on these routes has similarly forced rate reductions for rail service, even though the reduced rates return little or no profit.

Despite reduction in rates, the railroad loses business nonetheless. A comparison of revenues in Guatemala during the past two years in instructive:

1957 (through August 31)	1958 (through August 31)
\$8 731 621	\$7 063 361

A part of the reduction is due, of course, to the lowered rates as just described, but some business is lost to trucks even when rail rates are reduced. For example, the railroad has lost to trucks more than 60% of the import traffic between San Jose and Guatemala City.

Other reasons for reduced revenues in Guatemala are lowered coffee prices, destruction of bananas by tropical storms in June 1958, general business instability, etc.

5. Artificial obstacles to reducing expenses in Guatemala

The situation of the railroad Company clearly calls for a reduction of expenses. Common sense and ordinary business prudence dictate this as a first and immediate step.

Although there has been a drastic decline in revenues in Guatemala, there has been no corresponding decline in expenses. The figures for Guatemala are again instructive:

	Revenues	*Expenses*
1957 (through August 3)	$8 731 621	$7 629 600
1958 (through August 3)	$7 063 361	$7 573 573

The Company has been unable to reduce its expenses in Guatemala because of the attitude of the labor union and the inability or unwillingness of the Guatemala Government to change that attitude.

The following steps are required:

a. *Complete elimination of unnecessary overtime.*

Over a period of several years, the practice has developed for numerous employees to work overtime and to be paid therefor at the much higher overtime rates. Much of this work is *not necessary* on an overtime basis, but the Company has been threatened with a strike by the union whenever it attempted to stop this unnecessary expense. The Company has also been requested in the past by Guatemala Government officials not to change the practice.

Because of the desperate present position of the railroad, it has been obliged to face this issue and on September 26, 1958 a large part of this unnecessary overtime was abolished. An open letter of explanation to the workers was distributed by the President of the Company.

Although the union has opposed this action by the Company, there has not yet been a strike.

b. *Reduction in number of employees by elimination of surplus.*

The Company has too many employees in Guatemala. There are more employees than are needed, thus adding unnecessary expense.

The Company has been unable to reduce expense by eliminating surplus personnel, because every discharge brings forth denunciation by the union and the threat of a strike.

Example: 6 brakemen had been temporarily promoted to that position from the position of common laborer. When no longer needed as brakemen the Company offered (a) to release them from employment and pay separation allowance under Guatemala law or, at their option, (b) to restore them to the position of common laborer. The men were satisfied with this offer but the union protested and went directly to the President of the Republic to make trouble.

Moreover, reduction in personnel brings charges by the union that working conditions of the remaining personnel have been changed in violation of law. This leads to lawsuits before the Labor Court, etc.

c. *Reduction in number of trains.*

The Company has the right, under its Concessions, to determine what trains are needed. There are a number of unnecessary trains. The Company encounters tremendous difficulty in eliminating these because of opposition from the union and threats of a strike.

d. *Reorganization of work.*

The Company should reduce expense by rearrangement of the work of its employees to secure greater efficiency. The Company is unable to do this because of opposition from the union, and the consequent danger of innumerable lawsuits in the Labor Court on charges of unlawful change in working conditions.

6. Alternatives now facing the Company and Guatemala

There appear to be only these alternatives:

a. Prompt reduction in Guatemala expenses, with the support of the union and of the Guatemala government, so as to enable the Company to meet its expenses in Guatemala out of revenues from Guatemala and to end the present unhealthy and impossible situation.

In considering this alternative, it must be kept in mind that neither the government nor the union are willing to accept the fact that the Company is losing enormous amounts in Guatemala; they refuse to recognize the accuracy of the Company's accounting statements even though these are now and have for many years been, audited regularly by independent certified public accountants of high standing.

b. Suspension of service in Guatemala, with liquidation through bankruptcy or receivership.

This is inevitable if present conditions continue, the only uncertainty being the date.

It needs no elaboration to demonstrate the chaos and injury which would follow from a cessation of railway service in Guatemala with bankruptcy or receivership for the railroad Company.

Obviously the second alternative would not be acceptable to the Guatemala Government. If the first alternative is likewise not acceptable to the Government and the union, then the only other solution is for the Government to buy the railroad properties in Guatemala and operate them.

With operation of the railroad made the responsibility of the Guatemala Government, its treatment of the workers would be accepted as fair and just because the motive of hope for private profit could no longer be asserted as against this American Company now conducting the enterprise.

Subject to the approval of its stockholders, the Company is prepared, therefore, favorably to consider an offer by the Government of Guatemala to buy the Company's railway properties in Guatemala. The fixing of a price should present no obstacle because the relevant concession provides for arbitration to determine price when in some fifty years important properties revert to ownership of the Guatemala Government on payment of compensation. The same procedure of arbitration should logically be followed to fix the price for a prompt transfer of ownership without waiting for expiration of the concessions. The Company would be prepared to consider deferred payment in the form of a combination of cash and securities.

It is believed that one of the best plans would be for the Governments of El Salvador and Guatemala together to own all the railway properties of the Company, and to operate them through a joint agency on the order of Port of New York Authority, as an example. The technique of ownership and operation can be the subject of negotiation and discussion.

D. BANANAS

6. THE UNITED FRUIT COMPANY (UFCO) IN COSTA RICA (1938)

From: Contracts between the United Fruit Company and the Government of Costa Rica; Despatch No. 356 from U.S. Legation, San José, Costa Rica to Secretary of State, August 5, 1938; and attached Memorandum to Mr. Briggs, Mr. Duggan and Mr. Welles, Division of American Republics, Department of State, August 16, 1938; 818.6156/101 L/M; Central Decimal Files 1930-39; Record Group 59; NARA.

DEPARTMENT OF STATE

DIVISION OF THE AMERICAN REPUBLICS

MEMORANDUM

STRICTLY CONFIDENTIAL

August 16, 1938.

Mr. Briggs:
Mr. Duggan:
Mr. Welles:

Declassified NARA 5-8-87

This excellent despatch from Collins at San José regarding the new United Fruit contracts deserves to be read in full. Outstanding points are:

(1) A loan of $1 000 000 to the Costa Rican Government at 3 percent interest, both interest and amortization to be deducted from future Banana export taxes over 15 years. This will be spent on roads, buildings and waterworks during the remaining two years of the Cortés administration, with the present Minister of Public Works, Ricardo Pacheco Lara, probable next president.

(2) The 1930 and '34 contracts are continued, together with a comprehensive development of the Pacific area. The company will

a. Plant at least 4 000 hectares of bananas within 5 years,
b. Construct a port on the Golf Dulce, within the same time.
c. And a port at Quepos Point within half that time.
d. Within about 8 years, if plans are approved and **the Costa Rican-Panama boundary fixed,** a 42-inch railway from Golfo Dulce to the Panama Boundary by way of Puerto Cortés.
e. A modern hospital.

The company obtains an extension of existing customs and other tax exemptions, may import chemicals and equipment, may use waters for cultivation, electricity, locomotives and steamers, and construct canals, water-works, et cetera, with free use of lands.

(3) The two cents per stem banana export tax fixed in 1930 will be maintained to 1988.

(4) Collins sees vital effects upon commercial, economic, political and social conditions and international relations.

a. About $5 000 000 will be spent within 5 years, with about 180 kilometers of railway and the complete establishment of ports, towns and all other facilities. About $5 000 000 more will be spent five years thereafter. German competition is apparently already strong.
b. There will be an abundance of dollar exchange.

c. Costa Rican income will increase about \$3 000 000 annually because of doubling banana exportation in 5 years.

d. Resulting price rise will adversely affect the coffee industry.

e. With the Atlantic producing only 3 000 000 stems and the Pacific 8 000 000 per year, economic weight will shift, with many consequences. The Germans and the Japanese already established on the Pacific will be strengthened; the Goodyear Company, experimenting with rubber production on the Atlantic, will assume greater importance; some 20 000 blacks will be left on the Atlantic, while Nicaraguans, Hondurans and Panamanians will be imported by the Fruit Company on the Pacific.

(5) The Costa Rican-Panama boundary dispute must be settled before the railway can be constructed to the Panamanian border. Apparently the Costa Rican Congress is favorably inclined.

(6) With the decline of coffee power and European orientation, American influence should increase, and a greater national income will be guaranteed.

(7) Article 7 expressly submits the company to Costa Rican laws, and company renounces diplomatic recourse to settle differences arising from the contract --previously arbitration on equal terms was provided for.

(8) Whereas the company on the Atlantic Coast purchases about 75 percent of its bananas from private growers, it will itself grow that percentage on the Pacific.

RA:LB:BLS:SS

LEGATION OF THE

UNITED STATES OF AMERICA

No. 356

Subject: Contracts between the United Fruit Company and the Government of Costa Rica

August 5, 1938.

STRICTLY CONFIDENTIAL

The Honorable
The Secretary of State
Washington.

Declassified NARA 5-8-87

I have the honor to refer to my despatch No. 347 of July 23, 1938, informing the Department of the approval by the Congress of the contract signed on April 2, 1938, between the Compañia Bananera de Costa Rica, subsidiary of the United Fruit Company, and the Government of Costa Rica for the development of the Pacific banana area; and, in this connection, to enclose a copy of the contract and its annexes as promulgated by the executive in the OFFICIAL GAZETTE under date of July 23, 1938.

The supplementary contract, signed on May 3, 1938, providing for the immediate advance of $1 000 000 United states currency by the Company to the current account of the Government in anticipation of future banana export tax was approved on August 3. A copy of the final text taken from the OFFICIAL GAZETTE is enclosed.*

The development contract, as its Article I makes evident, extends, supplements and perpetuates the contracts of 1930 and 1934 and their related legislation according to tax exemptions and other privileges to the Company. Its purpose is to provide a basis for the comprehensive, integrated development of the Pacific area, which neither of the preceding contracts accomplished. Under it the Company is to plant a minimum of 4 000 hectares of bananas within five years of the implementing of the contract (on July 23, 1938); is to construct a port at a point to be selected on the Golfo Dulce within the same period, and a port at Quepos Point within two years and a half; and is to complete within eight years, more or less, depending upon approval of plans by the Ministry of Public Works, and the fixation of a boundary between Costa Rica and Panama, a forty-two inch railway from the Golfo Dulce to the Panama boundary by way of Puerto Cortés. All these works with their equipment and appuertenances, are to become the property of the Government upon the expiration of the contract at the end of fifty years. Also to be constructed by the Company within five years is a modern hospital of a capacity sufficient for the needs of employees and dependents in the area. This establishment may, at the Company's option, be transferred gratuitously to the Government at any time. In consideration of its assumption of the foregoing obligations, the Company receives prolongation of the customs and other tax exemptions provided by the Soto-Keith Contracts of 1884 and the contracts of 1930 and 1934 and their related legislation, and is specifically authorized to import free of duty chemicals and equipment for use in connection with cultivation, and control of plant diseases and pests. It is further authorized to use the waters of the public domain for purposes of cultivation, generation of electricity and the supply of its locomotives and steamers; and to construct canals, waterworks and other necessary facilities, importations in connection with which are to be free. It is guaranteed, gratuitously, for the term of the contract the use of public lands needed for its railways, docks, workshops, warehouses, pipe lines, offices, residences and the like. It is authorized to transport through

*This edited version does not include the text taken from the OFFICIAL GAZETTE.

warehouses, pipe lines, offices, residences and the like. It is authorized to transport through Costa Rica for export loading bananas produced in Panama, and is assured egress facilities for bananas destined for export through Panama. Highly important from the standpoint of the Company is the guaranteed maintenance for an additional period of thirty-eight years of the banana export tax at $0.02 per stem, to the exclusion of all other taxes except the Territorial Contribution. This tax was fixed by the Contract of 1930, to be maintained until October 29, 1950. Its extension to April 2, 1988, provided by the present contract, assures a continued stability without the definite prospect of which the Company could not have undertaken the financial commitments involved in the Pacific development. A significant provision of the contract as approved is the repeal of Decree No. 14 of December 20, 1937. This measure, which followed the breaking off of negotiations between the Company and that Government last year, empowered the administration to construct a port and carry out other works in the Pacific area, which might have been a first step toward nationalization of the banana industry in that new region. The repeal retracts that step, and definitely commits the industry to the Company for another fifty years. Similar to provisions embodied in former contracts is Article IX, under which the Company is to deposit $50 000 in escrow with the National Bank of Costa Rica as a guarantee of performance.

The approval of this contract and its related $1 000 000 agreement appear clearly to bring Costa Rica to the starting point of a development that is momentous, a development that will touch to a greater or lesser degree virtually every phase of the national life, and produce definite and significant effects upon commercial, fundamental economic, political and social conditions and international relations. Not the least interesting implication from our standpoint is that it brings the Company and the Government into a new, or returns them to an old juxtaposition.

The first and most evident effect in the commercial and economic field will be the carrying out within the next five years of construction work on a scale nothing comparable with which has occurred in this country in the present generation. According to the Manager of the United Fruit organization in Costa Rica, the Company will probably spend between four and five million dollars in discharging its immediate obligations under the contract. Detailed plans have not yet been announced, but it is estimated that about 180 kilometers of railway will be constructed and equipped, besides which there are the ports, with their wharves, machinery and equipment; powerhouses, warehouses, residences, offices, storage tanks, chemical plant for the production of insecticides and fungicides, roads and streets, waterworks, and all the other facilities in connection with the rapid industrialization of a primitive area. Ultimate expenditure is not definitely calculable, but it is not likely to be less than ten or twelve million dollars in the next ten or fifteen years.

In addition to the construction to be carried out by the Company, the Government, according to official announcements, will expend within the next two years the $1 000 000 that it is to receive on public works, including roads, buildings and waterworks.

It is probable that the bulk of the total of $5 000 000 - $6 000 000 to be thus expended in the next five years will be for imported machinery, equipment and materials. Reports in German circles in San José indicate that Germany is preparing to make a strong bid for this business, using the compensation system as a means. As previous despatches have indicated, the Government is favorably inclined toward Germany; and the United Fruit Company in the past has from time to time filled its requirements through barter transactions with Germany. American exporters should be prompt in putting themselves in touch with the market in prospect, and should be prepared to cope with German competition. It is to be borne in mind in this connection that experience shows that in Costa Rica the importance of successful competition extends far beyond the first sale in the case of machinery and industrial equipment, for every sale sets up a series of transactions involving replacements, repairs and auxiliaries. The Pacific Railway is typical.Having electrified the line, using peculiar Germany basic equipment, the Germans now have practically the monopoly of supplying the recurrent needs of the road, and, further, possess in it a nucleus for their political and cultural activities in this country.

As the whole transaction between the Company and the Government is on a dollar basis, a feature of the economic situation to be produced by the development proceeding from the contracts will be a flood of dollars in Costa Rica during the intensive period of the next five years. Thus, there should be an abundance of dollar exchange available for payments to American holders of Costa Rican bonds now in default, as well as for the meeting of expanded commercial obligations.

The Manager of the Fruit Company estimates that at the end of five years banana production and exportation should be about eleven million stems annually, or somewhat more than double the present rate. This should add about $3 000 000 to the national income, and thereby increase by about 25% the capacity of Costa Rica to acquire foreign products and services, and meet foreign obligations.

This influx and distribution of dollars, may be expected to result in a rise in prices, and the appreciation of the colon. Such an eventuality will have a radical effect upon the national economy, for it will increase the already pressing difficulties of the coffee growing industry, the well being of which is based on low wages and a low colon. There is a fundamental economic antagonism between coffee and bananas, in that wages in the banana industry are two or three times as high as in the coffee, which tends constantly to buoy coffee wages upward to the prejudice of the industry. The Pacific contract, implying as it does intensification and expansion of the banana industry, will heighten the conflict between bananas and coffee, a development already foreshadowed by the opposition of the coffee interest to the contract.

The Manager of the Fruit Company estimates that with the total annual production of bananas raised to eleven million stems, production in the Atlantic area will be only three million stems, while the Pacific area will produce eight million. Thus, the contract implies the rapid commercial decline of the Atlantic costal region, and a more than corresponding rise by the Pacific in a word, the sudden shift of economic weight from one side of the country to the other. This can hardly do otherwise than set up difficult stresses. On the Atlantic there is prospect of diminishing business and increasing unemployment, while on the Pacific rapid expansion of business and shortage of labor are in view. This change will imply reorientation of the business organization of the country, including importation and production, distributing and banking. Obviously, this situation is of significance to American exporters. The shifting of the center of consumption away from the Atlantic port of Limon toward the Pacific ports will be to the disadvantage of exporters in our eastern industrial area, who have hitherto enjoyed the benefits of the short water routes between New York and New Orleans and Limon. At the same time German and Japanese exporters who have been cultivating Puntarenas during recent years will be facilitated, and strengthened in competition with their American rivals. Our encouragement of steamship services from our eastern ports to the Pacific Coast of Costa Rica by way of the Panama Canal suggests itself.

The decline of the banana on the Atlantic side is likely to work to the advantage of one American interest in Costa Rica, the Goodyear Company, which, as the Department is aware, is experimenting with rubber production on the Atlantic slope. Decline in Atlantic land values and wages will facilitate the operations of the Goodyear Company, and that organization should benefit in its relations with the Government by the prospect that it will be able to hold out as the ultimate rescuer of the Atlantic economy.

The Pacific banana development seems likely to be as influential in the political field as in the economic. The first and most obvious political effect of the contracts is the probable securing of the next election to the present administration, or its designated successor. The $1 000 000 advance to be made by the Company to the Government is evidently to be used in the traditional Costa Rican manner – as a campaign fund during the last two years of the administration's term. Possessed of this quantity of money, for distribution in the form of roads, schools, watering troughs and other gratifications for the electorate the Cortés administration is in a position to make itself invulnerable even to old ex-President Ricardo Jiménez, who, with the opposition that has been steadily coalescing around him, looms larger and larger as the opponent of the administration's candidate in 1940. The defeat of Mr. Jiménez, or the heading off of his appearance as a candidate, would be a highly significant development growing out of the contract, both from the national and the international standpoint. Already failing in his power of command over his associates toward the end of his last administration, and already at a very advanced age, Mr. Jiménez, whatever his personal virtues may be, would, if he were to become President in 1940, serve only as a sort of Wooden Horse of Troy in which a coterie, probably headed by ex-Minister of Foreign Affairs Manuel F. Jiménez, would gain admittance to the political citadel. In such a set-up, Manuel F. Jiménez would exact, as recompense for the money of Lindo Brothers that he would contribute to the Jiménez campaign fund, the office of First Designado to the presidency, which would make him president in the event of Mr. Ricardo Jiménez's demise, an event not unlikely in view of the old ex-President's age. Nothing more obstructive of the definite and wholesome, if unduly mild, new deal that is being carried out in Costa Rica, or more adverse to American interests in this country, than the coming into the presidency, or into a position to dominate the presidency, of Manuel F. Jiménez could occur.

The principal political prospect that the contract appears at present to open up is that Ricardo Pacheco Lara, Minister of Public Works, who will distribute the $1 000 000, will be the next president. American educated, and a partner in one of the principal American owned concerns in San José, Mr. Pacheco is markedly friendly to the United States.

The relative decline of the coffee power, in proportion to the rise in the banana is of obvious political significance, when it is considered that the coffee interest is one the whole conservative, exploitative and European in its orientation, while the banana is progressive, democratic and American.

In the sociological field, the effects of the contract will be those naturally to be produced by the economic and political bearings that have been mentioned. On the Pacific Coast and over the western section of the central plateau the standard of living will be raised, with all that such a rise connotes. On the Atlantic Coast where some 20 000 blacks will be left exposed to unemployment, the sociological phenomena associated with depression will be produced. In this connection, it may be said that the Government, desirous of avoiding on the Pacific the race problem that the importation of black laborers has created on the Atlantic, has forbidden the transfer of the Atlantic Coast blacks to the Pacific side. Lacking black labor for the Pacific, the Fruit Company plans, with the cooperation of the Government, to import Nicaraguans, Hondurans and Panamanians. Thus, there is in prospect for the Pacific area, a relatively well paid immigrant society, closely related culturally to, and approximating ethnologically, the native stock.

The international relations of Costa Rica cannot but be influenced by domestic developments such as have been mentioned.

The first and most obvious international development to which the banana contract is likely to lead is the settlement of the boundary question between Costa Rica and Panama. The fulfillment of one of the essential conditions of the contract, the construction by the Company of a railway to the Panamanian border, is contingent upon the definition of the border. The transit trade in bananas for which the contract makes provision, the exchange of labor with Panama, and the development of the lands along the border all demand the fixing of the border line. Further, Congress, having approved a contract the fulfillment of which is contingent upon the boundary settlement, has to a degree estopped itself from obstructing, in its traditional way, such reasonable settlement as may be proposed to it for approval. Solicitude on the part of Congress for Panamanian susceptibilities was evidenced in a change which it made in Article III of the contract, to avoid the implication of conflict carried by the original wording, "in the zone in dispute" for which was substituted the phrase "until the boundary line between the two countries is definitely delineated". Again, in Article IV, the word "controversy", used to define the situation between Costa Rica and Panama, was eliminated. Indeed, the settlement of the boundary question, which it is authoritatively reported in official circles in San José, has been reached, and will be submitted to the extraordinary session of Congress which is to convene at the end of this month, apparently originated in the contract, and was given impulsion by press discussion of the tactlessness of the use of such words as "dispute" and "controversy" in the text of the contract as submitted to Congress.

As has been indicated, the rise of the banana power that the contract will promote, connotes a relative decline in the coffee power. The former is oriented toward the United States, where it sells the bulk of its products, educates its children and takes its holidays. The latter is oriented toward Europe, its market, cultural nursery and playground. The contract can, therefore, scarcely do otherwise than dilute the European influence in Costa Rica, and strengthen the American. Moreover, increased production and exportation of bananas, the great bulk of which will go to the United States to swell with dollars the national income, will diminish the exceedingly strong sense of economic dependence on Europe that is apparent in the Government and sections of the trading community. Feeling the comfortable assurance that possible impairment of the European market for coffee will be more than compensated by increase in American consumption of bananas, the Government will be in a much better psychological situation to resist such European commercial hi-jacking as that involved in the German compensation system.

Japanese penetration in Costa Rica in the last three or four years has been successful largely because of two conditions:- The pressing need in this country for ultra cheap merchandise for the low paid populace, and the need for devising economic activities for the economically retarded Pacific area. These two conditions gave rise to a boom in imports from Japan, and led the Costa Rican Government to accept Japanese proposals for cotton growing on the Pacific. The contract by raising wages will weaken the need for the cheapest goods, and by providing a major industry for the Pacific will deprive Japanese cotton growing of much of its appeal.

Upon the important matter of relations between the Government and the Company, the contract will have pronounced effect, will, indeed, put the relationship upon a new basis, or return it to an old basis. As Mr. Jefferson Coolidge, Chairman of the Board of Directors of the United Fruit Company, observed to an officer of the Department on May 5, 1938, the Company will as a result of the contract be put into a position of greater dependency upon Government policy than at any time during the last twenty years, and direct cooperation of the two parties will be essential. Over a period of twenty years the Company in its operations in the Atlantic area has gradually withdrawn from the production of bananas, narrowing its activities more and more to a point where its function would be that of buyer and shipper. According to the Manager of the Company in Costa Rica, this process has reached a point where at present the Company produces only about 20-30% of the bananas that it ships, purchasing 70-80% from growers, either completely independent or related to the Company only by contract. The achievement of this position was possible only after pioneering had been done, because easy going individual growers from the central plateau, disinclined to reside in the hot lowlands and given to absentee lordism, could not be relied upon to carry on the arduous work of developing virgin area. Further it was possible only where banana disease was non-existent, or of light incidence, because individual growers lacked the knowledge, technique and facilities for combatting disease. In the Pacific development, there must be a reversion to pioneering, and, while the area itself is not diseased, it is dangerously exposed to infection from the Atlantic area. Hence, on the Pacific side the Company must assume the responsibilities of functioning as a grower; and conditions the reverse of those existing in the developed Atlantic area will prevail. The Company will probably produce 70-80% of the bananas grown on the Pacific for some years to come.

This means that the Company comes into direct contact and association with the Government to a much higher degree than where it functions only as an intermediary, and that it is much more exposed to the effects of Government attitude and policy than where it enjoys the protection of a buffer of native banana growers.

This situation is reflected in the contract, which contains provisions for what it is obviously intended shall be an increase in Government control. Throughout the contract there is assertion of the paramount of the Government, in provisions for inspections, the issuance of permits, et cetera. Noteworthy is Article VIII, under which the Company expressly submits itself to the laws of the republic, and expressly renounces diplomatic recourse to settle differences that arise out of the contract. This provision is the more striking, because it replaces the arbitration on equal terms as between the Government and the Company for which previous contracts have provided.

Indeed, the very essence of the contract is joint enterprise (with the Government the senior partner), for the intention is that the Company shall create property of which the Government is the ultimate owner.

What will be the outcome of this altered relationship it is difficult to forecast, as the factors shaping the outcome are incalculable. On the one hand, the Company is deprived of the protection of the buffer constituted by growers, for the most part influential Costa Ricans, attached to the Company by business ties, and ready to rally to it politically or otherwise in case of need. On the other it will acquire, as time goes on, a large group of direct employees, well paid, and presumably loyal, who should be ultimately influential in domestic affairs. Such acquisition, however, must be a gradual process, as, initially at least, most of the lower employees will be aliens, without connections and influence in Costa Rica. On the whole, it seems likely that for some years to come the Company will be in a considerably less favorable position to control national affairs to its advantage than it has been in the past, although it is not to be forgotten that the present administration, if it succeeds itself, will do so largely with the aid of Fruit Company money, and may, therefore, be influenced in its attitude toward the Company by a sense of dependency and gratitude.

The development contract, as indicated in my despatch No. 347 of July 23, 1938, was the subject for a long and heated debate in Congress, in the course of which the ever present, irreducible residue of chauvinists and Gringo haters took full advantage of the opportunity afforded them for the venting of their feelings about the Company and the United States. There was much contentious press publicity, and the whole question of American economic influence in Costa Rica was aired. The atmosphere thus engendered is being rapidly dispelled, and there seems to be promise that when it has been completely dissipated the Company, and, by association, American interests in general, will occupy a more favorable position in the public and the official mind than before the contract. The closeness of the scrutiny that the opposition minority in Congress was able to direct toward the contract may be judged by the fact that fifty-one changes were made in it during its passage through Congress.

The foregoing is a synthesis of information obtained over a somewhat prolonged period in conversation with Fruit Company officials, Government officials, banana growers, bankers, and other individuals, and from the press, reference works on the banana industry and statistical and other publications.

Respectfully yours,

(signed)

Wm H. Hornibrook

HMC:mc
861.5

7. CONTRACT REVISION BETWEEN UFCO AND COSTA RICA (1954)

From: Revision of Cía. Bananera's Contracts; Memorandum to Ambassador Hill, from Second Secretary of United States Embassy, San José, Costa Rica, sent as enclosure with letter to John L. Ohmans, Costa Rica Desk Officer, Office of Middle American Affairs, Department of State, January 8, 1954; Lot file 57 D15, box 5, filed with documents related to the United Fruit Company; Records of the Office of Middle American Affairs, Costa Rica and Nicaragua, 1951-55; Diplomatic Division, NARA.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

January 8, 1954

CONFIDENTIAL

AMERICAN EMBASSY,
San José, Costa Rica.

Declassified NARA 5/10/88

Dear Jack:

We have had several discussions in the office regarding the United Fruit Company negotiations and, because of John Crume's interest in the subject, I have asked him to prepare a memorandum on the negotiations.

I found the memorandum interesting and am forwarding it to you, not as an expression of how the problem should be solved, but just as one man's opinion of developments at this end.

With kind personal regards, I remain

Sincerely yours,

(signed)

Robert C. Hill
American Ambassador

Enclosure:
Copy of Memorandum

John L. Ohmans, Esquire
Costa Rica Desk Officer,
Office of Middle American Affairs,
Department of State,
Washington, D.C.

CONFIDENTIAL

CONFIDENTIAL

Declassified NARA 5/10/88

COPY

MEMORANDUM

To: Ambassador Hill.

From: John B. Crume, Second Secretary of Embassy.

Subject: Revision of Cía. Bananera's Contracts.

I. Introduction

President Figueres has set in writing his proposal for new contract terms for Cía. Bananera, while the United Fruit Company has made an initial offer of its own. Neither plan is fully detailed. The two parties are in a very early stage of discussion, and it is probably still too early to forecast the probable outcome of the negotiations. Nonetheless, the fact that the two parties have now made concrete proposals renders in order an analysis of their respective positions.

In setting forth my views on the revision of Cía. Bananera's contracts, I am writing, you will appreciate, as an outsider, lacking full command of all the details and ramifications involved. In particular, I am not well informed on United States tax rulings in respect to deductions for taxes paid abroad, nor do I have thorough grasp of the effect contract revision in Costa Rica would have on the United Fruit Company's operations in other countries or on other foreign investments in the area.

The basic question that the United Fruit Company faces, in my opinion, is what level of compromise will satisfy President Figueres. Throughout this analysis, I am assuming that Figueres will insist on major counter-concessions from the company.

II. Figueres' Proposal and the Fruit Company's Initial Offer

The table below summarizes the proposal for new contract terms offered by President Figueres in his letter to you dated December 19, 1953 and the United Fruit Company's initial offer of December 12, 1953, as stated in Mr. Hammer's undated, unsigned memorandum to you. As I understand it, the company's offer did not become an item of discussion between the two parties. No mention of this offer is made in Figueres' own proposal.

Table IV.7.1
PROPOSALS FOR CIA. BANANERA'S CONTRACT REVISION

Item	Figueres' Proposal	Company's Offer
1. **Income Tax**	Company be subject to national income tax schedules. Maximum rate to be 50 percent.	Company not be subject to national income tax schedules but to pay profit tax of 20 per cent rather than 15 percent.
2. **Additional Income Tax Benefit**	No comment.	Company to pay a minimum of 33-1/3 per cent of its gross profits in the form of total tax payments (profit tax, land tax, customs, etc.). If these payments fall below 33-1/3 percent of total profits before taxes, company to pay an additional sum, as income tax, to make up the difference.
3. **Customs**	Company be subject to national customs tariffs.	Company continue to enjoy custom exemption on certain specified major imports, which amount to 70-75 percent of monetary value of total customs exemption, but be subject to duty on all other imports.
4. **Social Services**	State assume cost of social services offered by company.	No comment.

The results which the two schemes would have given for 1952 operations are compared in Table 2, with the actual situation in that year. The computations are, in some instances, my own estimates. A number of figures are approximations; only the company could give a precise accounting. The estimates, while containing a margin of error, give a general idea of the comparative incomes involved.

Table IV.7.2
ESTIMATES OF CERTAIN UNITED FRUIT COMPANY PAYMENTS IN COSTA RICA

	I Under Figueres' Proposal (For 1952 Operations)	II Under Company's Offer (For 1952 Operations)	III Actual 1952 Results
1. Income Tax	\$7 500 000[a]	\$3 474 300	\$2 605 700
2. Additional Income Tax Benefit	---	528 600[b]	---
3. Additional Customs	2 800 000[c]	813 300[d]	---
4. Social services[e]	555 800	558 800[f]	555 300
Total	**\$10 855 800**	**\$5 375 000[g]**	**\$3 161 000**

[a]Computed as follows: A 15 percent profit tax of \$2 605 700 indicates a profit before taxes of \$17 370 000. From this amount is deducted the additional customs payment and added the saving on social services. Fifty percent tax on this sum is about \$7 500 000. This amount is an estimate, since the income tax would be graduated up to 50 percent.
[b]The additional amount paid to bring total tax payments to 33-1/3 percent of gross profits.
[c]Based on total exemptions of CR¢15.7 millions in 1952.
[d]Based on only partial customs exemption. This is the company's own figure.
[e]Figueres has not spelled out what social services the State would assume. Computation is based on the net cost to the company of schooling, hospital and dispensary operations.
[f]The company in its memorandum does not take up the matter of social services. This calculation assumes that the company continues to bear their cost.
[g]Total becomes \$4 257 400, if company intended that the State pay for the cost of social services.

It must be borne in mind that Table 2 does not include all of the company's payments to the Costa Rican Government. In 1952, the company paid \$1 461 500 in other taxes besides the profit (or income) tax. These other payments include such items as customs duties on non-exempt importations, consular tax, banana export tax, cacao export tax, land tax, etc. Including these payments, the schedules are as follows:

I	II	III
\$11 317 300	\$6 836 500	\$4 622 500

III. Income Tax

At this stage of negotiations, President Figueres and the Fruit Company are far apart on the income tax issue, not only in dollars and cents but also in principle. The company is willing to pay a somewhat higher income tax, but it wants a fixed limit (20 percent) on its liability. Such limitation conflicts with the principles which Figueres gives as the basis for new contract terms: non-discrimination, national sovereignty, and justice. The conflict is plain in regard to the first two principles but, in my opinion, is open to debate to the third point.

President Figueres, on the other hand, violates his own principles in seeking to impose a 50 percent income tax on the Fruit Company. Even though based on a national income tax law, it would be discriminatory against the company. On a graduated tax scale, probably only the Fruit Company would be in the bracket subject to the maximum tax. Moreover, the few Costa Rican income earners who would fall in the high brackets would, if past and present practice continues, largely evade sizable taxation. Figueres originally spoke of a 30 percent maximum rate for the new income tax law, expressing the opinion at the time that this is as steep a rate as the social economy will bear. (See Embdes No. 123 of August 17, 1953 and No. 132 of August 21, 1953.) He also said on that occasion that he would not insist on a 50 percent share of the company's profits although he was intent on eliminating better-than-national treatment.

If the negotiations are to be put on the basis of principle, as President Figueres calls for, it seems to me that the object is to have the Fruit Company subject to national income tax schedules but that in justice the maximum rate should not exceed 30 percent. It might even be less. Various computations and considerations might be made, for the sake of appearances, to show that the Government receives a given share, say 35, 40, 45, or 50 percent, of the Fruit Company's gross earnings. The company's 33-1/3 percent offer is a step in this direction.

I am not at all clear regarding United States legislation and rulings on taxation on the earnings abroad of United States companies; however, I understand that the United States Treasury allows the tax payments made abroad, up to a certain limit, to be deducted from the United States tax payment.

According to a recent memorandum of conversation from the Department, United Fruit Company representatives informed Messrs. Woodward and Leddy that the company can now receive full deduction from its United States taxes for an income tax payment up to 24 percent in Costa Rica. Whether the company can obtain any United States tax deduction, full or partial, on a foreign tax payment above 24 percent is, I gather, being explored by United Fruit Company officials.

Should the Fruit Company consent to be subject to Costa Rica's national income tax schedule, it would be concerned that it not place itself at the mercy of Costa Rican legislators. It would want assurance of a maximum schedule not to exceed a certain percentage, let us say, 25 or 30 percent. Perhaps an article could be inserted in the revised contract which would recognize the Government's responsibility not to impose discriminatory taxation against the company but which would be so worded as not to violate the principle of national sovereignty.

IV. Customs

President Figueres and the United Fruit Company have also a wide gap to close on the customs issue. The company has at least taken a step in offering to give up customs exemptions on all but its major imports. Again, however, partial exemption violate Figures' principles of non-discrimination and national sovereignty.

Any customs charges which the Fruit Company agrees to pay represent increments to the cost of operations. Unlike the case of added local tax payments there is not a corresponding reduction in payments in the United States. Still there would be some small reduction in total tax payments since net profits before taxation would be diminished by the extent of the customs charges.

Personally, I believe it would be desirable for the United Fruit Company to relinquish its customs exemptions. Figueres does have a valid point, in my opinion, when he says that conditions have changed from those of 50 years ago "when the banana business was unknown and difficulties for its realization were very great". With customs exemptions the company, now a thriving enterprise without need of protection and special aid, operates under privileged conditions. It has full right to insist upon continued customs exemptions in accordance with contract guarantees; nonetheless, I see strong public relations arguments for abandoning the exemptions.

If the Fruit Company did agree to be subject to national tariff schedules, it would have to pay an additional CRC/15 or 16 millions in customs duties to the Costa Rican Government, based on the present tariff schedules and on a level of imports equal to those of 1952. Against this cost might be set off about CR¢3 millions, which the company spent on hospitals, dispensaries and schools in 1952 and which Figueres proposes that the State take over. If labor sanitation and malaria control are included, the total figure comes close to CR¢5 millions. Perhaps, in return for payment of all customs duties, the company might ask that the State reimburse it for the costs of workers' housing. This item ran close to CR¢6 millions in 1952. It is conceivable that if the State relieved housing, the company's savings in this field would not be very far from compensating for the added costs in operation from payments of all customs charges.

In giving up customs exemptions, the Fruit Company would want to be protected against important future increases in customs duties, especially on such an item as copper sulphate of which the company is virtually the sole importer. Perhaps, as suggested on income tax liability, the new contract could be so worded as to give the company protection from discriminatory customs duties without denial of the principle of national sovereignty. Any concessions on custom duty payments, as a further thought, would also have to be considered in terms of custom tariffs in the other countries where the FruitCompany operates. In this respect, the customs issue is probably more complicated than the tax issue, since the latter resolves for all countries largely about the United States Treasury's rulings on joint tax participation.

V. Social Services

As previously stated, I am not informed as to whether the company's initial offer carried the understanding that the company would continue to bear the cost of social services. No mention is made of social services in the memorandum; but, since the memorandum does not deduct the cost of these services in its table of added government receipts, the implication is that the Fruit Company continue to pay. If so, there is a saving to the company of some \$500 000 to \$600 000 if, as Figueres proposes, the State assumes the cost of these operations.

The Fruit Company can have no unalterable objection to the State's taking over the financial obligation of social services. Furthermore, in furtherance of Figueres' principle of national sovereignty, it is desirable that the State provide the social services. I should think there is no fundamental issue here.

VI. Conclusions

As I view it, there are only two major points to be settled in the contract revision: the company's liability to income tax and the company's liability to customs duty. Other issues and ideas, I feel, are either minor or extraneous. In particular, I do not take very seriously Figueres' suggestion that the State buy out the United Fruit Company's holdings. The idea, which appeals to Figueres as bold and forward-looking, is too impractical –or at least too immature– to play a part in present negotiations, in my opinion. Some satisfaction might be given to Figueres in this respect, however, by the company's offer to sell the State lands or secondary operations which the company might not want. I am thinking particularly of the Quepos area and of cacao and African oil palm operations. Likewise, I consider Figueres' request for a 50 percent share for the company's profits unwarranted and beside the point. Such a division cannot be defended on logic or on justice. Still if desired for propaganda purpose, depending on the accounting method used and the items included in the calculation, a figure of 50 percent or some smaller percentage can be arrived at, I believe, within a framework of reasonable contract terms.

Personally I should like to see the principle of non-discrimination applied as fully as possible. This would entail the company's liability to customs duties on all imports. This added cost might be partly offset by the State's assuming responsibility for social services and perhaps housing. It would likewise mean higher income tax. For the sake of national sovereignty, it seems to me preferable that the company be subject to the national income tax schedule, but only if the maximum is fixed at a reasonable level and some guarantee given against discriminatory increases in the future. If the company can receive deduction on United States tax payments to provide for about 30 percent tax payment abroad, the maximum rate might then be this amount. If the deduction would cover less than this amount, the company might then decide either to pay the difference out of pocket or to insist upon Figueres' compromising by fixing a maximum of say 25 percent in the national income tax legislation.

Let Figueres think in terms of principles and the United Fruit Company in terms of dollars and cents. In the effect, the two can be reconciled, although the formula reached will require some compromise on both sides –as is correct. I offer for consideration the thought that the company determine an ultimate offer; say, full customs liability (with the understanding that the State takes over social services) and income tax liability up to 25 or 30 percent. Figueres might then be given to understand that the company is prepared at once to make a generous but undisclosed final offer, provided Figueres can be counted on to cooperate on his part and not take the offer as a stepping stone to bigger demands. Otherwise, it might be intimated to Figueres that the company has no alternative other than to haggle, to prolong the negotiations, and to fight over every dollar. Figueres wants a bold new approach in State-Company relations. Why not a good offer from the company, a gracious compromise on Figueres' part where necessary, a quick conclusion to the negotiations, and a public show of new understanding between the two parties? The suggestion, I acknowledge, is risky and possibly naive. The approach, if tried, would have to be handled with extreme adroitness.

In recapitulation, I offer an estimate of the results of a compromise settlement of the company's full liability to income tax of 30 percent maximum and total payment of customs duties, with the State's assuming the cost of all social services, including housing. Operations in 1952 are used as basis of calculations.

Table IV.7.3
ESTIMATE OF THE RESULTS OF A COMPROMISE SETTLEMENT BETWEEN THE GOVERNMENT OF COSTA RICA AND THE UNITED FRUIT COMPANY, BASED ON 1952 OPERATIONS

	Figueres' Proposal	Company's Offer	Compromise
1. Income Tax	$ 7 500 000	$3 474 300	$5 000 000
2. Additional Income Tax Benefit	---	528 600	---
3. Additional Customs	2 800 000	813 300	2 800 000
4. Social Services	555 800	555 800	-2 000 000
Total	**$10 855 000**	**$5 375 000**	**$5 800 000**

For not much more loss in net revenues, as I compute it, than involved in its initial offer, the company can satisfy Figueres on his principles of non-discrimination and national sovereignty, provided Figueres is prepared to apply his "non-discrimination" line both ways.

American Embassy,
San José, January 6, 1954.

E. PLANNING FOR FUTURE INVESTMENTS

8. INFORMATION FOR POTENTIAL INVESTORS (1956)

From: U.S Department of Commerce, Bureau of Foreign Commerce; American Republic Division, **Investment in Central America: Basic Information for United States Businessmen.** Study prepared by firm of Albert O. Hirschman and George Kalmanoff, Economic Consultants (Bogotá, Colombia, December 1956), pp. 3, 5-9, 45-48.

Introduction

This investment handbook covers the five Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. It was found advisable to deal jointly with these five countries because of the relatively small size of each, and because of their geographic proximity and historical ties, and the similarity of their economic structure. Moreover, certain types of investors regard Central America as a distinct area or unit.

The movement toward economic cooperation, and integration among the five countries, which has made progress in the past few years and which should substantially increase the attractiveness of the area to potential investors, was another factor. The Republic of Panama has not been included in the handbook because it is not participating in this cooperative movement and because it occupies a special place from the point of view of the United States investor as a result of the existence of the Panama Canal and Canal Zone.

The five countries, situated in the narrow isthmus between Mexico and Panama, have a combined population of almost 10 million people, and they have one of the highest rates of population increase in the world today. Since the end of World War II, their economic development has made significant strides, but it lags in comparison with some of the larger Latin American countries of the tropical zone. Agriculture and industry have advanced appreciably, but there are abundant untapped agricultural resources and investment opportunities in manufacturing.

In response to public demand and following a worldwide trend, the Governments have adopted active economic development policies, ranging from the intensification of transportation and electric power programs to the establishment of special development banks and institutions. They also have taken special measures to encourage private investment, whether domestic or foreign. All five countries welcome foreign capital and, with the exception of the period of Communist domination in Guatemala, the official and private attitudes toward foreigners in general and United States citizens in particular always have been friendly and free of excessive nationalism.

In spite of many similarities in history, geography, and economic structure, there are notable differences among the five countries. Each country has developed its own institutions and policies, and the stage and pace of development varies. Consequently, the businessman who may think of the region as a whole as a promising area for investment should study carefully the comparative characteristics of each country before making his choice.

For example, Guatemala is likely to be particularly attractive to the potential investor because it has the largest urban center of the area and because a backlog has accumulated of investment opportunities which were not exploited during the period of Communist influence which ended in 1954. El Salvador has a very high population density and a fairly well developed industry, and it has negotiated free-trade treaties with the other markets as well.

Honduras, thus far the least developed among the five countries, for this very reason offers many opportunities and appears to be on the threshold of important economic progress as a result of presently planned basic improvements in transportation and electric power. Nicaragua has witnessed the most rapid economic development in recent years, originating principally in rapidly expanding cotton cultivation but sustained by advances in many other sectors of the economy. Finally, Costa Rica has the highest level of general education and per capita purchasing power.

To enable the prospective investor to review and understand the common characteristics of the five countries, as well as the most salient differences among them, this first part of the study deals with Central America as a whole. Special sections are devoted to a discussion of the movement toward economic integration and an appraisal of the total size of the Central American market and its five national components. The five countries are dealt with separately in succeeding parts.

EXTENT OF FOREIGN INVESTMENT

Private foreign investment in Central America has traditionally been of considerable importance, primarily because of the development by the fruit companies of banana plantations and related transportation and other facilities for their export trade. The preponderance of these companies in foreign investment activities in the area is suggested by the relatively small amounts of such investment found in El Salvador and Nicaragua, the two countries which do not include bananas among their principal exports.

The development of the banana trade was accompanied by important investments by the companies in services necessary to their operations, such as railroads, electric power, housing, schools, and other social services. In addition, the fruit companies have branched out into other agricultural activities, including the cultivation of abacá, cacao, and the African oil palm, and –particularly in Honduras– a variety of other activities, such as breweries and banking.

Non-fruit company investments that have been important to the development of some of the countries are principally those in public service railroads and electric power. Other fields that have attracted investment include telecommunications, lumber exploitation, gold and silver mining, petroleum distribution, and banking and insurance. Exploration for petroleum by foreign capital has been going on for some years in Costa Rica, and is likely to expand in Guatemala, following the adoption of a new Petroleum Code in August 1955. Such exploration is also under way in Honduras.

In recent years, as the countries have pushed programs of economic diversification, considerable interest by foreign investors has been noted in a varied range of industrial activities, including lumber mills, construction materials, soluble coffee, hotels, fertilizers, and food processing.

The United States is the principal source of private foreign investment in Central America. Other sources, however, are of some significance, mainly as a result of investments made in earlier periods. For example, important railroads in El Salvador and Costa Rica are British owned, and British investments in banking exist in Guatemala, El Salvador, Nicaragua, and Costa Rica. The principal electric power company in El Salvador is Canadian owned. The most important German investments in the area were in coffee farms and a railroad in Guatemala, but these investments were expropriated during World War II.

As indicated in table 1, United States private direct investments in Central America amounted to some $280 million at the end of 1953, having risen from $255 millon at the end of 1950, largely as a result of increased fruit company investments in Honduras. The largest amounts are found in the three important banana-exporting countries, Guatemala, Honduras, and Costa Rica. Aside from the fruit company investments, the principal investments in these countries are in railroads and electric power in Guatemala, mining in Honduras, and electric power in Costa Rica.

Table IV.8.1

PRINCIPAL FOREIGN INVESTMENTS AND FOREIGN LOANS IN CENTRAL AMERICA

(In millions of dollars)

Country	U. S. private direct investments[a]	Loans[a] of International Bank for Reconstruction and Development	Export-Import Bank loans[b]
Guatemala	107	[c]	0.5 [d]
El Salvador	21	23.6	.1
Honduras	82	[e]	...
Nicaragua	9	8.4 [f]	.4
Costa Rica	62	...	10.3 [g]
Total	**281**	**32.0**	**11.3**

[a] As of end of 1953.
[b] Outstanding as of June 30, 1955.
[c] Highway loan of $18.2 million granted July 29, 1955.
[d] Exporter credit for communications equipment of $675 000 approved August 10, 1955.
[e] Highway loan of $4.2 million granted December 27, 1955.
[f] Additional loans: $7.5 million for electric power on July 8, 1955; and $1.5 million for agriculture and livestock on August 26, 1955.
[g] Inter-American Highway loan of $9 540 000 granted November 7, 1955.

The major United States investment in El Salvador is in railroads, and in Nicaragua –where the investment is the smallest of any of the countries– it is largely in lumber exploitation and gold mining. The recent activities and interest of United States investors in opportunities in various fields of manufacturing and service industries have been particularly noticeable in Guatemala, El Salvador, and Costa Rica.

Foreign investment in the form of long-term loans has been limited in the area in recent years to operations by the International Bank for Reconstruction and Development and the Export-Import Bank of Washington. As of June 30, 1955, outstanding loans of the International Bank in the area amounted to $32 million, and of the Export-Import Bank, to $11 million. On that date, the International Bank loans were confined to El Salvador and Nicaragua and the Export-Import Bank loans were concentrated largely in Costa Rica.

International Bank activities in Central America are not reflected fully in these loans to El Salvador and Nicaragua outstanding on June 30, 1955. The Bank has given considerable technical assistance to countries in the area in planning the development of their economies; comprehensive survey missions developed reports for Guatemala and Nicaragua, and additional loans have recently been granted.

In July 1955 the Bank granted its first loan –in the amount of $18 million– to Guatemala, to help finance that country's new Atlantic and Pacific coastal highways. At the end of 1955, an additional Bank loan to Guatemala of $1.7 million was reported pending, to be granted to the Production Development Institute (Instituto de Fomento de la Producción) for agricultural machinery, cattle breeding stock, and small grain-storage units.

In December 1955 the Bank made its first loan to Honduras, in the amount of $4.2 millon for highway construction and maintenance. Only two loans have been granted to El Salvadoro –one for electric power and the other for the Pacific coastal highway, similar to the Guatemala project–but they constitute the largest credit to any of the five countries. Loans to Nicaragua have been more numerous and for more varied purposes. Including additional loans in July and August 1955 amounting to $9 million, the total of some $18 million granted to Nicaragua represents eight loans for highway construction, electric power expansion, and agricultural development.

The only country that has not yet received financial assistance from the International Bank is Costa Rica. However, it probably will apply in the near future for a loan to its banking system to finance the importation of capital equipment once settlement has been effected of certain external debts in default.

Export-Import Bank lending in Central America has been almost wholly to Costa Rica. A loan of $9.5 million was granted to Costa Rica in November 1955 to enable that country to finance its contribution for completion of the Inter-American Highway. The $10 million outstanding as of June 30, 1955 (see Table 1), represent loans granted in the early 1940's also for the Inter-American Highway, and more recent credits for electric power development and the purchase of aviation equipment. The small loans to the other countries cover mining and telecommunications equipment in Guatemala, a small balance outstanding on a 1941 Inter-American Highway loan to El Salvador, and electric power equipment in Nicaragua.

Important United States funds are being spent in the area by the Bureau of Public Roads, which supervises the construction and improvement of the Inter-American Highway and defrays two-thirds of the cost of this program. In 1955, the United States Congress appropriated $63 million to make possible the completion in 3 years of the highway from the Mexican-Guatemalan border to the Panama Canal. In addition, a sizable program of grant aid by the United States Government has been carried out in Guatemala since mid-1954, to finance principally highway and hospital construction. Under this program $4.6 million of United States aid funds were spent in the year ended June 30, 1955, another $4.6 million were carried over for expenditure in the subsequent fiscal year, and new funds in the amount of $15 million were appropriated for the year ending June 30, 1956.

Active technical assistance by the United States Government's International Cooperation Administration is being carried out in all of the Central American countries in a variety of fields, including principally agriculture, health and sanitation, and education. Advisory work is also being done in some of the countries in the fields of public administration, industry, electric power, transportation, fisheries, and housing.

the other countries have values as follows: Guatemala, 1 quetzal per dollar; El Salvador, 2.50 colones per dollar; and Honduras 2 lempiras per dollar.

In Nicaragua, the principle of free entry and exit of foreign capital is contained in the Foreign Investment Law of March 1955. However, such capital must register, and the investment must be approved as advantageous to the national economy. Once registered in this way, investments may at any time be fully repatriated and profits transferred without limit. The investment is registered in the currency of the country of its origin, so that the value of the investment for repatriation is protected against the risk of exchange depreciation. Moreover, the exchange rate at which capital and profit transfers are effected is that applying to essential imports. This provision has of course lost its practical importance since the unification of exchange rates in July 1955.

In Costa Rica, capital registered and brought in at the official exchange rate has the right to transfer profits at this rate each year to the extent of 10 percent of the value of the investment. The capital itself may be repatriated at the official rate in the discretion of the Central Bank, and depending upon the country's exchange availabilities. Beyond these limits, transfers may be freely effected through the free exchange market for either registered or unregistered foreign capital; unregistered foreign capital, which, of course, has no rights to exchange at the official rate, is initially brought in also at the free rate.

Protection against future risks of inconvertibility of exchange in Central America exists also by virtue of the fact that three of the countries –Guatemala, Honduras, and Costa Rica– signed investment guaranty agreements with the United States Government in 1955. Pursuant to these agreements, new American investors may be eligible to purchase insurance against the risks of exchange inconvertibility and expropriation. The two countries that have not yet entered into such an agreement either maintain no exchange control (El Salvador) or provide for unlimited repatriation of capital and transfer of profits for registered foreign investments (Nicaragua).

Thus, in those countries in the area that have restricted exchange transactions because of exchange difficulties, the trend has been to enact provisions that minimize the impact on foreign investments and that accord such investments fair treatment in comparison with other exchange requirements of the economy. The sole restriction on transfers that now exists in the area –in Costa Rica– limits only the amount of transfers that may be made at the more favorable, official rate of exchange.

INCENTIVE LEGISLATION

During recent years some of the Central American countries have enacted legislation providing for tax incentives for the establishment of enterprises, particularly in new fields of manufacturing. This legislation, of general application, is in line with the trend of moving away from the individual concessions traditionally granted to large foreign investors under contracts with the governments. The new type of legislation has been developed to apply equally to qualifying domestic and foreign investors, as the countries have embarked upon policies of stimulating development and diversification of their economies.

Legislation of this type exists in Guatemala, El Salvador, and Costa Rica, but it is of limited scope in the latter country. Costa Rica and the two countries entirely without such legislation –Honduras and Nicaragua– are now studying and drafting general laws to encourage investment in new industries. The principal laws in effect date from 1940 in Costa Rica and 1947 in Guatemala, and are most extensive in their application in El Salvador, where several such measures were enacted in the period 1949-54.

El Salvador, in addition to a general Law for the Development of Manufacturing Industries, has special incentive laws covering the cement industry, which antedated the general law and are still in effect, and special laws for the establishment of hotels and of theaters and motion-picture houses.

In Guatemala, mining and petroleum concessionaires can obtain certain import duty exemptions, and manufacturing industries, pursuant to the Industrial Development Law of 1947, can obtain exemptions and reductions in the real estate and profits taxes as well. The concessions under the general law range up to 10 years. In both Guatemala and El Salvador, an important criterion determining the extent of the concession is whether the enterprise is new, but the use of local raw materials is another important governing factor, particularly in Guatemala. In El Salvador, this latter criterion does not determine the extent of the concession; all enterprises in that country that are granted a concession are expected merely to give priority to the use of domestic raw materials. Both

El Salvador and Guatemala require certain minimum participation by local capital as qualification in the granting of concessions. This requirement is somewhat more stringently defined in Guatemala.

Costa Rica at present merely provides for import duty exemptions and protection against foreign competition for new industries, according to a general law of 1940. The duty exemptions can extend up to 5 years. A specific law, enacted in 1949, which provided for such exemptions for canneries, was followed by the establishment of several such enterprises.

In view of the legislation recently adopted and in process of formulation in all of the Central American countries, the trend appears to be one of extending fiscal incentives for the establishment of neGustries considered to be beneficial to the economies, particularly in manufacturing fields. The tax exemptions and reductions that appear easicst to obtain are those involving import duties on machinery and equipment, but relief from direct taxes such as those on income can also be obtained, depending on the importance attached to the industry by the local authorities. From the point of view of United States investors, however, the exemptions from indirect taxes are likely to be of greater importance, since these taxes cannot be credited against United States tax liabilities although they can be deducted as a business expense.

OUTLOOK FOR FOREIGN INVESTMENT

In summary, the quickened pace of economic development noticeable in Central America today is coupled with favorable attitudes in all five countries toward private enterprise, as well as with fair treatment of foreign investors.

In the past the region has attracted primarily the interest of large investors who contributed much to the development of public utilities and to the stimulation of agricultural production for export in isolated sections. With the elimination in recent years of frictions that had developed with local governments, effected by the revision of early concession contracts, and with the continued existence of large agricultural resources to be profitably developed, these investments are being expanded. Transportation and power development is being aided by loans from the international financial institutions and by grants from the United States Government. The countries are also taking full advantage of technical assistance made available by United States and international agencies.

Finally, a new type of private investment, of a more diversified nature, and often in association with local capital, has developed in recent years in response to the economic progress on a broad front that is now being made. To accommodate and encourage this type of investment, there is a growing tendency to enact general legislation that fixes uniform conditions for all investors.

Treatment of foreign investments in general is nondiscriminatory but certain measures encourage particularly the formation of joint enterprises with the participation of local capital. Tax incentives for the creation of new industries exist in three of the countries, and such legislation is being liberalized in these countries and being drafted in the other two. There is no control over foreign exchange transactions in Guatemala, El Salvador, and Honduras, and in Nicaragua and Costa Rca the exchange rules for remitting profits and dividends and for the treatment of foreign investments in general are fair. Three of the countries have signed investment guaranty agreements with the United States.

To these specific favorable aspects of the climate for foreign investments must be added the general goodwill enjoyed by United States citizens, the friendly and cooperative attitudes characteristic of small countries, and the wider horizons opened by the area's progress toward economic integration.

This favorable account of the climate for foreign investments in Central America does not, of course, mean that the foreign investor will find no problems upon establishing a business in the area. The conditions affecting foreign investments are encouraging because of the region's general economic upswing and the fair treatment accorded to investors, but the daily problems to be met obviously are different from those encountered in doing business in the United States. These differences in conducting business operations, which arise from the fact that the traditions and culture of Central America differ from those of the United States, must be accepted and assimilated if the investor is to be successful. The important factor is that successful adjustment is facilitated by the favorable economic, legal, and institutional environment existing in Central America.

SUMMARY OF BUSINESS LAWS

A foreign investor can establish a business in Central America either by registering a foreign company to operate through a branch in a specific country or by setting up a local company under any of the forms provided for by the country's commercial laws. There is little difference in the requirements for either type of operation. Moreover, the procedures to be followed are substantially similar in all five countries.

All of the countries have commercial codes or commercial laws covering the formation of companies and the conduct of commercial transactions. The principal details of these laws are included in the respective country sections. Honduras has the most modern code, adopted in 1950. Costa Rica is now studying an up-to-date codification of its commercial laws, to be modeled after United States legislation.

Each country requires that a new business enterprise be registered at the time of its formation, whether it is a branch of a foreign company or a subsidiary or company formed entirely on a local basis. In some of the countries, there are additional requirements for certain types of companies. For example, Honduras requires that, in addition to the general registration, a branch of a foreign company must be authorized by the Ministry of Finance. In Guatemala, if the foreign company to be registered is a corporation, it must be authorized by the Ministry of Finance –a requirement which applied to any stock-issuing company in the country. In Nicaragua, a firm which engages in importing goods into the country must obtain a special license from the Ministry of Economy.

Costs incident to the setting up of the business organization vary among the countries, but in general they are minor. Such costs are highest in Guatemala, where they reach a maximum of about 10 per mil on the capital of the company to be formed, including registration taxes and notarial fees.

All countries recognize the corporate form of business enterprise, as well as the general partnership. A third but less frequently used form of organization is the limited partnership. This type of organization consists of partners with unlimited liability, who administer the business, and other partners with limited liability, who do not participate in the management and whose share of the business may or may not be represented in stock ownership. The essential feature of the general partnership is, of course, the unlimited liability of all of the partners. The corporate form of organization, as opposed to the partnership form, is steadily gaining in popularity in the Central American countries as development proceeds. However, corporations generally are closely held. There are no organized stock markets, but El Salvador and Costa Rca have some professional brokers.

Costa Rica, Guatemala, and Honduras also have a form or organization, known as the limited-liability company, which is well-suited to conditions in many Latin America countries. The limited-liability company is composed of a limited number of partners –up to a maximum of 20 to 25– all of whom have limited liability in the business, and it generally provides for more active participation in the company by the partners than is accorded to shareholders in a corporation. For example, shares generally may be transferred only with the consent of all of the partners in a limited-liability company.

Early in 1955, El Salvador's Legislative Assembly introduced legislation to authorize the limited liability form of organization.

All of the Central American countries provide for the protection of industrial property through legislation on patents and trademarks. The duration of patents varies among the countries, ranging from 5 years in Nicaragua to 20 years in Costa Rca. There are provisions for the registration of foreign patents for the unexpired period of time in the foreign country of registration, within the limitation of the maximum period in a given Central American country. Trademarks generally have stipulated durations ranging from 10 to 20 years, but they are usually renewable indefinitely.

LABOR AND SOCIAL SECURITY

All of the Central American countries have extensive labor and social legislation that provides for the regulation of labor-management relations and for certain guaranteed conditions of work and benefits to protect the position of the worker. Local laws differ in certain details, but they all cover essential principles, such as maximum working hours, minimum wages, provision for paid holidays and vacations, separation pay upon dismissal without just cause, and the regulation of collective labor relations and disputes. From the employer's point of view, there may be advantages in certain specific respects as between one country and another, but on the whole there are no significant differences.

Honduras, which lagged behind the other countries with respect to labor and social legislation, enacted a basic labor code in February 1955 after the need became apparent as a result of extensive strikes in 1954. That country now has a set of legislative principles, similar to those of the other countries, which remain to be more specifically defined in future decrees and regulations. The legislation was drafted with foreign technical assistance.

El Salvador's labor legislation was enacted in 1950, and the provisions enacted since have been protective of labor's interests; however, the policy has been worked out with moderation and a sense of economic responsibility. The régime in Guatemala that came into power in mid-1954 is effecting changes in what was considered to be a strong antiemployer bias of the previous Government. Nicaragua, which had lagged with respect to the institution of a social-security system, was drafting such legislation, with foreign assistance, in 1954-55. Costa Rica has the oldest social-security system, and extensive system of administration and judicial procedures for carrying out labor regulations, and possibly the most highly developed labor movement among the five countries.

All of the countries restrict the extent of employment of foreigners in enterprises, but Honduras and Nicaragua do so to a noticeably lesser degree than the others. At least 90 percent of the personnel must be nationals and 85 per cent of the payroll must be paid to nationals in Guatemala, El Salvador, and Costa Rica. Managerial personnel is not included in this count, to the extent that there may be two in each enterprise in Guatemala and Costa Rica and four in El Salvador; and under special authorization, which carries with it the obligation to train local workers, the limits may be lowered temporarily.

Honduras has no general limitation, except that in mining 75 percent of the personnel must be Honduran. In all other fields of activity, the matter has been handled on a case-by-case basis. Nicaragua requires that 75 percent of the personnel in all enterprises be nationals, but managers, administrators, etc., are excluded from the count, with no numerical limitation.

The 8-hour day is established in the legislation of all of the countries, and the maximum workweek ranges from 44 to 48 hours. The overtime pay rate is set at time and one-half in all the countries except Nicaragua, where it is double time. Nicaraguan legislation also provides for longer vacations –30 days per year, compared with a maximum of 15 days in the other countries. However, sick leave is charged against vacation time in Nicaragua.

Each country has legislation providing for separation pay, and some also provide for advance notice when workers are dismissed except for reasons considered to be just cause. These provisions vary considerably from country to country. Costa Rica's regulations, which combine advance notice and separation pay, are cited as illustrative: For employees who have worked 3 to 6 months, 1 weeks' notice and 10 days of separation pay are required; for service from 6 months to 1 year, 2 weeks' notice and 20 days of separation pay; and for service of more than 1 year, 1 month's notice and separation pay of 1 month per year of service or fraction of at least 6 months.

Wage levels in all of the countries are much lower than in the United States, but in evaluating them consideration must be given to the additional fringe benefits mentioned and to the lower level of productivity. In this latter respect, Costa Rica has an advantage over the other countries because of its higher level of general education. A comparison of the levels in the different countries is qualified, of course, by variations in the purchasing power of the currencies. On this basis and translating local currencies into dollars, wages for unskilled labor are about $1 a day in Honduras $1.5 in Nicaragua, about $2 in Guatemala and El Salvador, and approximately $2.50 in Costa Rica. Wages for skilled labor are about double the rates for unskilled labor.

Salaries of secretarial personnel average about $100 a month, and range from as low as $50 in Honduras to as high as $150 in Costa Rica. Bilingual secretaries are generally paid about double the amounts paid to secretaries who speak Spanish exclusively, but in Costa Rica the rate is only about 50 percent higher.

Social security systems have been in effect in Costa Rica since 1943, in Guatemala since 1948, and in El Salvador since 1954; and Honduras and Nicaragua will soon initiate social security programs. Costa Rica's system has the most widespread risk and geographic coverage, for which employers contribute 5.5 percent of payrolls, workers a like percentage, and the Government 3.5 percent. Employers contribute 5 percent in both Guatemala and El Salvador. The development of these social security systems has done much to eliminate certain onerous employer liabilities for occupational risks provided for in labor legislation.

TAXATION

In evaluating the levels of taxation to which investments in the Central American countries would be subject, United States investors will wish to consider their United States income tax liabilities and the relationship between the two. The United States Internal Revenue Code, principally in the part dealing with income from sources outside the United States,[1] provides for certain deductions from taxable income, tax credits, and exclusions from taxable income with respect to income derived from abroad.[1]

Under these provisions, the United States taxpayer may deduct from his taxable income or take as a credit against his tax liability to the United States any income and excess profits taxes or any taxes in lieu of a tax on income or on excess profits paid or accrued during the taxable year to any foreign country.

In addition, the Internal Revenue Code provides for certain deductions in computing taxable income for domestic corporations that qualify as Western Hemisphere Trade Corporations, and for exemption from taxation, under certain circumstances, of income personally earned abroad by individuals.

A Western Hemisphere Trade Corporation is defined in section 921 of the Code as "a domestic corporation all of whose business (other than incidental purchases) is done in any country or countries in North, Central, or South America, or in the West Indies, and which satisfies the following conditions:

"(1) If 95 percent or more of the gross income of such domestic corporation for the 3-year period immediately preceding the close of the taxable year (or for such part of such period during which the corporation was in existence) was derived from sources without the United States; and

"(2) If 90 percent or more of its gross income for such period or such part thereof was derived from the active conduct of a trade or business."

The formula (section 922) providing for the deduction from taxable income of Western Hemisphere Trade Corporations amounts to a reduction in the corporate tax rate of 14 percentage points for such firms. This is a substantial reduction in relation to the corporate tax rates, which consist of a normal tax of 30 percent, and a surtax of 22 percent on income in excess of $25 000.

With respect to United States income tax on individuals, earned income from sources outside the United States –defined as compensation for personal services– is entirely exempt from taxation (section 911) if the person is a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year (except for amounts paid by the United States or any agency thereof). An alternative to the requirement of bona fide residence for this purpose is presence in a foreign country for at least 510 days during any period of 18 consecutive months, in which case the amount exempt from tax is limited to $20 000 or a proportionate amount thereof during any taxable year.

These exemptions are limited to income derived from personal services and do not include income that can be considered to be derived from the investment of capital. If an individual is engaged in a business where both personal services and capital are income-producing factors, the part of his income that can be considered to be "earned" and so exempt from tax may not exceed 30 percent of his share of the net profits of such business.

All of the Central American countries impose, as the principal direct tax on business income, an income or profits tax which presumably can qualify for credit against United States tax liability under the United States Internal Revenue Code. In addition, they all levy taxes on capital in some form,

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[1]Part III, "Income from Sources Without the United States," pages 285-294, of the *Internal Revenue Code*, 1954. This publication can be purchased from the Superintendent of Documents, United States Government Printing Office. Washington 25, D.C. or any of the Field Offices of the United States Department of Commerce.

which presumably cannot qualify for this purpose as "taxes in lieu of a tax on income or excess profits." However, as can be seen in tables 2 and 3, these capital taxes are minor compared with the income taxes.

The amounts of income tax payable vary somewhat among the five countries, but any decision to establish an enterprise in one country rather than another on the basis of taxes alone would not seem to be clearly warranted for the following reasons:

1. The levels of income tax in all five countries are below those in the United States, and consequently tax liability to the United States would equalize the situation (assuming complete repatriation of earnings to the United States).

2. There has been a tendency in recent years for the countries to establish income taxation and to increase income tax rates as they undertake development programs requiring large capital outlays. Nicaragua, which adopted an income tax in 1952, was the last of the countries to do so; Costa Rica increased its income tax rates in September 1954, and Honduras in March 1955.

3. There is also a trend in all of the countries toward the adoption of incentive legislation that grants tax reductions or exemptions to new industries.

With respect to investors who move to a given country and qualify for the United States exemption on earned income, the amount of tax payable in each country on such income determines the relative advantages among the countries. For example, Guatemala imposes no individual income tax on earned income; therefore, an investor in that category would pay no tax, either to the United States or to Guatemala. In contrast, El Salvador has the steepest progression of individual income tax rates (3 percent to 44 percent); however, as indicated in table 2, the taxes payable in Costa Rica are slightly higher in the levels of income up to $50 000.

Table IV.8.2

INCOME TAX PAYABLE BY BUSINESS ENTERPRISES OR INDIVIDUALS IN THE CENTRAL AMERICAN COUNTRIES

(In dollars)

Taxable income	Amount of tax payable					
		El Salvador[b]				
	Guatemala[a]	Business[c]	Individual[d]	Honduras[e]	Nicaragua[f]	Costa Rica[g]
20 000	1 908	4 950	2 940	1 588	1 203	3 191
50 000	8 083	12 450	11 864	5 838	4 181	11 215
100 000	22 208	24 950	33 464	15 838	10 560	25 937
150 000	38 708	37 450	55 464	27 088	18 730	40 937
200 000	56 708	49 950	77 464	39 588	27 730	55 937
250 000	76 083	62 450	99 464	52 088	36 730	70 937
300 000	96 458	74 950	121 464	67 088	45 730	85 937
350 000	117 958	87 450	143 464	82 088	54 730	100 937
400 000	139 458	99 950	165 464	97 088	63 730	115 937
450 000	160 958	112 450	187 464	112 088	72 730	130 937
500 000	182 458	124 950	209 464	127 088	81 730	145 937

[a] Quetzal at par with the dollar; schedule ranges from 5 percent on 500-quetzal to 1 000-quetzal bracket to 43 percent on amounts above 300 000 quetzales; the tax on income at the personal level, which applies only to income from invested capital, is not paid by the individual if it has been paid by the company.

[b] 2.50 colones equal US$1.

[c] These tax amounts include both a profits tax, which consists of 2.5 percent on the first 5 000 colones and 5 percent thereafter, and a 20-percent tax levied on income accruing to companies or persons domiciled abroad.

[d] This tax is paid by local residents in addition to the tax on profits paid by the business; the schedule of rates ranges from 3 percent on amounts up to 1 000 colones to 44 percent on income above 150 000 colones.

[e] 2 lempiras equal US$1; schedule ranges from 3 percent on amounts up to 2 500 lempiras to 30 percent on income above 500 000 lempiras; dividends and profits are excludable from taxable income at the personal level.

[f] 7.05 córdobas equal US$1; schedule ranges from 4 percent on amounts up to 40 000 córdobas to 18 percent on income above 1 million córdoras; dividends and profits are excludable from taxable income at the personal level.

[g] 6.65 colones equal US$1; schedule ranges from 1 percent on amounts up to 3 000 colones to 30 percent on income above 300 000 colones; dividends and profits are excludable from taxable income at the personal level.

Table IV.8.3

TAX ON CAPITAL PAYABLE BY BUSINESS ENTERPRISES OR INDIVIDUALS IN THE CENTRAL AMERICAN COUNTRIES

(In dollars)

Taxable capital	Amount of tax payable				
	Guatemala[a]	El Salvador[b]	Honduras[c]	Nicaragua[d]	Costa Rica[e]
50 000	150	26	55	322	177
100 000	300	63	130	647	514
150 000	450	108	205	972	914
200 000	600	158	280	1 297	1 314
250 000	750	213	355	1 622	1 714
300 000	900	288	430	1 947	2 114
350 000	1 050	363	505	2 272	2 514
400 000	1 200	438	580	2 597	2 914
450 000	1 350	538	655	2 922	3 314
500 000	1 500	638	730	3 247	3 836

[a] On real estate only, 3 per mil.
[b] Schedule ranges from one-half per mil on amounts ranging from 10 000 to 100 000 colones to 2 per mil on capital above 1 million colones.
[c] On business enterprises only; schedule ranges from 0.02 percent on amounts ranging from 1 001 to 5 000 lempiras to 0.15 percent on capital above 50 000 lempiras.
[d] 6 per mil on net worth of companies or persons above 3 000 córdobas.
[e] On land, buildings, machinery, and equipment; schedule ranges from 0.3 prcent on amounts of 10 000 to 250 000 colones to 1.05 percent on amounts above 3 million colones.

All of the countries except El Salvador have the same schedules of rates for both corporate and personal income and, except in El Salvador, there is no double taxation of dividend or profits at the personal level. The schedules are progressive, ranging to 43 percent in Guatemala, 30 percent in Honduras and Costa Rica, and 18 percent in Nicaragua, which also provides for the most liberal personal exemptions.

In El Salvador, the tax at the company level consists of two low rates: 2.5 percent on the first 5 000 colones (US$2 000) and 5 percent thereafter; but here profits and dividends are included in the taxable income of individuals, with rates progressing up to 44 percent. If the company's distributed income accrues to other companies or persons domiciled abroad, a proportional rate of 20 percent is substituted for the progressive scale.

The comparative calculations in table 2 show that the tax payable in Nicaragua is the lowest at all levels of income, and that Honduras has the next lowest. Guatemala, El Salvador (including both the business tax and the 20 percent on profits remitted to companies or persons domiciled abroad), and Costa Rica are comparable at the other end of the scale, with Guatemala and Costa Rica tending to be higher at the upper levels of income.

All of the countries allow for the deduction of normal business expenses and depreciation of fixed assets for purposes of determining taxable business income. Reinvested profits may be deducted also under certain conditions in El Salvador, Nicaragua, and Costa Rica. Costa Rica allows for carry-forward of losses, at a rate of 20 percent per year for 5 years.

With respect to the relatively minor taxes on capital, Nicaragua has the highest tax. Table 3 shows that Nicaragua's tax base applying to net worth of companies or individuals is broader than Costa Rica's, despite the fact that Costa Rica's tax on amounts of $200 000 or more is greater. El Salvador and Honduras are comparable at the lower end of the scale, but in Honduras the tax applies only to business enterprises. Guatemala probably has the lowest rate, since the tax applies to real estate only.

Both Costa Rica and Guatemala levy a special annual tax on branches of foreign companies, Costa Rica at the rate of 0.5 percent on net profits and Guatemala in absolute amounts ranging from $300 to $500.

All of the countries have miscellaneous stamp taxes that apply to legal documents and various business transactions. These minor taxes will tend to be simplified or eliminated as additional progress is made in modernization of the countries' fiscal systems. Moreover, the traditional system of imposing special taxes on individual companies operating under concession contracts is being replaced by general legislation applicable to all. The recent revisions of United Fruit Co. contracts in several of the countries are in line with this trend.

Chapter V

REGIONAL ECONOMIC INTEGRATION

This chapter deals with efforts to foster economic cooperation among countries of the region.

1. INTRAREGIONAL TRADE (1951)

From: Study of the Intra-Regional Trade of Central America; Office Memorandum; Department of State; October 31, 1951; Lot file 57 D95, box 3; Records of the Office of Middle American Affairs; NARA.

OFFICE MEMORANDUM - UNITED STATES GOVERNMENT

Date: October 31, 1951

To: MID

There is attached a draft study of the Intra-Regional Trade of Central America, prepared by Mr. Dan García.

Your comments and suggestions will be appreciated.

Attachment:
As stated.

ARA: MID:EVSIRACUSA:AW

CENTRAL AMERICAN INTRA-REGIONAL TRADE SYMPTOMS OF NONCOMPLEMENTARY ECONOMIC DEVELOPMENT

The economy of Central America is basically and overwhelmingly agricultural. About 75% of the Central American population of 8 700 000 derives its livelihood directly from agriculture. Two crops –coffee and bananasa– are the economic mainstay of the region, occupying a primary position as the main export commodities of all five nations. Exports occupy a dominant role in the economy of the region. Statistics for 1949, for example, indicate that foreign trade for the region as a whole amounted to $392 000 000 while the sum of total of national incomes of the five countries was $811 000 000.[1]

The United States shares in the foreign trade of the Central American region is preponderant. In 1948 for example, an average of 78% of all imports of the region came from the United States. In the same year, 77% of the region's exports were shipped to the United States. The extent of dependence on the United States as a market and as a supplier of goods differs for each country, but the United States position as the largest market and as the primary supplier is undisputed and consistent in all five countries.

Main products imported by the United States from the region consist of agricultural commodities –particularly the two mainstay crops of the region, coffee and bananas. Other products of importance to the United States include chicle, honey, precious metals, essential oils, sesame seed, hard woods, abaca fiber, and "balsam of Peru." In 1948 coffee was the leading export commodity of all five nations of the region, with the exception of Honduras, where bananas occupied first position. (Honduran coffee is usually exported as Salvadoran coffee. Statistics on coffee, therefore, for Honduras have to be treated with care. It would be interesting to know if Salvador indicates how much of its exported coffee is home grown). In this year the United States took over 90% of El Salvador's total coffee exports, 95% of Nicaragua's and 82% of Costa Rica's.

This heavy export trade with the United States, of which the foregoing examples are representative, applied equally to the region's imports, particularly since World War II when the United States displaced Germany as the most important suppler. The bulk of imports from the Untied States consist of manufactured products such as machinery, textiles, chemicals, processed foods, hardware, etc. The apparent dependence of these countries on the United States for the source of supply of capital and consumer durable goods –even soft goods– is a manifestation of their technological under-development. But it is also symptomatic of a lack of economic complementarity within the area, and intra-regional trade –or rather its absence– is a further symptom of noncomplementarity.

The specific intent here is to explore the degree of complementarity among the republics of Central America by examining the nature and volume of intra-regional trade. Attention there is invited to the following table (V.1.1) which sets forth the extent, in terms of value, of intra-regional trade which occurred in 1948, the latest year in which comparable reliable data are available:

Table V.1.1
INTRA-REGIONAL TRADE IN 1948[a]
(Millions US$)

Exporters	Importers				
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Costa Rica		.01	.01	.01	.02
El Salvador	.27		2.05	1.74	.12
Guatemala	Negli	Negli		Negli	Negli
Honduras	.13	3.98	.27		.19
Nicaragua	.38			.19	

[a]P. 18, UN Document E/CN.12/165.

[1]This information was compiled from Tables 1 and VI, furnished for each of the nations in question, in the Data Book, Latin America, Volume II, published by the Department of State.

Two observations can be made from the foregoing table: (1) the amount of intra-regional trade was astonishingly small, and (2) one country –El Salvador– was involved in each of the instances of significant volume (in its trade with Guatemala and Honduras).

Trade volume figures alone, as listed above, do not reveal the importance that intra-regional trade plays in the total trade picture of any single country. A rank order table (V.1.2), constructed on the basis of information gathered from several sources[2], reveals the relative level of intra-regional trade:

Table V.1.2
1948 EXPORTS AND IMPORTS
(Thousands US$ and Percentages)

Country & value of all exports	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	United States
			Exports[a]			
Costa Rica $31 839		(25) .04%	(26) .04%	(20) .09%	(16) .22%	(1) 78%
El Salvador $45 765	(11) .61%		(2) 4.60%	(4) 3.86%	(14) .25%	(1) 77%
Guatemala $50 165	(23) .02%	(10) .28%		(16) .07%	(25) .008%	(1) 89%
Honduras $20 355	(10) .28%	(2) 13.70%	(5) 1.41%		(15) .14%	(1) 70%
Nicaragua $26 682	(6) 2.00%	(3) 3.00%	(17) .30%	(19) .10%		(1) 75%
			Imports[b]			
Costa Rica $42 248		(12) .80%	(29) .08%	(23) .20%	(18) .30%	(1) 78%
El Salvador $41 496	(28) .03%		(14) .34%	(2) 4.96%	(11) 1.03%	(1) 73%
Guatemala $68 349	(38) .01%	(4) 2.29%		(18) .42%	(43) .007%	(1) 76%
Honduras $33 308	(18) .08%	(2) 6.14%	(15) .18%		(21) .06%	(1) 79%
Nicaragua $24 133	(11) .40%	(7) 1.00%	(19) .10%	(8) 1.00%		(1) 84%

[a] Figures in parentheses are rank order of importance to exporter nation. Hence 4.6% of all Salvadoran exports went to Guatemala making her El Salvador's second best customer.
[b] Figures in parentheses are rank order of importance to importer nation. Hence 4.96% of all Salvadoran imports came from Honduras making her El Salvador's second best supply source.

It must be borne in mind that the statistics of each country have been used in compiling the foregoing table. Thus some inconsistencies are apparent. Costa Rican exports to Nicaragua, for example, were .22% of her total exports or approximately $69 000. According to Nicaraguan reports, however, imports form Costa Rica amount to approximately $107 000. Guatemalan imports from El Salvador were approximately $1 562 000,[3] whereas El Salvador claims its exports to Guatemala were approximately $2 105 000[4]. These discrepancies, not uncommon in trade statistics, do not detract from the salient facts established earlier, i.e., (a) that the amount of intra-regional trade is small; (b) that although small, it has a high rank in the order of importance in a few cases; and, (c) that the greatest amount of intra-regional trade occurs with respect to Guatemala, El Salvador and Honduras, with El Salvador being the pivotal nation engaged in most of it.

El Salvador, for example, was Honduras' second best market after the United States, taking 13.7% of all Honduran exports. Guatemala ranked second, after the United States, as the next best customer of El Salvador, taking 4.6% of the latter's exports.

* * * *

[2]See bibliography.
[3]Guatemalan statistics are expressed in local currency, the quetzal, which in 1948 was valued at 1.0075 to the US$1.
[4]Salvadorean statistics are expressed in local currency, the colon, which in 1948 was valued at 2.50 to the US$1.

An inquiry into the nature of the commodities exchanged between the most important Central American trading nations follows:

El Salvador-Honduras

Flow of goods from Honduras to El Salvador. Three items bulk large in the flow of goods going from Honduras to El Salvador. The largest of these was livestock, accounting for approximately 32% of all exports to El Salvador. In analyzing total Honduran shipments to El Salvador, however, it must be borne in mind that 10 to 15% of those shipments represent cattle passing through El Salvador on the way to the Guatemalan market[5]. Hence El Salvador's export figures indicate that approximately 20% of her exports to Guatemala consist of livestock.

The second most important Honduran export to El Salvador in this period was foodstuffs, which accounted for approximately 30% of the trade flow. These food shipments consisted of beans, lard, corn, sesame seed, cheese, animal fats, wheat, potatoes, meat, onions, cacao, garlic and fish. Frequently the same food article was shipped in both directions. Sesame seed, for example, was shipped from Honduras to El Salvador, but approximately four times as much (in value) sesame was shipped from El Salvador to Honduras during the same period. Inadequate transportation, lack of storage facilities and temporary market conditions may account for this phenomenon. Wheat is grown on a small scale in the western part of Honduras, but owing to lack of internal transport, it is exported to El Salvador, while flour mills in the rest of Honduras import their supplies.

Tobacco and tobacco products accounted for an additional 20% of Honduran exports to El Salvador, while timber represented 5%. Remaining trade consisted of a variety of items such as cotton, cotton products, clothing, soap, hides, turpentine, starch, resins, hats and pine boxes. No single one of these items exceeded a valuation of 75 000 lempiras (US$36 764)[6].

Flow of goods from El Salvador to Honduras. According to Honduran reports, imports from El Salvador amounted to 4 175 000 lempiras (US$2 046 000), or approximately 6% of total imports, thus ranking El Salvador as Honduras' second best source of supply. This trade amounted to 3.8% of El Salvador's total exports, and in Salvadoran eyes, made Honduras its fourth best market. Salvadoran statistics claim the amount of exports was 4 397 000 colones, or US$1 759 000.

Sugar was the largest single Honduran import from El Salvador, accounting for over 30% of this trade flow.

Cotton and cotton products were next, claiming 25%. Principal articles included in this category were cotton drills, thread, cordage, quilts, clothing and ginned cotton.

Manufactured goods, other than cotton manufacturers accounted for over 10% of Honduran imports from El Salvador. Eighty per cent of the value of this category of goods consisted of clothing and footwear. The balance was fragmented among numerous items such as perfume, toys, jonquil mats, wooden furniture, leather goods, combs and bricks.

Foodstuffs and beverages were the fourth largest category of goods, accounting for 10% of Honduran imports from El Salvador. Individual items consisted mainly of rice, fresh fruit, confectioneries, cheese, sesame seed, flour, corn and alcoholic beverages. Rice was the largest single item in this category, accounting for almost 2/5 of the total.

El Salvador - Guatemala

Flow of goods from El Salvador to Guatemala. In 1948 the flow of goods from El Salvador to Guatemala ranked after El Salvador-Honduras commerce as the next most voluminous intra-regional trade. In this period, Guatemala ranked second, after the United States, as the best Salvadoran market, taking 4.6% of total Salvadoran exports or 5 242 000 colones (US$2 096 800). From the Guatemalan point of view, this amounted to 2.29% of total imports, ranking El Salvador as Guatemala's fourth best supply source. Guatemalan statistics claim that imports form El Salvador amounted to 1 562 000 quetzales (US$1 562 000).

The largest single item going from El Salvador to Guatemala during 1948 was ginned cotton, accounting for 60% of this trade. Livestock was next, exceeding 19%. Manufactured goods amounted to almost 7% of exports.[7]

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[5]Amembassy Despatch 774, p. 25.

[6]Honduran statistics are expressed in local currency, the lempira, which in 1948 was valued at 2.04 to the US $1.

[7]Original document was found in an incomplete form.

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2. NICARAGUA AND THE GATT (1953)

From: Letter from J.J. Sanchez, Nicaraguan Minister for Economic Affairs, to E. Wyndham White, Executive Secretary of GATT, concerning the Nicaragua-El Salvador Free Trade Area; January 22, 1953; Lot file 57 D15, box 1, under the heading "GATT"; Records of the Office of Middle American Affairs, Department of State; NARA.

United States Resident Delegation
To the Economic Commission for Europe
Rue du Temple, 1
Geneva, Switzerland

February 18th, 1953

Restricted

Mr. Leonard Weiss
Acting Chief
Commercial Policy Staff,
Department of State,
Washington 25, D.C.

Dear Len:

The attached exchange of letters finally clears up the mystery about what was bothering Nicaragua in connection with the GATT. It seems to me that the letter from Sanchez is quite encouraging and you might want to consider a follow-up through the appropriate offices in the Department and the Embassy in Managua.

Best regards.

Sincerely,

Joseph Greenwald
Economic Officer

cc: AMEMB Managua

Declassified NARA 6-13-88

COPY

Provisional Translation

GOVERNMENT OF NICARAGUA

Managua

Dear Mr. Wyndham White:

I am extremely pleased to apply to you personally to secure information concerning some points relating to the participation of my country in the General Agreement and to collect your valuable and friendly opinion.

I shall first inform you that for the last few weeks I have been in charge of the Ministry for Economic Affairs which includes in its jurisdiction, all questions relating to the commercial policy of my country and therefore everything that concerns the General Agreement on Tariffs and Trade. In the circumstances I therefore have to deal directly with the questions resulting from our participation in the General Agreement.

Though the Government of Nicaragua has strictly carried out its commitments undertaken during the Annecy negotiations in a form still more extensive than that provided for during the negotiations, as we have been applying lower rates of duty than those which were negotiated, it has not yet been in a position to set up an office which could effectively and extensively study the General Agreement and the Geneva, Annecy and Torquay negotiations. This has resulted in a deplorable deficiency of our public administration as regards the meaning, the scope and evolution of the General Agreement and the tariff negotiations. The non-participation of my country in the Torquay tariff negotiations caused the situation to deteriorate further by making the whole subject matter more confused in the minds of the responsible officials. Personally I was not in a position to contribute very much to the improvement of the situation as I have to carry out political functions which were more or less alien to questions of commercial policy.

When my country decided to participate in the Annecy negotiations its balance-of-payments position was unfavorable and we were living as we are at present under the exchange control system, with this substantial difference, however, that under the existing foreign exchange legislation our currency has been devalued by forty per cent. This measure and other action involved in the Exchange Control Act were necessary in order to restore our balance of payments. The enactment of the Law which I am referring to was recommended to us by the International Monetary Fund Mission which acted in an advisory capacity to my government.

As you are no doubt aware, Nicaragua came to the Annecy negotiations with its custom tariff of 1918 which had hardly been modified in its 33 years of existence. The rates of duties are expressed in gold cordobas, a currency which is at present theoretical and which corresponds in practice to the United States dollar. The currency devaluation and the interim regulations provided for in the Act referred to above raise many problems, in particular in the fiscal domain, which are of a truly urgent character. It is obviously for those reasons which have occurred since the Torquay negotiations that the Nicaraguan Government is examining the signature of the Torquay Protocol, including its withdrawal from the General Agreement, because it believes that the readjustment of the various substantive aspects of its exchange economy and, particularly, the revision of the customs tariff which is at present under consideration, cannot be carried out or would constitute a difficult and complex undertaking for a country which is a member of the GATT.

Personally I am of the opinion that the powerful reasons which militate in favor of Nicaragua re-negotiating with the Contracting Parties on a different basis would be understood and accepted by the countries concerned which would enable us to remain in the GATT on a more stable basis since the situation of our economy is notably improving. If my Government had this impression I am sure that this would dispel the present anxieties and that we could actively cooperate in the achievement of the objectives of the GATT, thereby contributing to creating an interest for other small Central American countries to accede to the General Agreement.

It is therefore with the intention of contributing to the maintenance of my country within the Organization that I am writing this letter in order that you may give me your valuable co-operation, by furnishing your personal opinion which, I hope, will serve me as a guide.

The points on which I should wish to obtain complete and clear answers can be expressed as follows:

A. The five Central American countries which since they became independent from Spain have constituted a political Confederation, wish to reinforce their economic bonds; with that end in view and with the co-operation of the Economic Commission for Latin America, they are endeavouring to integrate their economies and to develop free trade between themselves to the greatest extent possible. Would such national aspirations meet with obstacles from the Contracting Parties?

B. The Government of Nicaragua is completely reconstructing its customs tariff with a view to:

1) Adopting a new customs nomenclature in conformity with the United Nations nomenclature;

2) Lowering charges levied on many items of popular consumption in order to lower the cost of living among the poorer classes;

3) To raise duties on many non-essential articles in order to compensate for the loss in revenue resulting from the lowering of duty rates referred to in paragraph 2 above and to incorporating part of the exchange charges;

4) Readjusting the value of the customs gold cordoba in accordance with the par value of the cordoba in relation to the United States dollar. This would result in a 40 per cent increase from the purely monetary point of view; an increase which would immediately be taken into account for the determination of duty rates under the new tariff. Could Nicaragua carry out its plans, which are urgent, while remaining within the General Agreement, in view of the fact that in 1954 the contracting parties will negotiate again?

I understand that we may freely modify our customs tariff while maintaining the concessions granted in Annecy but it seems obvious that such a situation would be abnormal in view of the number and nature of the items negotiated and, above all, though Nicaragua has not undertaken to maintain the par value of our currency on the ratio of five to one, it would nevertheless suffer some inconvenience from the readjustment on the basis of the present par value of seven to one. It seems to me unquestionable, our new tariff rates being computed on the basis of gold cordobas equivalent to the United States dollar, that the new par value cannot be regarded as an increase in duties and that, for that very reason, the new par value cannot be regarded as objectionable but, in any case, I should be very grateful if I could have your opinion on this point.

C. Have the concessions granted by Nicaragua in Annecy, which were valid until 31 December 1950, lapsed for the very reason that this date is now past without any need for any further notification to the Secretariat-General to that effect?

D. In view of the fact that Nicaragua did not participate in the Torquay negotiations, what is the legal status of the Annecy negotiations which were to remain valid until 31 December 1951? If they are to be regarded as still in force, what is the situation of Nicaragua as regards the concession negotiated in Torquay, in particular by the Torquay acceding governments such as Germany? I should be very grateful for some enlightenment on this particular point.

E. In the event that my country should remain a GATT member what are the procedures which we would have to follow in order to readjust our exchange and customs situation without having to wait until further negotiations take place and if we are to avoid that any contracting party should be affected?

F. What would be the concrete effect of the signature or non-signature of the Torquay Protocol as regards Nicaragua remaining within the Organization?

I hope you will forgive me, Mr. Wyndham White, for asking such lengthy questions and I hope that you will understand that they are dictated by my sincere desire to reach an adequate solution which would enable my country to remain within the Organization without suffering any prejudice. They are also due to the fact that no department of my Government has until now undertaken the task to study these important subjects which is the reason why, as I take over my new responsibilities, I find myself without adequate information or studies.

I should also like to ask you that you be kind enough, if there is no inconvenience as far as you are concerned, to give the necessary instructions in order that the Ministry for Economic Affairs should receive a complete set of documents on the Torquay negotiations. May I also ask you to be good enough to send me in future an extra copy in English of the documents which are otherwise sent to the Ministerio des Relaciones. I am now setting up under the Ministry for Economic Affairs an office which will be dealing exclusively with subjects relating to the General Agreement.

I am enclosing for your information a copy of our Foreign Exchange Control Act, of the legislative Decree whereby our national Congress ordained the general revision of our customs tariff, and of the Decree under which the Annecy Protocol entered into force.*

Lastly I wish to express my profound gratitude for anything that you may do in order to enlighten me on this pleasant though complex subject matter, being fully convinced that I shall be able to reciprocate one way or another, and until I have the pleasure to see you again, I wish to remain.

Yours etc.
(J. J. Sanchez, R.)

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*These were not included with the original.

FAH/nsh

11 February 1953

VIIII-3-4

Dear Dr. Sanchez:

I was very pleased indeed to receive your long and interesting letter of 22 January in which you explain some of the problems confronting your Government and the considerations which caused them anxiety over their adherence to the General Agreement.

First of all allow me to extend my congratulations on your appointment as head of the Economic Affairs Ministry. I am very pleased to know that you will now be in charge of all GATT matters, and that the question of remaining in GATT is in your hands.

I have looked at each of the points of difficulty which you enumerate and I can see no insuperable obstacle to the achievement of your objectives while remaining a contracting party to GATT. I would like to reply to your questions in the order in which they are posed in your letter.

A. You will recall the sympathetic reception accorded by the Contracting Parties at their Sixth Session to your Government's enquiry concerning the establishment of a free trade area with El Salvador (GATT/CP.6/SR.24) which led to the Decision of 25 October 1951 (Basic Instruments II, page 30). I believe you could confidently expect that the Contracting Parties would address themselves in an equally understanding and helpful attitude to any request for authority to enter into a broader scheme with sister Republics of Central America.

B. A revision of your tariff on the lines of a more modern nomenclature would be welcomed by all other governments and of course there is never any objection to the lowering of customs duties or charges. The raising of duties on items which do not appear in the Nicaraguan Schedule to GATT presents no difficulties and this is true also of the items in the Schedule which are marked with a double asterisk and which were bound only until the end of 1950. (I believe these remarks will also serve to answer your question C.) For the other items in the Schedule, however, you would have to have recourse to Article XXVIII. All contracting parties, with the exception of Nicaragua, have accepted the amendment of the date in the first paragraph of that Article which, for them, now reads 1 January 1954. In your own case, your Government remains free to enter into negotiations with a view to modifying your commitments in respect of any of these items. The procedure for the conduct of such negotiations is set out in that first paragraph.

Dr. J. J. Sanchez
Minister for Economic Affairs
Palacio Nacional
Managua, D.N.

The adjustment of specific rates of duty to take account of the reduced par value of your currency, should be an easier matter. Under paragraph 5 (a) of Article II, you could submit your proposed adjustments to the Contracting Parties and seek their concurrence that these would not impair the value of the concessions in the Schedule. The Contracting parties could deal with your request early in the Eighth Session which opens on 17 September, or at the Special Session which is likely to be held in the Summer. This procedure was used in the Decision of 15 December 1950 to bring about adjustment of certain specific duties and charges in the Schedule of Benelux (Basic Instruments II, page 12). (I believe these remarks will also serve as an answer to question E.)

D. It is not quite correct to say that the concessions which Nicaragua negotiated at Annecy (other than those marked with double asterisks) "were to remain valid until 1 January 1951[1]"; that was merely the duration of their "assured life". In fact, the Nicaraguan Schedule, like all others annexed to the agreement, remains in force so long as Nicaragua is a contracting party. The date "1 January 1951" merely signified that thereafter items could be re-negotiated under the procedures of Article XXVIII.

So long as Nicaragua remains a contracting party, she will enjoy most-favored-nation treatment from all other contracting parties and the benefit of all the concessions in all the schedules annexed to the Agreement. Thus the German Schedule, which you mention by way of example, is applied to Nicaraguan trade even though Nicaragua did not negotiate at Torquay.

F. Nicaragua can remain a contracting party without signing the Torquay Protocol. The principal consequence of Nicaraguan signature would be the extension of the "assured life" of the Nicaraguan Schedule through the remaining months of 1953: in that event Nicaragua could not initiate re-negotiation of scheduled items until 1 January 1954. Although signature of the Torquay Protocol is not essential for continued adherence to the General Agreement, it is hoped by the Contracting Parties that Nicaragua will sign so that there will be a uniform text of the Agreement, applicable to all contracting parties.

A secondary consequence of signature would be the automatic acceptance of three other protocols which Nicaragua has not yet signed, namely the Fifth Protocol of Rectifications, the First Protocol of Rectifications and Modifications and the Second Protocol of Rectifications and Modifications. These protocols cannot enter into force until they have been signed by every contracting party and, therefore, if your Government were to decide not to sign the Torquay Protocol, it would be appreciated if you would arrange for signature for these three protocols.

Under separate cover I am addressing to you personally a number of documents relating to the Torquay negotiations (many are now out of stock or are of no present interest) and a copy of the documents and Protocols to which I have referred in this letter. Also I have arranged that in future your Ministry of Foreign Affairs shall receive a copy of all documents in English.

I hope you will find these remarks helpful in understanding your Government's position as a contracting party to the General Agreement, but if there remain any points of obscurity do not hesitate to put them to me. Now that we have established contact, I hope we can continue to exchange letters on matters of foreign trade and commercial policy which affect your Government. Further, I trust you will arrange to send a representative to the Eighth Session in September and possibly you will yourself come to one of meetings.

With your permission I propose to mention your plans for closer ties with the other Central American Republics confidentially to friends in London and Washington and to write to you again on this problem.

With kind personal regards,

Your sincerely,

E. Wyndham White
Executive Secretary

[1]In your letter you say "31st December, 1951", but presumably you mean "1st January, 1951".

3. NICARAGUA-EL SALVADOR FREE TRADE AREA (1953)

From: Correspondence between James Maish, Jr., Economic Officer, American Embassy, Managua, Nicaragua and John L. Ohmans, Department of State regarding Nicaragua-El Salvador Free Trade Area; July 14 and July 17, 1953; Lot file 57 D15, box 1, under the heading "GATT"; Records of the Office of Middle American Affairs, Department of State, NARA.

July 17, 1953

OFFICIAL - INFORMAL

Dear Jim:

Thank you very much for your prompt reply regarding the Nicaragua-El Salvador Free Trade Area. Attached is a position paper which I prepared before your letter arrived. I will send the people working on GATT a copy of your letter of July 14 for their information. I am inclined to think that the GATT contracting parties will insist that Nicaragua give it a report on the operation of the free trade area with El Salvador.

My letter to you was inadvertently attached to your letter. I am sending it back for your records.

Sincerely yours,

John L. Ohmans

Enclosures:
Copy to Position Paper.
Letter to Mr. Maish from Mr. Ohmans dated July 7.

James Maish, Jr., Esquire,
Economic Officer,
American Embassy,
Managua, Nicaragua.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Embassy,
Managua, Nicaragua,
July 14, 1953.

OFFICIAL - INFORMAL

Dear Jack:

This is in reply to your letter of July 7, 1953, regarding the Nicaragua-El Salvador free trade area.

At a reception last Saturday, I discussed this matter with Dr. Jorge Montealegre of the Ministry of Economy, and who soon will assume Alfredo Sacasa's former post in Washington as Commercial Counselor of the Embassy of Nicaragua. In reply to my question whether or not Nicaragua intends to prepare a report on the operations of this free trade area, Montealegre stated "not unless GATT insists".

Based on conversations with Jorge Montealegre and Dr. Luis Augusto Cantarero, Superintendent of Banks, operations of the free trade area have resulted in a greatly stimulated trade between the two countries. For comparison purposes, I enclose a table of Nicaragua's exports to El Salvador during 1952, for whatever worth it may be to you in your study. The table covers all trade and not only those commodities listed in Annex A of the Nicaragua/El Salvador trade treaty. Additional background information is contained in the MEMORIA DEL MINISTERIO DE ECONOMIA - 1949-1951 (pages 173 -183) a copy of which is enclosed for your files. (Two copies were air pouched to the department under cover of the Embassy's despatch No. 603 of June 23, 1953.)

According to the local customs bureau, Nicaraguan trade with El Salvador in the five year period, 1948-52, was as follows:

John L. Ohmans, Esquire,
Department of State (MID),
Washington 25, D.C

Table V.3.1

NICARAGUAN TRADE WITH EL SALVADOR, 1948-1952

(U.S. Dollars)

	Exports	Imports
1947	53 897	184 431
1948	820 893	168 875
1949	375 233	298 486
1950	742 955	197 956
1951	2 232 005	341 494
1952	1 263 736	709 965

The considerable decline in Nicaragua's exports to El Salvador in 1952, as compared to 1951 is apparently due to a Salvadorean embargo on Nicaraguan corn which was lifted this year. Millet and rice shipments in 1952 were way off –from $184 705 and $406 627 to the figures that appear in the enclosed table. Exports of Nicaraguan beans, however, were up some $241 525.

In August of this year, Nicaragua proposes to send a delegation to El Salvador to iron out some minor differences with respect to the treaty. There apparently is some confusion in the interpretation of the denomination "native products". Nicaragua desires to establish what percentage of imported raw materials may enter into manufactured goods and still be regarded as native product. Also, I understand that a treaty which El Salvador is about to sign with Costa Rica is more liberal than the present Nicaragua/El Salvador treaty. Therefore, Nicaragua proposes to discuss a liberalization of her existing treaty with El Salvador.

There reportedly was some informal talk between the Ministers of Economy who attended the ODECA meeting just ended about the establishment of a free trade area for all the Central American Republics. Just how or when it is to be worked out, nobody yet knows. Meanwhile, Nicaragua proposes to expand upon its free trade area treaties and at the present time, there is talk in high government circles of a treaty with Costa Rica similar to the one now in effect with El Salvador.

Cordially yours,

(signed) James Maish, Jr.
Economic Officer

Enclosures:
Table of Nicaragua's exports to El Salvador during 1952
Memoria Del Ministero De Economia - 1949-1951

Table V.3.2

NICARAGUAN EXPORTS TO EL SALVADOR - 1952

(Value in U.S. Dollars)

	Unit	Quantity	Value
Pigs	Heads	4 168	83 252
Poultry	Each	40	24
Butter	Kilos	54 754	46 808
Cheese	"	60 657	31 545
Millet	"	9 701	462
Rice	"	302 793	40 206
Corn	"	6 397 496	396 066
Pineapple	"	600	30
Other fresh fruits	"	35 965	855
Potatoes	"	268 488	22 976
Onions	"	1 932	420
Beans	"	2 212 095	333 979
Cocoa beans	"	145 851	91 426
Liquors	Liters	11 520	7 980
Linseed	Kilos	1 100	250
Cottonseed	"	280 646	10 980
Sesame	"	1 702	370
Aceituno	"	22 126	706
Cottonseed oil	"	6 182	2 284
Palm oil	"	16 493	7 741
Castor oil	"	7 564	4 949
Starch	"	150 882	23 502
Rubber	"	10 878	7 496
Mahogany logs	Bd. Ft.	3 000	80
Cedar logs	"	32 451	2 249
Genizaro logs	"	7 760	564
Guanacaste logs	"	68 408	2 395
Pine logs	"	22 000	945
Cedar (Espino) lumber, sawn	"	39 389	2 457
Cedar (Real) lumber, sawn	"	542 213	48 451
Genizaro lumber, sawn	"	202 053	11 919
Guanacaste lumber, sawn	"	290 544	17 172
Furniture	Kilos	126	50
Raw cattle hides	"	15 328	8 768
Leather, sole	"	81	97
Cotton, combed or carded	"	8 557	2 638
Men's and children's ready-to-wear	Each	52	48
Women's ready-to-wear	Each	2	4
Waterproof garments	Doz.	29	1 839
Hammocks	Each	1	15
Tripe, dry	Kilos	81	14
Dyewoods	"	2 081	267
Empty steel drums (re-export)	"	69 473	33 025
Motion picture film (re-export)	Reels	1 006	9 938
Other re-exports	Kilos	9 380	4 109
Personal effects	"	953	1 170
Other exports	"	2 612	2 825
Total			**1 265 346**

Free Trade Area Between Nicaragua and El Salvador; Position Paper for the Seventh Session of the Contracting Parties to the GATT, 1952; Lot file 57 D15, box 1, under the heading "GATT"; Records of the Office of Middle American Affairs, Department of State; NARA.

SUBJECT: POSITION PAPER FOR THE SEVENTH SESSION OF THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE.

Free Trade Area Between Nicaragua and El Salvador

Problem:

To determine whether the report of the first year's operation of the Nicaragua-El Salvador Free Trade Area shows operations to have been consistent with the objectives of the General Agreement on Tariffs and Trade.

Recommendation:

That the United States accept the report and make a request that the annual reports on the operation of the free trade area be continued. Further reference should be made to the understanding of the contracting parties that Nicaragua will not resort to the quantitative restrictions provided for in the Free Trade Treaty (Article 3) for purposes other than those specified in the GATT.

Discussion:

The Government of Nicaragua has submitted, at the request of the contracting parties, a report on the first year's operations of the free trade area established by treaty between Nicaragua and El Salvador. The contracting parties approved establishment of this free trade area under the provisions of paragraph 10 of Article XXIV of the General Agreements on Tariffs and Trade, which permits approval of free trade areas which do not fully comply with the requirements of the article but appear to be generally consistent with the objectives of the General Agreement. The one provision of the Nicaraguan-El Salvador treaty whose consistency with the General Agreement was questioned is found in Article III. Each country therein reserves the right to place quantitative restrictions on the importation or exportation of specified articles. If this right were invoked with respect to any commodities the treaty might serve to restrict rather than to expand foreign trade. Therefore the contracting parties requested that Nicaragua submit reports so that it might review its decision from time to time and determine whether the Free Trade Area was actually resulting in the maintenance of a free trade area in the sense of Article XXIV of the General Agreement.

The treaty entered into force on August 21, 1951. Since then the Government of Nicaragua has not established quantitative restrictions on any Salvadoran product. The fact that the Government of El Salvador has temporarily restricted the importation of corn from Nicaragua is not relevant, since El Salvador is not a party to the General Agreement on Tariffs and Trade.

Each country is studying a request from the other to expand the list of duty-free products in accordance with Article 19 of the Free Trade Area Treaty which states the intention of the two Governments to work towards a customs union.

Statistics presented by Nicaragua demonstrate that during the period of operation of the free trade treaty, from September 1951 to May 1952, the movement of trade has been favorable to Nicaragua. Nicaraguan imports from El Salvador were only about 40 per cent of the value of Nicaraguan exports in the ten months covered. The major share of the Nicaraguan imports were not on the free list. Sixty per cent of the value of the imports were represented by iron tanks, trucks and buses, and private vehicles. These items obviously were not of Salvadoran origin and probably represent intransit shipments through ports of El Salvador.

ARA:MID:JLOhmans:dws
10/2/52

4. A PROPOSED CENTRAL AMERICAN CUSTOMS UNION (1954)

From: Background Information on a Proposed Central American Union and on the Foreign Trade Pattern of Honduras; Special Paper No. 53 prepared by the Division of Research for the American Republics; December 16, 1954; Lot file 57 D15, box 6, under the heading "Costa Rica: Regional organizations ODECA 1955"; Records of the Office of Middle American Affairs, Department of State, NARA.

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NARA 6/14/88

Special Paper No. 53
Prepared by The Division of Research
for the American Republics
December 16, 1954

BACKGROUND INFORMATION ON A PROPOSED CENTRAL AMERICAN UNION AND ON THE FOREIGN TRADE PATTERN OF HONDURAS

I. Central American Union

The charter of an Organization of American States (ODECA) was signed on October 14, 1951 and became effective on January 9, 1952. The ODECA's headquarters is in El Salvador. The member states are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Panama may join whenever it wishes to do so. The ODECA charter provides, among other things, for the promotion of social, economic, and cultural development, within the scope of the UN and OAS charters.

As a first step toward attaining a regional economic union, the ODECA is studying the establishment of a Central American customs union. The advantages of economic union are integrated development for the area, broadening of the market for local production, and united action in international negotiations. A union of one sort or another has been under consideration for more than a century. Political and economic instability in one or more of the potential members, together with jealousy of Guatemala's hegemony in Central America, have prevented a union from becoming a reality.

In 1952, however, the UN's Commission for Latin America (ECLA) reported in favor of a Central American union, and it presented plans and measures for achieving this end. Since that time, additional ECLA studies have been in progress. As the combined financial resources of the area are relatively small, financial assistance from the United States would be required to put the union on a solid footing. Although the ECLA has shown that a Central American economic union is theoretically feasible, its realization will be slow and the project will remain in the discussion stage for some time to come.

The Central American countries have given consideration to various aspects of regional cooperation. So, for example, the central banks of Central America, at their meeting in December 1953, devised a plan for reciprocal investment in each other's development bonds, both for development purposes and to obtain higher rates of interest than that derived from investments in bonds and commercial paper in the United States. It is also a technical method of achieving regional convertibility. The investments are to be short-term and are to carry the guaranty of the central bank of the country receiving the investment. Honduras reportedly sent dollar funds to Costa Rica on November 22, 1954, for investment in that country.

II. Importance of Trade

A sizable share of Honduran revenues is derived from customs duties. In fiscal 1953, this share was 23%, and the estimates for fiscal years 1954 and 1955 are 31% and 36%, respectively.[1] By comparison, income taxes provided 14% of total receipts in fiscal 1953; they are expected to drop to 11% in fiscal 1954, and then to rise somewhat to 13% in the following year.

Pattern of Trade

a) *Exports*

Honduran exports in fiscal 1954 amounted to US$66 573 000. The major Honduran exports are bananas, coffee, silver, and lumber, which in the year ending June 30, 1954 accounted for more than 90% of the total value. The largest market for these products is the United States, which took 77% of the total. The composition and distribution of exports are shown below.

Table V.4.1

HONDURAN EXPORTS: COMPOSITION AND DESTINATION YEAR ENDING JUNE 30, 1954

(Value in US $1,000)

	Total	%	To U.S.	% to U.S.
Fresh fruit (chiefly bananas)	39 906	60	32 483	81
Coffee	12 794	19	12 089	94
Silver, in ore and bars	5 027	8	5 027	100
Lumber	3 134	5	342	1
All other	5 712	8	1 444	25
Total	**66 573**	**100**	**51 358**	**77**

Other countries taking significant shares of Honduran exports in fiscal 1954 were Canada, 7%; El Salvador, 6%; the Netherlands, 5%; and Cuba, 2%. Only 3% of the total remained to other purchasing areas.

b) *Imports*

Honduran imports in fiscal 1954 amounted to US$49 123 000. About 40% of the total value consisted of 18 items valued at US$500 000 or above, and of these, only 5 items, representing 11% of total exports, are contained in the bilateral trade agreement with the United States. The United States supplied 69% of Honduran imports in this year. The composition and origin of imports are shown below.

[1]Includes export duties, amounting to 3%, 2% and 3% in the respective years.

Table V.4.2

HONDURAN IMPORTS: COMPOSITION AND DESTINATION YEAR ENDING JUNE 30, 1954

(Value in US $1,000)

	Total	%	To U.S.	% to U.S.
Automobiles, trucks and buses[a]	2 532	5	2 244	89
Copper sulphate	2 113	4	2 113	100
Agricultural, mining, and road machinery	2 040	4	1 927	94
Crude petroleum	1 766	4	343	19
Silk or artificial silk or ramie textiles	1 317	3	669	51
Fertilizers, all types	1 209	2	377	31
Gasoline	1 188	2	20	2
Drill, white or colored[a]	1 029	2	876	85
Linen, plain	993	2	740	75
Heavy machinery, all types	987	2	957	97
Wheat flour[a]	725	2	701	97
Automobile accessories and repair parts	708	1	679	96
Sugar	644	1	2	insig.
Tires for automobiles and trucks[a]	631	1	518	82
Leather shoes	562	1	477	85
Wheat	537	1	537	100
Leather, hairless, n.e.s.[a]	535	1	97	18
Industrial machinery and repair parts	528	1	445	84
All other imports	29 079	60	20 392	70
Total	**49 123**	**100**	**34 114**	**69**

[a] Included in bilateral trade agreement with the United States.

Other supplying countries in fiscal 1954 were the Netherlands West Indies and West Germany, each with 5%; El Salvador, Japan, and the United Kingdom, each with 3%; Mexico, 2%; Belgium-Luxembourg and the Netherlands, 1% each; and all other countries provided 8% of total imports.*

*This document was found in an incomplete form.

5. TRADE TREATY BETWEEN HONDURAS AND EL SALVADOR (1956)

From: Attitude of Honduran Foreign Minister Toward Revised Trade Treaty Between Honduras and El Salvador; Foreign Service Despatch No. 495 from Amembassy, Tegucigalpa, to Department of State, Washington; June 7, 1956; 415.1641/6-756; Central Decimal Files, 1955-59; Record Group 59; NARA.

The subsequent documents in the series are from the same section of the Central Decimal Files, 1955-59, and from Record Group 59 at the National Archives:

Progress on Negotiation of New Salvadoran-Honduran Commercial Treaty; Foreign Service Despatch No. 334 from Amembassy, San Salvador to Department of State; December 31, 1956; 415.1641/12-3156 HBS.

Proposed Honduran/Salvadoran Commercial Treaty; Foreign Service Despatch No. 402 from Amembassy, San Salvador to Department of State; February 8, 1957; 415.1641/2-857 HBS.

Treaty of Free Commerce and Economic Integration between the Republics of Honduras and El Salvador; Foreign Service Despatch No. 192 from Amembassy, Tegucigalpa to Department of State; February 20, 1957; 415.1641/2-2057 HBS.

Honduran Trade with El Salvador; Foreign Service Despatch No.229 from Amembassy, Tegucigalpa to Department of State; December 17, 1957, 1957; 415.1641/12-1757 RMC.

Economic Relations between El Salvador and Honduras and the bilateral trade agreement; Incoming Telegram No. 156 from San Salvador to Secretary of State; January 6, 1959; 415.1641/1-659 DMS.

Problems Regarding Honduran-Salvadoran Bilateral Trade Treaty; Foreign Service Despatch No. 356 from Amembassy, San Salvador to Department of State; January 9, 1959; 415.1641/1-959 DMS.

Possible Customs Union Between El Salvador and Honduras; Memorandum of Conversation, Department of State; March 11, 1959; 415.162/3-1159.

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FOREIGN SERVICE DESPATCH

Desp. No. 495

From: Amembassy, Tegucigalpa

To: The Department of State, Washington

June 7, 1956

Ref: CERP – Item D-14

Subject: Attitude of Honduran Foreign Minister Toward Revised Trade Treaty Between Honduras and El Salvador.

The free trade treaty between Honduras and El Salvador which has been in effect since 1918 has been revised and the draft is now on Foreign Minister Esteban MENDOZA's desk for his recommendation to the Chief of State. The Director of the Bureau of Direct Taxation in the Ministry of Economics and Finance was in charge of negotiations for Honduras.

It will be recalled that the 1918 Free Trade Treaty was formally renewed by adding a protocol in 1954 which modified the original treaty by providing that manufactured goods moving from one country to another should contain at least 40% of domestic materials. During 1955 disputes over the interpretation of the treaty arose and El Salvador put a ban on duty free entry of Honduran shirts. Honduras retaliated by suspending free entry of Salvadoran shoes, soap, and matches. The ban on shoes was a serious matter for the Salvadoran industry. Repeated efforts were made to resolve the issues by negotiation without success, since both groups of negotiators were subject to protectionist pressures. It was finally agreed that the 1918 treaty would have to be overhauled and the draft now in the Foreign Minister's hands is the result.

The Embassy has not seen a copy of this draft treaty, but the Foreign Minister expressed his views about it to the Ambassador. Mendoza said flatly that he did not like many of the treaty's terms. He thinks it might represent the beginning of a complete customs union in Central America to which he is opposed at the present time. Mendoza reminisced about the history of how Prussia dominated Germany by using customs union as an opening wedge. He says the economic development in Honduras at its present stage requires protection. Electric power is more expensive here than in Salvador, wages are higher, etc. Mendoza remarked that he felt Salvador with its excess population and more advanced industry is the main threat to Honduras-Salvador boundary matter before any further steps toward the customs union were taken. In a nutshell, for the moment, Mendoza, because of the backwardness of Honduras, is opposed to any tendency towards real Central American Union.

Mendoza is one of the ablest and most influential members of the Lozano cabinet and he may be able to block the pending trade treaty or to so modify the terms that it would represent an important step toward economic nationalism rather than away from it. Traditionally Honduras has been in favor of economic integration of the Central American States.

The Embassy will report further developments on this matter as they occur. At present, it is not possible to obtain a copy of the draft treaty.

For the Ambassador:

(signed)
Roy I. Kimmel
First Secretary of Embassy
Economic Affairs

cc: MID
Amembassy, San Salvador

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FOREIGN SERVICE DESPATCH

Desp. No. 334

From: AmEmbassy, San Salvador

December 31, 1956

To: The Department of State, Washington

Ref: CERP, June 10, 1954, D-12

Subject: Progress on Negotiation of New Salvadoran-Honduran Commercial Treaty

The long-pending revision of the Salvadoran-Honduran commercial treaty was the object of a recent visit to Honduras by Salvadoran Minister of Economy Alfonso Rochac. The Embassy has now obtained confidential information regarding the general outline of the draft as it stands. It apparently follows the form of standard bilateral agreements, with three protocols listing products which would enjoy benefits under the treaty. The first of these, granting duty exemptions for importation of merchandise from El Salvador into Honduras, reportedly includes a long list of manufactured products and some raw materials. The manufactured products listed are reported to be practically all items manufactured locally with local raw materials, but the door is left open for items such as locally assembled bus bodies, refrigerators, etc. The second list, granting duty exemptions on imports into El Salvador from Honduras includes a wide range of raw materials. The third consists of seven or eight items which would enjoy preferential rates of duty upon importation into either country from the other. Included therein are controversial items such as shirts (for which a duty of 25% is reportedly prescribed) and shoes (15%). It will be recalled that these were the principal items arbitrarily excluded form benefits under the old treaty (which otherwise continues in effect) at the time of the 1955 disputes, when local interests demanded protection from competing imports form the other country. There is reported to be no provision in the new draft similar to that in the old treaty which required that not more than 40% of the declared FOB valued of goods enjoying benefits under the treaty could originate in countries other than the contracting parties, a point which was the bone of contention in 1955.

The draft treaty in its present form is unofficially reported to be acceptable to the Salvadoran Government, but some changes may be necessary in order to obtain agreement thereto by the Honduran Junta. Local manufacturers of shirts and similar products, together with their employees (whose jobs may be affected), may be expected to complain long and loudly about the preferential rate accorded competing Honduran imports. The problem of their costs has, however, been studied by the Government, which apparently feels that such complaints would be without foundation. Whether it would stand firmly against pressures exerted this time is another question. The details of negotiations and the proposed draft have been kept classified precisely to prevent such pressures being exerted until an agreement is reached between the Governments.

Commentary:

Ratification of this treaty would not affect tariffs on imports from the U.S. or other countries outside of Central America, since most-favored-nation clauses in trade agreements between El Salvador and non-Central American countries do not apply to benefits granted to other Central American countries. A new treaty with Honduras along the lines indicated would however stimulate commercial interchange between the two countries, and presumably would give Salvadoran industries such as shoes, matches, cement and soap the opportunity to compete in the Honduran market that was being developed up until last year. (Salvadoran shoe manufacturers especially were hard hit by the cancellation of duty exemptions that were previously enjoyed on exports to Honduras). The question as to whether imports of shirts and pants from Honduras (which up until 1955 were sold in better quality and at lower prices on the Salvadoran market than those produced locally) would increase is dependent on a number of factors: a) whether Salvadoran producers would be willing to cut profits to lower prices or would merely cut production, b) whether they could obtain tariff cuts on imported fabrics used in order to equate costs with Honduran producers, who allegedly enjoy lower duties, or c) if not, whether suitable fabrics produced by the new Japanese-Salvadoran textile mill could be obtained by local producers at advantageous prices. Be that as it may, however, approval of a new treaty would be another small step in the direction of creating a unified Central american market for goods produced in the area, and hence will be of benefit to both countries.

For the Chargé d'Affaires, a.i.:

(signed)
Robert P. Gwynn
Third Secretary of Embassy

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FOREIGN SERVICE DESPATCH

Desp. No. 402
February 8, 1957

From: Amembassy San Salvador

To: The Department of State, Washington

Re: Embassy Telegram 14, February 5, 1957 to Embassy Tegucigalpa; repeated to Department as Telegram 227

Subject: Proposed Honduran/Salvadoran Commercial Treaty

While visiting the Under Secretary of Foreign Relations February 6, 1957, regarding other matters, the Under Secretary said he wanted to refer to the proposed Honduran/Salvadoran commercial treaty regarding which he had already discussed with Ambassador Mann, because, he said, he knew the United States is interested in the solution of Central American problems.

The Under Secretary stated that in the opinion of El Salvador the treaty is important for both countries, especially so they can make progress toward economic integration and that it is similarly important for the border Honduran/Salvadoran areas which have built up an active frontier commerce.

He said that he believes the treaty will be signed in about fifteen days since the present Foreign Minister of Honduras and other members of the Honduran Government favor the treaty. If it fails of signature, he said, failure will be due at least in part to opposition by various business interests in Honduras only one of which, the Standard Fruit Company, is believed to be American. This American company apparently opposes, he said, free entry of Salvadoran sugar into Honduras because it can be sold for half the current price of Honduran sugar. Other Salvadoran products which especially worry some of the Honduran interests, the Under Secretary stated, are shoes, textiles and soap.

The Under Secretary stated that it was necessary a few days ago for Salvador to close the border to Honduran corn because of the over supply in El Salvador. However, this will be temporary only, he said, until the treaty is signed. There was no indication by the Under Secretary that this move was taken to put pressure on Honduras, although he said that in his opinion if Salvador should suddenly deny free entry to Honduran tobacco and "Blanquita"* Honduras would be anxious to get along with the treaty.

He said that if unfortunately the treaty should not be carried out he will recommend that "Blanquita" be excluded from the Salvadoran market.

For the Ambassador:

(signed)
Alton W. Hemba
First Secretary of Embassy

cc: Amembassy Tegucigalpa

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*An edible vegetable oil.

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FOREIGN SERVICE DESPATCH

Desp. No. 192
February 20, 1957

From: Amembassy, Tegucigalpa

To: The Department of State, Washington

Subject: Treaty of Free Commerce and Economic Integration between the Republics of Honduras and El Salvador.

On Saturday, February 16, 1957, the *Treaty of Free Commerce and Economic Integration between the Republics of Honduras and El Salvador* was signed by Finance Minister Gabriel A. Mejiá [sic] for Honduras and by Economic Minister Dr. Alfonoso Rohac [sic] for El Salvador. The treaty will become effective upon ratification by the Legislative Chamber of El Salvador and the Council of Ministers of Honduras.

This treaty represents a major revision in the free trade treaty between the two countries. Under prior treaties, the last one of which was signed in 1954, there were no duties on the merchandise traded by Honduras, except for *coffee, alcoholic beverages including beer, and cigarettes.* Under the present treaty, approximately 216 commodities, listed in Annex "A" of the attachment, can be traded freely. Commodities listed under Annex "B" are subject to the tariff rates specified.

Background:

Honduras, in the past, has had an export surplus in its trade with El Salvador. Major commodities exported included tobacco, timber, corn, cattle, raw cotton (unginned), cheese and "Blanquita", an edible vegetable oil. Major imports from El Salvador included textiles and textile products, clothing and shoes. The value of Honduran exports to El Salvador has ranged between 7 and 9 million lempiras each year; the value of Honduran imports from El Salvador have ranged between 5 and 6 million lempiras each year. Hence, a trade surplus of between 2 and 3 million lempiras accrued each year to Honduras.

Until 1954, foreign trade between the two countries had been governed by the provisions contained in the treaty of free commerce of 1918. In 1954, a treaty of free trade was signed which was basically the same as the 1918 treaty. However, it was modernized in coverage and operation.

In 1955 the flow of foreign commerce between the two countries began to decline because of pressures exerted by special interests within each country. In Honduras, the textile people, the shoe people, the shirt people and the producers of edible vegetable oil (Blanquita) began to manifest a desire to reduce, and if possible stop, imports of textiles, shoes, shirts and vegetable oils form El Salvador in order to protect their "infant" industries. The situation deteriorated to the point where El Salvador declared an embargo against the importation of shirts form Honduras. In retaliation, Honduras embargoed imports of shoes from El Salvador. A Mixed Commission was established to negotiate the differences.

In 1956, Honduras renounced the treaty. As provided for under the Treaty of 1954, either country could renounce the Treaty three months prior to the termination date of the treaty. The Mixed Commission continued to meet in order to resolve differences between the two countries. After months of give and take a revised Treaty of Free Commerce and Economic Integration was evolved and signed as indicated above.

FOR THE AMBASSADOR:

(signed)

Morris Kaufman
Second Secretary of Embassy
Economic Affairs

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FOREIGN SERVICE DESPATCH

From: Amembassy, TEGUCIGALPA — Desp. No. 229

To: The Department of State, Washington — December 17, 1957

Subject: Honduran Trade with El Salvador.

The Ministry of Economy and Finance has recently published a report on the trade between Honduras and El Salvador for the period from January through August of the current year. This trade is under the Treaty of Free Commerce and Economic Integration (Tratado de Libre Comercio e Integración Económica) between the two countries.

Table V.5.1

TRADE BETWEEN HONDURAS AND EL SALVADOR, JANUARY-AUGUST, 1957

	Value of exports (Lempiras)	Value of imports (Lempiras)
Live animals	2 631 030.44	5 692.00
Edibles of animal origin	201 121.88	6 911.60
Edibles of vegetable origin	1 427 891.84	1 269 045.64
Edibles of mineral origin	18 692.40	5 226.80
Raw materials of animal origin	42 565.00	21 472.00
Raw materials of vegetable origin	2 107 387.88	18 219.22
Raw materials of mineral origin	--	123 330.68
Manufactured articles	168 529.86	503 328.36
Edibles of mixed origin	--	15 956.70
Other articles	130 986.56	388 590.32
Total	**6 728 205.86**	**2 357 773.32**
Exports	6 728 205.86	
Imports	2 357 773.32	
Balance in favor of Honduras	**4 370 432.54**	

Although the figures above indicate a definite balance of trade in favor of Honduras, there has been a strong sentiment against the Treaty here. Representative of this feeling is an article published in EL DIA on December 10 which complains that Salvadorean exports to Honduras, particularly potatoes, rice, beans, bread and sugar cane are flooding the market and ruining the local farmer. The writer cities no figures to support his argument.

On the other hand, an article in EL CRONISTA for December 13 strongly defends the Treaty, declaring that its only effect is to destroy the "monopolies" which now exist in Honduras. The article cites the above report from the Minister of Economy and Finance and states that these statistics clearly indicate the beneficial effects of the Treaty.

A copy of each article is enclosed with this despatch.

FOR THE AMBASSADOR:

(signed)
Lawrence S. Eagleburger
Third Secretary of Embassy
Economic Affairs

INCOMING TELEGRAM | DEPARTMENT OF STATE | ACTION COPY
Declassified
NARA 6/20/88

SECRET

From: San Salvador

To: Secretary of State

No: 156, January 6, 3 p.m.

Rec'd: January 6, 1959
10:21 p.m.

Foreign Minister today expressed grave concern regarding course economic relations with Honduras and principally with current campaign attacking bilateral trade agreement and accusing Salvador imperialistic intentions toward Honduras.

Foreign Minister pointed out that economically Honduras and Salvador complement each other. Salvador has excess of productive, hard-working population, also domestic capital which could be usefully employed in Honduras to mutual advantage both countries. He pointed to long frontier and similarity of people of both countries as additional factors leading to natural affinity of one country for other. He believes economic integration of Honduras and Salvador would be mutually beneficial and would serve as first step in eventual economic integration of all CA countries. Although he looks toward eventual political association of some kind, this, however, is long range in nature and not of present concern.

In recent weeks relations with Honduras have deteriorated because deliberate campaign being undertaken by certain elements in Honduras designed to undermine trade agreement and block expansion of commercial interchange between two countries. He claimed while Villeda Morales and Liberal Party sympathetic idea economic integration with El Salvador, strong opposition developing headed by Nationalist-Carias element, special-interest groups, and finally by United Fruit Company in Honduras. Said his Ministry had received reports UFCO indirectly participating in campaign vilification against Salvador. Pointed out UFCO engaged production soap and vegetable oil in Honduras and that its interests would be adversely affected by reduction tariff barriers which would force it into stiffer competition with producers similar products in El Salvador and other CA countries. Said anti-El Salvador campaign included charges that El Salvador had imperialistic designs on Honduras and that El Salvador was being used by State Department to extend control over Honduras.

He was pleased to read strong stand on CA common market Dr. Milton Eisenhower took in his report and felt this would aid integration forces. Also expressed hope US could be of further help in encouraging economic integration. Warned, however, matter was one of great delicacy and should be handled so as to avoid any implication US was exerting pressure in its own interests.

Without making commitments, I assured Foreign Minister US Government sympathetic toward idea economic integration Honduras-Salvador and that I would consider seriously any suggestions he might wish to make.

Comment: Told Foreign Minister I would look into matter of UFCO activity. Believe Department ought to investigate and provide guidance. Foreign Minister expects answer from me.

Also discussed general question economic integration and suggested further meeting devoted this subject alone in which three of us plus Minister Rochac and Martinez Moreno would participate. Informed him we expected Frank and Turkel shortly and they might be helpful with respect to any technical questions he might have. Believe if this develops further, session between Newbegin and myself in order. Appreciate delicacy of problem but also its importance.

KALIJARVI

MLJ/7

Air Pouch | SECRET | Declassified NARA 6/20/88

FOREIGN SERVICE DESPATCH

Desp. No. 356
January 9, 1959

From: Amembassy San Salvador

To: The Department of State, Washington

Ref.: CERP, Section D, Items I-A-4 & III-A-1; Embassy Telegram 156, Jan. 6, 1959

Subject: Problems Regarding Honduran-Salvadoran Bilateral Trade Treaty

SUMMARY

Begin SECRET

The Salvadoran Foreign Office is concerned over deteriorating relations with Honduras caused by an anti-Salvadoran campaign in that country advocating cancellation of the bilateral trade treaty between the two countries. The Foreign Office has received reports that both the United Fruit Company in Honduras and opposition Honduran political parties are backing the campaign, which includes charges that El Salvador has imperialistic designs on Honduras and that El Salvador is being used by the State Department to extend control over Honduras.

End SECRET

Begin UNCLASSIFIED

As the Department is aware, El Salvador has historically been the primary exponent of Central American integration, political as well as economic. In addition many Salvadorans feel that unification of El Salvador and Honduras (first economic, then eventually political) would only be natural and logical as a first step towards such Central American integration. They argue that the economies of the two countries are complementary, and look to Honduras as the most logical area for settlement of El Salvador's excess population and investment of Salvadoran capital, market for the products of Salvadoran industry, and source of some raw materials.

El Salvador has had trade treaties with Honduras since 1918. The first of these was the 1918 Free Trade Treaty, which provided for complete freedom of trade between the two countries for the natural products of each and for the manufactured products of each made with raw materials from either country. Excepted from benefits under the treaty were products under Government control and such items as coffee, cigarettes and leather.

In more recent years, with the development of infant industries in both countries and better communications between the two, protectionist pressures have developed in each. A protocol to the original treaty was nevertheless signed in 1954 modernizing many of its provisions and specifying that in general manufactured goods produced in either country would be eligible for benefits under the treaty if any foreign materials used in the manufacturing process represented less than 40% of the FOB value of the finished goods. Alcoholic beverages were however added to the list of items excluded from benefits under the treaty (replacing leather), and provision was made for modification, expansion or contraction of this list by means of an exchange of notes.

In April 1955 protectionist pressures in El Salvador caused the Salvadoran Government unilaterally to suspend the benefits of the treaty in the case of imports of clothing from Honduras, the contention being that over 40% of their value was represented by foreign materials used therein. The Honduran Government promptly retaliated by suspending treaty benefits on Salvadoran shoes, matches, cement, soap and textile piece goods. After much discussion of the new problem, a new "Treaty of Free Trade and Economic Integration" was negotiated and signed between the two countries in 1957, establishing lists of items accorded duty exemptions, those accorded preferential rates, and also providing for the imposition of import and/or export controls on vegetable oils and fats from either country and on corn exported from Honduras to El Salvador (reference Embassy Despatch 484, March 21, 1958).

The duration of the present treaty is for two years from the date of exchange of instruments of ratification (April 11, 1957), renewable automatically for additional two year periods if not denounced by either contracting party 90 days prior to the expiration date. In recent weeks a campaign has been conducted in Honduras advocating cancellation of the treaty, the belief here being that this is being conducted not only by industrial interests in Honduras facing competition from Salvadoran products, but also by opponents of the present Honduran administration seeking to make political hay. To counteract this thinking the recently-formed Salvadoran Industrial Association last month started an intensive campaign to point out the advantages of the treaty to Honduras and thus seek to avoid cancellation thereof, which was rumored to be planned by the Honduras Government for January 11, 1959 (90 days prior to the end of the first 2-year period). The local press has given the Association's releases considerable publicity. The principal arguments presented are that the trade balance between the two countries for the past several years has been heavily favorable to Honduras and that the treaty thus benefits not only the Honduras consumer through lower prices or better qualities but also the producers of Honduran exports.

The Salvadoran Government has also been espousing the view maintained by the Industrial Association that the treaty is beneficial to both parties and should not be denounced. On December 28 the local daily *La Prensa Grafica* carried a story to the effect that in a telephone interview Honduran President Villeda Morales had confirmed that there was a strong campaign to have his Government denounce the treaty, and that although he would not do so, a bilateral commission would sit down shortly to effect a *revision* of the treaty. Minister of Economy Rochac left for Honduras earlier this week with the apparent purpose of attempting to work out a continuation of the treaty with the Honduran Minister of Economy.

End UNCLASSIFIED

Begin SECRET

With this background, on January 6 the Foreign Minister expressed to the Ambassador his grave concern regarding the course of economic relations with Honduras, and principally with the current campaign by certain elements there which he characterized as attacking the bilateral treaty agreement and accusing El Salvador of having imperialistic tendencies toward Honduras. He indicated that in recent weeks relations with Honduras have deteriorated because of this deliberate campaign to undermine the trade agreement and prevent the expansion of commercial interchange between the two countries. He claimed that while Villeda Morales and his supporters in the Liberal party were sympathetic to the idea of economic integration with El Salvador, strong opposition was developing headed by Nationalist-Carias elements, special interest groups, and finally by the United Fruit Company in Honduras. He said that his Ministry had received reports that the United Fruit Company is indirectly participating in the campaign of vilification against El Salvador, and pointed out that since it is engaged in the production of soap and vegetable oil in Honduras its interests would be adversely affected by a reduction of tariff barriers on competitive products from El Salvador and other Central American countries. He said that the anti-El Salvador campaign included charges that El Salvador had imperialistic designs on Honduras and that El Salvador was being used by the State Department to extend control over Honduras.

COMMENT:

This problem, as reported by the Foreign Minister, is of course a matter of concern to the Embassy. To a large extent, however, the importance of the problem will probably be determined by the success (or lack of it) of Minister Rochac and/or other Salvadoran negotiators in obtaining a continuation of the treaty without having to make extensive new concessions.

End SECRET

FOR THE AMBASSADOR:

(signed)

Robert P. Gwynn
Second Secretary of Embassy

cc: Amembassy Tegucigalpa

LIMITED OFFICIAL USE

DEPARTMENT OF STATE

Memorandum of Conversation

Date: March 11, 1959

SUBJECT: Possible Customs Union Between El Salvador and Honduras

PARTICIPANTS:
His Excellency Dr. Alfredo Ortiz Mancia, Minister of Foreign Relations
His Excellency Dr. Hector David Castro, Ambassador to the United States
His Excellency Dr. Alfonso Rochac, Minister of Economy
His Excellency Roberto A. Parker, Minister of Public Works
His Excellency Rafael Meza Ayau, President of the Salvadoran Association of Manufacturers and former Minister of Economy
Dr. Tomas Regalado, President of the Salvadoran Coffee Company and of the Executive Commission of the Port ofAcajutla
Mr. Francisco De Sola, President of the Federation of FarmCredit Banks
Dr. Jorge Sol-Castellanos, Economic Advisor to PresidentLemus
Ambassador Kalijarvi
E – Mr. Beala
ARA – Mr. Turkel
OT – Mr. Frank
OPT – Mr. Propps

COPIES TO:
ARA – Mr. Rubottom
Ambassador Randall
W – Mr. Dillon
ARA – Mr. Turkel
E – Mr. Mann
Mr. Beale
OT – Mr. Frank
ED – Mr. Ross
OAP – Mr. Steuart
Mr. Gawf
American Embassy, San Salvador
American Embassy, Tegucigalpa
American Embassy, Managua
American Embassy, Guatemala
American Embassy, San Jose

Mr. De Sola said that as a result of the Frank-Turkel visit El Salvador saw the possibility of accelerating integration with Honduras by forming a customs union and using a common fund.

Dr. Sol said El Salvador had in mind the points mentioned by Messrs. Frank and Turkel. The Minister of Economy of Honduras had also expressed agreement. President Lemus had had a telegram from the President of Honduras authorizing the former to speak for them both in Washington.

Mr. Frank recalled that Nicaragua wanted to be in the new customs union from the beginning.

Ambassador Kalijarvi said it was important not to alienate people who had done a great deal to prepare the present integration plan.

Dr. Sol said that although Nicaragua wants to participate from the outset, it doesn't want to be relegated to the role of raw material producer and wants some guarantee of industry.

Mr. Frank said he and Mr. Turkel had made clear to the President of Nicaragua and to Delgado that industry guarantees were out, and they had agreed.

Mr. Turkel referred to Somoza's circular letter calling for a special meeting of Ministers of Economy and wondered whether this meeting might not be postponed until June.

Dr. Mancia said this was a very delicate problem which should be discussed thoroughly. He would like later to give a joint Honduran-El Salvadoran answer.

Mr. Frank suggested that in the meanwhile officials of the Department of State might prepare a draft statement or agreement, along the lines of the principles explained earlier, for a customs union between Honduras and El Salvador.

Mr. Beale and Mr. Frank emphasized the need for avoiding publicity at this stage.

Dr. Mancia agreed.

Dr. Sol said it might be well to avoid a document which went into details. "More details mean more difficulty" in getting agreement. What was needed was a basic treaty setting forth objectives, stages and scope of the plan. Perhaps it would be better to have a simple statement of intentions, rather than a treaty.

Mr. Frank agreed that it might be easier to draft and to get agreement on a short document. But the document should be self-executing; it should not require other documents, otherwise it would represent no real advance. The alternatives seemed to be a general document (easily acceptable) or a specific one (self-executing, but less readily acceptable). Perhaps a fairly general document would [be] desirable with provision for an institution with supra-national authority to decide detailed questions.

Mr. Turkel asked whether this would raise any constitutional difficulties.

Dr. Sol said it would not, and that no one would object to a simple treaty of this kind.

Mr. Turkel wondered whether the document might not be an agreement pursuant to Article XXVII of the present treaty.

Dr. Sol said El Salvador, Honduras, Guatemala and Nicaragua all have constitutional provisions authorizing the conclusion of agreements for integration. He said a new treaty should stem from the constitutions rather than from the previous treaty.

Ambassador Kalijarvi said there was no need to freeze the plan in a detailed mold. The agreement should state basic principles. Annexes or protocols could be added later.

Discussion turned to El Salvador's development program.

Dr. Rochac then referred again to the letter from the President of Nicaragua suggesting an early meeting of the Ministers of Economy of the five Central American republics and United States representative to discuss Central American republics and United States representative to discuss Central American integration. He said that such a meeting would lead to long speeches, resolutions, etc., which might prove embarrassing. He therefore suggested that El Salvador might reply that the idea of a conference is interesting but the time is inopportune. An annual meeting of the Ministers is due to be held in San Jose in June. ECLA activities and the economic report for the year are to be discussed. He suggested it might be wise to keep ECLA activities and the proposed customs union plan separate.

Mr. Beale and Mr. Frank agreed.

Mr. Turkel said we would do all we could to help.

OT: CPT: HFPropps: cet | E - Mr. Beale | OT - Mr. Frank

6. THE CENTRAL AMERICAN MARKET (1956)

From: U.S. Department of Commerce, Bureau of Foreign Commerce, American Republics Division, *Investment in Central America: Basic Information for United States Businessmen.* Study prepared by firm of Albert O. Hirschman and George Kalmanoff, Economic Consultants (Bogotá, Colombia, December 1956), pp. 33-34, 39-43.

THE CENTRAL AMERICAN MARKET

Table 1 presents a number of comparable statistical series that indicate the purchasing power and size of markets in Central America, as revealed by the availability and apparent consumption of selected goods and services.

If per capita consumption in each country were the same, the percentage for each statistical series relating to a given country would be identical with its percentage of the total population for the area. The extent to which these percentages deviate from the population percentages suggests therefore the degree to which per capita consumption in that country is larger or smaller than in other countries in the area.

In making these comparisons, it should be borne in mind that the statistical material available on a comparable basis for this type of investigation is severely limited and that the rapid rate of development presently experience by the area naturally brings with it an uneven pace for the individual countries. The data are useful, however, for an appraisal of the general magnitude of the overall Central American market and of the approximate position of each country.

Turning to the country breakdown of the total Central American market, it has previously been pointed out that there is a decrease in size of population per country as one moves southeastward from Guatemala to Costa Rica. However, as indicated in the discussion of national income, the ranking for purchasing power and standards of living is quite different. Costa Rica's top rank with respect to per capita national income is proved by the data in Table 1. In each of the 16 statistical series Costa Rica's percentage of the total for the 5 countries is well above its 10-percent share of the total population; in most instances it is much more than double that percentage.

Honduras and Guatemala are at the bottom of the scale, having the greatest number of items well below the standing of the two countries populationwise. In Honduras, this is indicative of the generally low standard of living and, in Guatemala, it reflects the downward pull on the average standard of living exerted by the large Indian population. El Salvador and Nicaragua are in the middle of the scale, the 16 items being about equally divided below and above their relative shares of the total population.

In summary, if the relative shares of each country of the 16 indicators are averaged, as is done in the second line of Table 1, the ranking is Costa Rica first, followed closely by Guatemala and El Salvador, with Nicaragua and Honduras close together at the low end of the scale. These average percentages give the combined effects of population size and per capita purchasing power. Thus, despite its much higher standard of living, Costa Rica is only slightly ahead of Guatemala and El Salvador because of its very much smaller population. Also, Honduras' share of the total market is only slightly below that of Nicaragua, because its larger population almost compensates for its lower per capita purchasing power.

The commodities and other indicators shown in the table are all representative of goods and services whose consumption shows important increases as personal incomes rise. Obviously, the country distribution of the total Central American market would correspond much more closely to the population breakdown if such articles of consumption as corn or beans had been used as indicators.

With respect to the items selected it appears from the investigation that Costa Rica, Guatemala, and El Salvador each represents roughly one-fourth of the Central American market, the remaining one-fourth being shared by Nicaragua and Honduras. However, since the most comprehensive free-trade treaty in the area is the one in effect between El Salvador and Honduras, it should be borne in mind that these two countries combined represent virtually a single market, or about 35 percent of the total. Similar combinations of countries for market purposes are developing in certain fields as the Central American Economic Integration Program progresses.

Table V.6.1

SOME INDICATORS OF THE SIZE OF THE CENTRAL AMERICAN MAREKT

(Quantities in units indicated)

Item		Five countries		Percentage of total				
		Total	Per capita	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
Population (end of 1954	thousands	9 110	---	35.0	23.7	17.6	13.4	10.3
Average of 16 indicators below	--	---	---	24.0	23.6	12.0	14.3	26.1
Registration of automotive vehicles (1952)	number	47 675	177[a]	32.7	23.9	9.7	11.5	22.2
Imports of automotive vehicles (1953)	do.	9 233	941[a]	27.0	18.1	18.1	15.5	21.3
Imports of gasoline (1953)	dollars	8 554 000	0.98	25.0	29.0	12.5	12.5	21.0
Radios in use (early 1954 for all countries except Costa Rica, for which 1952)	units	197 000	45[b]	38.1	23.4	9.6	12.2	16.7
Imports of radios (1953)	dollars	2 623 000	0.30	23.5	24.9	13.1	10.5	28.0
Telephones in use (early 1954)	number	42 528	207[c]	15.1	35.3	16.5	8.2	24.9
Motion-picture theater seating capacity (1954)	seats	220 000	40[d]	21.4	19.6	12.7	23.6	22.7
Circulation of daily newspapers (1952)	number	291 000	29[e]	19.6	24.1	10.3	19.2	26.8
Imports of newsprint (1953)	metric tons	7 742	2[f]	22.3	35.4	5.0	9.8	27.5
Imports of kraft paper (1953)	do.	3 536	0.9[f]	21.0	11.4	5.5	19.7	42.4
Imports of structural steel (1953)	do.	21 654	5.5[f]	18.2	6.4	15.6	19.3	40.5
Imports of flat glass (1953)	do.	2 878	0.7[f]	37.7	17.6	9.8	10.2	24.7
Imports of refrigerators (1953)	dollars	2 307 000	0.27	15.8	29.7	12.8	15.4	26.3
Imports of sewing machines (1953)	do.	1 804 000	.21	17.4	25.3	12.6	18.6	26.1
Imports of watches (1953)	do.	1 429 000	.16	19.4	32.7	13.1	6.8	28.0
Imports of typewriters (1953)	do.	860 000	.10	30.3	20.2	15.6	16.2	17.7

[a] Persons per vehicle.
[b] Persons per set.
[c] Persons per instrument.
[d] Persons per seat.
[e] Persons per newspaper.
[f] Pounds per person.

CHAPTER V Economic Integration

A factor of considerable interest to the potential investor in Central America is the trend in recent years toward a closer economic relationship among the Central American Republics. Obviously if the boundaries that divide the five Central American countries were to be eliminated and the whole area were to form a single free market with more than 9 million people, investment opportunities would be far more numerous. Many industries find too great the risk involved in becoming established in a country having 1, 2, or more million people whose standard of living is relatively low.[1]

The smallness of the markets of the individual Central American countries has been a definite factor in retarding the economic progress of these countries and specifically explains why the development of this area has lagged behind other larger Latin American countries, such as Brazil, Mexico, and Colombia. Consequently, it is important that the potential investor be fully informed about the current efforts of the five countries to move in the direction of a single market so that he can gauge the chances of success of this attempt.

BACKGROUND AND CURRENT EFFORTS

The five countries have a common historical background. During the colonial period, they formed the Captaincy General of Guatemala, which was formally a part of the Viceroyalty of Mexico, but generally reported direct to the Spanish Crown. After the area acquired independence from Spain in 1821, and after a short period during which Mexico unsuccessfully attempted to assert its sovereignty, the Republic of the United Provinces of Central America was formed in 1823, but was dissolved 16 years later into the five independent Republics that exist today. Panama, not included, has quite a distinct history as it did not belong to the Captaincy General of Guatemala during the colonial period and later formed part of Colombia until 1903.

In the 19th century a number of attempts were made to reestablish the former union among these countries but all of them failed. Nevertheless, the citizens of the five Republics recognize their common past and feel that they belong not only to their own country, but also to Central America as a larger unit. A tangible expression of this feeling is found in the special concessions that are generally granted to Central American nationals by the naturalization and labor permit statutes in each of the five countries.

In spite of territorial disputes and frequent political conflicts, this situation provided a favorable historical setting for the drive toward economic integration of the last few years. This drive proceeds from two principal sources: First, the negotiation by El Salvador of free-trade treaties with each of the other four countries; and, second, the formation in 1952 of a Central American Economic Cooperation Committee composed of the Ministers of Economy of the five countries.

This Committee, which was established under the auspices of the United Nations Economic Commission for Latin America (ECLA), has held several sessions and has made a number of important decisions. It has an able secretariat and staff at the ECLA office in Mexico City, where basic research on the integration program is being conducted and where the successive steps in the program are being planned in close consultation with officials from the five countries. Considerable help is also being given by the Technical Assistance Administration of the United Nations, which has sent several teams of experts to survey the area's resources, needs, and opportunities for cooperative development.

In the following paragraphs achievements of the drive for economic integration will be briefly surveyed and evaluated. These achievements may be summarized under three headings: (1) Needs and resources; (2) free-trade area; and (3) industry and other fields.

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[1]This discussion is directed primarily to manufacturing and processing industries producing for the domestic market. Extractive industries producing principally for export would obviously not be so vitally concerned.

NEEDS AND RESOURCES

Economic integration of sovereign countries is so complex and is certain to arouse so much resistance from sectional interests that careful planning and concentration on strategically important areas are essential for success. Two factors –transportation and electric power– are basic to economic progress anywhere. Cooperation and coordination of efforts in these fields could result in great benefits and large savings to the five Central American countries. In both fields basic studies have been prepared which present a complete inventory of present resources and contain recommendations and suggestions for future coordinated action.[2]

In transportation, a beginning of integration has been brought about by the Inter-American Highway, which permits continuous travel from Guatemala City to San José, Costa Rica. This international artery cannot be fully utilized, however, as long as document requirements and other regulations for crossing frontiers are excessively complicated. The transportation report makes recommendations in this respect which have yet to be acted upon by the Governments concerned. The report also points to the port situation in Central America as one in which coordination could result in substantial savings of capital outlays. Consequently, the possibility of establishing a joint port administration as well as a Central American merchant fleet is under study by the Economic Cooperation Committee.

The electric power report does not recommend, at the initial stage, an interconnection between the distribution systems of the individual countries, not does it propose building a station that might serve the needs of two or more countries. However, it provides a complete picture of combined facilities, expansion plans, and major shortages, with recommendations for remedying the latter. At a later stage of Central America's economic development, some interconnection probably will be desirable, and the report also describes briefly two hydroelectric projects, one on the border of Nicaragua and Costa Rica and the other on the border of Honduras and El Salvador which, because of their magnitude and international scope, would have to be undertaken as joint projects of two or more countries.

United Nations experts have also made a comprehensive study on the possibilities of establishing a pulp and paper industry in Central America. This report has prompted decisive action and is discussed in a later section in this chapter.

A basic study of the livestock and dairy industries has also been carried out by an FAO mission, and studies are under way in the fields of financial organization and resources, capital markets, and tax systems. Obviously, such work is of great importance in connection with the financing of joint investment projects.

FREE-TRADE AREA

If the five Central American countries are eventually to represent a single unified market, they must establish among themselves a customs union. This means that there would be no customs or other barriers to the movement of goods within the whole Central American territory and that tariffs applicable to goods from other countries would be the same at all points of entry in Central America.

The drive for the establishment of a free-trade area has come principally from El Salvador, which has concluded free-trade treaties with the four other Central American countries. However, the Central American Economic Cooperation Committee is carrying on valuable complementary work in the trade field. Its principal accomplishment thus far has been the adoption of the Standard Central American Customs Nomenclature (SCACN or, in accordance with the Spanish initials, NAUCA).

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[2] *El Transporte en el Istmo Centroamericano*, September 1953; and *Informe Preliminar sobre la Electrificación en América Central*, August 1954. Both of these reports were prepared by teams of United Nations experts.

A unified classification of commodities for customs purposes is essential for SCACN's two principal objectives, which are (1) to lower, on a reciprocity basis, and eventually to eliminate, customs barriers within the area; and (2) to unify these barriers with respect to foreign countries. It is, therefore, of interest that Costa Rica, Honduras, and Nicaragua already have introduced the unified nomenclature and that Guatemala and El Salvador are studying customs reforms based thereon. A standard export nomenclature for Central America has been prepared and approved by the Central American Economic Cooperation Committee.

The Secretariat of the Committee has prepared also detailed studies of the trade among the Central American countries and of the existing free-trade treaties. At the May 1955 session of the Committee the secretariat was requested:

"(a) to draw up a preliminary draft for a multilateral Central American free-trade treaty;

"(b) to study those commodities, whether they are raw materials, semimanufactured or manufactured products, which might be included in a minimum list of commodities to be subject to free trade in Central America; and

"(c) to initiate, in reference to this list, work towards possible equalization of customs duties on commodities which are important for Central American economic integration."[3]

In January 1956, the Committee adopted a more specific resolution concerning the characteristics of the projected multilateral treaty.

In the light of these ambitious plans it appears possible that henceforth progress toward a Central American free-trade area will be promoted by the Central American Economic cooperation Committee and its active secretariat.

From the point of view of some firms doing business or planning to do usiness in El Salvador, Central America is already a free-trade area, as a result of the four free-trade treaties concluded by that country. El Salvador has taken the lead in this field since it has been looking to industrialization as a means of absorbing some of its surplus population and since it has realized that its industries, to be vigorous, need a larger market than that contained within its own boundaries. On the other hand, El Salvador is the only Central American country with a chronic food deficit so that it has been able to offer the other countries a stable market for some of their surplus produce.

El Salvador concluded its first free-trade treaty with Honduras in 1918. This is the most comprehensive treaty, as well as the oldest, and it stipulates freedom from customs and similar duties for all commodities except a few listed articles, such as alcohol and alcoholic beverages, coffee, and articles that are not considered domestic products.

The free-trade treaties with Nicaragua, Guatemala, and Costa Rica date from 1951, 1952, and 1954, respectively, and are more limited than the treaty with Honduras inasmuch as freedom from customs duties applies only to a specified list of commodities which are enumerated in annexes to the treaties. This situation arose from the fact that, despite the greater industrialization of Nicaragua, Guatemala, and Costa Rica, as compared with Honduras, they lagged behind El Salvador in certain fields and feared the competition of Salvadoran manufactures in their domestic markets. This was particularly true with respect to textiles, an industry which is strongest in El Salvador, but which the other Central American countries are also trying to develop.

In view of the active foreign trade of all five countries with other countries, it was necessary to exclude from the benefit of the free-trade treaties articles which do not originate in the Central American countries and which might evade the customs duties applying in each country to imports from abroad by being shipped into a country through one of its free-trade neighbors. In this connection, El Salvador's treaty with Honduras defines as "domestic" the products in which foreign materials do not account for more than 40 percent of their f.o.b. value. In recent years, this stipulation has given rise to some difficulties of interpretation but, as a result of the consultation procedure provided for under all of the free-trade treaties, mutually satisfactory compromises have been worked out. In the treaties with the other three countries, it is generally stipulated that the products to which the freedom from customs duties applies should be declared by the exporter to be natural products of his country or articles manufactured "substantially" from such products.

[3]United Nations Economic Commission for Latin America. Informe de Progreso sobre el Programa de Integración Económica Centroamericana, July 20, 155, E/CN.12/366.

In spite of the limited character of the free-trade treaties concluded thus far, the treaties have had a stimulating effect on the volume of trade between El Salvador and the other Central American countries. The growth of this trade since the dates of the treaties is shown in table 2.

A particularly interesting experience has been that of Costa Rica in connection with its free-trade treaty with El Salvador. At the time the treaty was negotiated, there was widespread concern in Costa Rica about "ruinous" competition from Salvadoran industries; actually, Costa Rica has found a good market in El Salvador for some of the products of its own industries, such as processed foods and leather. As a result, El Salvador is now hoping to expand the free list to include more of its own manufactures, and Costa Rica has been so satisfied with its experience under the treaty with El Salvador that is concluded a similar trade treaty with Guatemala in December 1955 which includes both a free list and a list of commodities with preferential duties.

To cover the whole Central American area with bilateral free-trade treaties, 10 such instruments would be necessary. Obviously, it would be more practical and much time would be saved if the five countries could agree to negotiate a single multilateral master treaty. This is a project which is now under active consideration by the secretariat of the Central American Economic Cooperation Committee.

Table V.6.2

EL SALVADOR EXPORTS TO AND IMPORTS FROM OTHER CENTRAL AMERICAN COUNTRIES, 1934-51 (AVERAGES) AND 1952-54

(In thousands of dollars)

Year	Average			1952	1953	1954
	1934-1939	1940-1945	1946-1951			
Guatemala						
Exports to	134.4	538.0	1 343.0	481.4	935.9	1 151.9
Imports from	102.9	329.7	259.5	941.4	1 545.6	1 359.9
Honduras						
Exports to	241.7	795.6	1 360.6	1 203.6	1 284.0	1 877.7
Imports from	187.3	473.2	1 780.0	2 718.0	3 617.0	4 162.8
Nicaragua						
Exports to	9.5	58.9	92.2	421.5	726.3	1 263.8
Imports from	114.0	24.1	227.6	1 260.3	1 086.0	1 836.8
Costa Rica						
Exports to	19.5	174.6	220.2	78.9	153.9	95.7
Imports from	7.3	6.1	18.5	27.6	25.0	497.0

Source: United Nations, Economic Commission for Latin America, Política Comercial y Libre Comercio en Centro América, E/C N.12/CCE/11, October 20, 1954, page 134; for 1954, El Salvador, Dirección General de Estadística y Censos, Comercio Exterior, 1954.

The gradual creation of a free-trade area in Central America would be consistent with United States as well as GATT (General Agreement on Tariffs and Trade) policies. Despite the fact that the Central American countries, through these treaties, grant exclusive preferences and privileges to each other, this departure from the most-favored-nation rule has been generally accepted because of the geographical propinquity and historical ties among the Central American countries and because of the proclaimed goal of a customs union among them.

The process of freeing the trade among the five Central American countries from customs duties and other artificial obstacles is of great importance in their efforts to achieve economic integration. It is also a laborious task and subject to many delays and frustrations as a result of opposition from existing sectional interest.

An approach toward integration is suggested by the Central American Economic Cooperation Committee which, from the start of its activities, has given particular attention to the progress of industrialization in the area with a view to discovering industries that might be established as regional projects. Obviously, the planning, and actual carrying out, of such a project is not an easy task. In one field, however, the Committee already has achieved a measure of success. During its session in San Salvador in 1955, it decided that a complete study should be made of the location, development, and financing of a pulp and paper mill to be established in Honduras.

This decision was the result of a complete survey of Central America's forest resources and possibilities for the establishment of a pulp and paper industry. The survey was undertaken, at the Committee's initiative, by a team of United Nations experts. In their exhaustive report,[4] the experts analyzed the substantial lumber resources of Guatemala, Nicaragua, and Costa Rica, but came to the conclusion that, from a short-range point of view, Honduras was the country comparatively best suited for the establishment of a pulp and paper industry. In spite of the disappointment that this finding caused the other countries (with the exception of El Salvador, which has negligible forest resources), the decision to proceed with the detailed study of a mill in Honduras meant it was accepted by the Ministers of Economy of the five countries, who make up the Central American Economic Cooperation Committee. The further development of this project may well set a pattern for similar joint projects in the future.

The projected pulp and paper mill may represent an investment opportunity for private capital. The resolution of the Economic Cooperation Committee endorsing a detailed study of the pulp and paper mill in Honduras requests that in the financing of the industry all or some of the following factors would be taken into account: "the support of governments, the aid of private enterprise either Central American or foreign and the participation of international financial organizations."[5]

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[4]United Nations Food and Agriculture Organization report on *Los Recursos Forestales y las Posibilidades de Producción de Celulosa y Papel en Centroamérica*, 1954.

[5]Because of its considerable interest, the full text of the resolution is reproduced here:

THE CENTRAL AMERICAN ECONOMIC COOPERATION COMMITTEE, HAVING NOTED with satisfaction the *Report on Forest Resources and the Possibilities of Pulp and Paper Production in Central America*, and having expressed its appreciation to the international agencies responsible;

CONSIDERING that forest resources in certain Central American areas have characteristics favorable to large-scale industrial development;

CONSIDERING that, given the extent of the Central American market for pulp, paper, cardboard, and other products and the considerable cost of a plant of economic size, it appears advisable that the Central American project on pulp and paper consist of a single plant located in whichever zone presents the best possibilities for immediate development, and

CONSIDERING that the Republic of Honduras, in accordance with this report, offers the most favorable conditions for the establishment of an industry of this type.:

RESOLVES

1. To request the Technical Assistance Board to provide the following experts to make a complete study of the location, development, and financing of a pulp and paper mill in Honduras, in whichever zone presents the best conditions from the point of view of forest resources, costs, transport, power, and markets:

a) an expert in forest resources and forest management;

b) an expert on the location of pulp and paper mills, costs, and markets;

c) an expert to draw up plans for a pulp and paper mill and related industries;

d) an expert to draw up plans for the financing of this industry, taking into account the advisability of combining all or some of the following factors: the support of governments, the aid of private enterprise either Central American or foreign, and the participation of international financial organizations;

2. To recommend to governments that in formulating their development plans they bear in mind the project for a Central American pulp and paper industry and take appropriate measures to expand the Central American market for the products of this industry;

3. That the continuation of the studies and projects relating to this industry should not delay or interfere with the consideration and formulation of projects relating to the establishment of other Central American industries which would tend to make the economic integration of the area effective.

Several other industries might merit a similar approach. In its January 1956 meeting at Managua, the Central American Economic Cooperation Committee declared the following industries to be of interest under the integration program: Petroleum derivatives; fertilizer; insecticides and pesticides; veterinary and biological products; surgical cotton; tires and tubes; paints and varnishes; inks; ceramics; glass, plastics, and metal containers; fisheries products; and metal pipes. It laid stress on the fact that private initiative should participate actively in the development of these industries. Since Honduras is the site for the projected pulp and paper mill, other industrial projects ought to be located in the remaining countries, in the interest of distributing equitably the gains that will be derived from economic integration.

In connection with integration, two projects of the Central American Economic Cooperation Committee should be mentioned which, although not industrial ventures, are important for the economic and industrial development of the area and bring considerable benefits to the host country. One is the Advanced School of Public Administration for Central America (Escuela Superior de Administración Pública para la América Central, or ESAPAC), which has been functioning in San José since 1954 as a result of an agreement between the five participating Governments and the United Nations Technical Assistance Administration. The school was established in Costa Rica because of the progress that country has made in education, civil service, and related fields.

The school is conducted in the form of intensive seminars for high-level officials and executives in Government and business. There is little doubt that by raising the standards and stability of public administration, the school could make a very important contribution to the improvement of the general business climate in Central America.

The second joint project which has been carried out by the Central American Economic Cooperation Committee is of more direct interest to the potential investor. During the 1955 session of the Committee in San Salvador, it was decided that a Central American Research Institute for Industry was to be established. The Institute, which will be located in Guatemala, is to be staffed with highly qualified engineers supplied by the United Nations. It will investigate industrial uses of local raw materials, will be active in the planning of regional industries, and will act as a technical adviser to the national development institutes. Its creation may well prove to be of great importance for the future economic progress of the area and will certainly be of substantial value in guiding potential investors.

At its Managua session early in 1956, the Economic Cooperation Committee also set up a Central American Commission for Industrial Initiatives, which will meet twice a year and is to serve as a clearinghouse for information regarding industrial projects. It will be assisted by the Research Institute experts and the ECLA Secretariat.

In spite of serious political problems among some of the five countries, continuous progress has been made, largely because of the popularity within each country of the concept of economic unification. Conflicts of interest that have arisen in the development of the program have been successfully resolved because of united determination to proceed with the undertaking.

Consequently, despite the fact that political unification is out of the question for the time being and that a complete customs union is not envisioned for the immediate future, the prospects for future progress toward economic cooperation and integration among the five countries are promising. Such progress should considerably increase the opportunities for investment in Central America.

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