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Weekly Contributions, B/LA
(CIA Working Paper)
Situation Memorandum 38-49

6 July 1949

The Current Situation in Guatemala

(Summary: The situation in regard to US security interests is somewhat adverse. The government still refuses to adopt repressive measures toward Communists and fellow-travellers and to encourage early exploitation of petroleum resources by US capital. President Arévalo continues to assume intensely nationalist attitudes and to encourage intra-regional antagonisms, thereby impairing the US concept of Hemisphere security based on unity of all the 21 American Republics.

(President Arévalo's leftist administration remains stable. The economy is essentially sound and such adverse trends as have developed are unlikely to become serious. Economic and labor policies create difficulties for US capital. Chief of the Armed Forces Arana remains in complete control of the military. In international affairs, the country's anti-dictator, anti-imperialist policy remains unchanged.)

Political

There has been no substantial change in the current Guatemalan political situation in the last three months, and the leftist administration of President Arévalo remains stable. The trend away from the left continues as a definite factor in the country's political relationships. Rumors of revolution, which were rife during the United Fruit strike, have diminished considerably, and the public is now speculating in terms of who will win the 1950 presidential election. The three government parties (the PAR, the PAN, and the FPL) continue to support Arévalo and are considering selection of a single presidential candidate. Colonel Arana, still in firm control of the army and increasingly popular, is the most powerful of the potential candidates, yet it is uncertain that he would be acceptable to all members of the present coalition.

Economic

With sales of remaining coffee stocks continuing steady at good prices, with foreign exchange reserves still adequate for current needs, and with the government planning economy measures and import controls to control those adverse trends which do exist, the Guatemalan economic outlook for the immediate future is satisfactory. By reducing the annual budget to \$41,500,000 (about \$4,000,000 less than last year's original figure and about \$10,000,000 under last year's final figure) the government

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hopes to forestall a budgetary deficit. As an economy measure (though in part for political purposes) diplomatic missions have been withdrawn from Venezuela, Peru, Bolivia, Denmark, Belgium, and Holland.

Guatemalan economic and labor policies continue to trouble US capital. Coinciding with the expiration of their contract with the International Railways of Central America, the railway workers' union demanded revisions in the new agreement, including pay raises, which have led to protracted negotiations and compulsory arbitration of the dispute by a government labor court. A Ministry of Economy ruling has recently required the US-owned Empresa Eléctrica to pay approximately \$200,000 in back taxes. Pan American Airlines has been notified that at the expiration of its contract in 1950 the government will claim, free of payment, all non-flight property. The airline, however, claims the original contract which provided for such a transfer was modified in 1934 to give the government the option to buy only. Pan American is also resisting government pressure to replace certain US technical and administrative personnel with Guatemalans. The government is also attempting to force the Esso Standard Oil Company to replace three of its US employees.

The manner in which Guatemala's petroleum resources (as yet untapped) are to be developed is an economic problem that may become a major issue underlying future political developments. There is a possibility that serious conflict may arise between Colonel Arana, whose sympathies are known to lie with certain major US oil companies which have already completed exploratory work in Guatemala, and nationalists in the administration who have recently become interested in a plan of Andrew J. Higgins whereby the oil will be exploited by a company backed jointly by Guatemalan and US capital. The oil companies favored by Arana (which are preparing to withdraw entirely from Guatemala) have recently been informed that Colonel Arana has promised to engineer the removal of Arévalo's petroleum adviser, Angel Hurtado de Mendoza, the man whom the companies regard as the major cause of their difficulties in obtaining reasonable exploitation contracts. Yet if Arana attempts to fulfill such a promise, he may expect strong opposition and possible retaliation from nationalists who would probably accuse him of being an agent for dollar imperialism. The possibility of such a charge is not to be discounted in view of a recent statement by Arana, in a private letter, that one oil company had offered a "donation" of "not less than 25,000" for charity, public benefit, or "any purpose which I might suggest".

The Higgins plan for oil exploitation, which is being enthusiastically welcomed by the Ministry of Economy and Labor, may gain popular support for the administration and thus weaken Arana's position. To the advantage of the administration, it represents a positive approach in contrast

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to the stubborn negative policy of attempting to force US companies into acceptance of an extremely nationalistic and unworkable Petroleum Law. It does, in fact, obviate the necessity of coming to an agreement with the established oil companies — the policy advocated by Arana and heretofore the only arrangement which had been considered. Moreover, the Higgins plan allays fear of US imperialism by permitting nominal Guatemalan participation and control (51 percent of the stock will be held by the Guatemalan Government, and 3 of the 5 directors will be Guatemalans), yet it cannot be criticized as anti-US since it admits US capital and partial control.

B/LA estimates that there is possibly an abundance of petroleum in Guatemala, but that there will be further delay in formulating the policy under which oil is to be exploited. Since such Guatemalan oil as may exist will probably be made available to the US in event of an East-West war, early exploitation of these resources would favor US security interests.

Subversive

The liberal-leftist tendencies of the Arévalo government, which permits Communists to operate and obtain employment in the country on a basis of equality with others, continue to affect adversely US security interests.

International leftist conventions (the World Peace Congress in Paris; the WFTU meeting in Milan; the Continental Peace Congress in Mexico City) continue to draw Guatemalan representatives and observers. The government's tolerance of Communism was evidenced on May Day, as President Arévalo and other officials reviewed a demonstration by 15,000 workers, in which were used conventional Communist propaganda themes attacking the North Atlantic Pact, the "imperialist" atomic bomb, and other Soviet anathemas. The government also continues to give employment to persons of Communist sympathies: José León Depetre, a former Spanish Republican diplomat and suspected Communist, has been made head of the new Institute of Diplomatic and Consular Training; Manuel Eduardo Hubner, a Chilean Communist suspect, has been designated "Press Attaché" to the Embassy at Santiago; Virginia Bravo Letelier, also a Chilean Communist follower, is employed in the Ministry of Education; José H. Zamora, a Salvadoran admirer of the Communists, is employed in President Arévalo's press office. Other cases might be cited.

In the labor movement, where Communist sympathizers have been most successful in influencing policy, some resistance to international Communist leadership is apparent. Although Víctor Manuel Gutiérrez, pro-

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Communist Secretary General of the Confederación de Trabajadores de Guatemala, returned from the World Peace Congress with the suggestion that Guatemalan workers should openly commit themselves as either pro-Soviet or pro-imperialist, neither he nor other labor leaders have yet been willing to do so. Moreover, plans for a consolidation of labor unions into a single organization have been opposed by certain unions unwilling to affiliate with the pro-Communist CTAL and WFTU, to which the CTG now belongs.

Military

In the field of military affairs, Colonel Arana (Chief of the Armed Forces) remains in complete control of the army. Arana is said to be considering removing Colonel Francisco Cosenza as Chief of the Air Force, because he has allowed Air Force discipline, maintenance, and morale to reach a low level. While it is known that morale has become very low (pilots called for duty reputedly have nothing to do but to play poker or sleep), Arana may be more concerned with political maneuvering. Cosenza is believed to be a follower of Colonel Arbenz, Minister of Defense, whereas Arana's supposed choice, Lieutenant Ricardo Salvador Herrera (though an unreliable drunkard) comes from an important family and may be expected to support openly Arana for president.

International

Guatemala's foreign policy remains unchanged. Its guiding principles, reiterated by Foreign Minister Muñoz Marín in a recent press interview, include (1) opposition to the dictatorships of Central America, the Caribbean, and Spain; (2) the defense and preservation of democracy in the face of attempts by anti-democratic regimes to destroy it; and (3) opposition to colonialism in the Americas. President Arévalo has indicated that Guatemala would align itself on the side of the US in the event of an East-West war.

By way of implementing this policy, Guatemala has recently (1) permitted the Caribbean Legion to use Guatemala as a base of operations in its campaign against Trujillo and Somoza; and has continued its policy of non-recognition of the governments of Nicaragua, the Dominican Republic, Venezuela, Peru, and Spain; (2) given refuge and employment to exiles from the dictator countries, such as Professor Edelberto Torres of Nicaragua (recently named director of a new coeducational school); and (3) continued diplomatic maneuvers designed to obtain international consideration of the Belize claim. Guatemala's recent attempts to force recognition of Puerto Rico as a "colony" whose status should be investigated in

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accordance with Resolution XXXIII of the Bogotá Conference is viewed by B/LA as an attempt to provoke the US into supporting Guatemala's Belize claim, rather than an indication of fundamental opposition to the fact that the US has colonial possessions.

Although many aspects of President Arévalo's foreign policy are probably not taken seriously by responsible statesmen in the other American republics, it is true that they do tend to encourage nationalism and an anti-US policy among already hostile groups. To this extent they conflict with the US concept of Hemisphere security based on unity of all the 21 American Republics.

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