SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

PURSUANT TO

S. Res. 19

A RESOLUTION AUTHORIZING THE FINANCE COMMITTEE OF THE SENATE TO INVESTIGATE THE SALE, FLOTATION, AND ALLOCATION BY BANKS, BANKING INSTITUTIONS, CORPORATIONS, OR INDIVIDUALS OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

PART 4

JANUARY 27 AND FEBRUARY 10, 1932

Printed for the use of the Committee on Finance



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1932

COMMITTEE ON FINANCE

REED SMOOT, Utah, *Chairman*

JAMES E. WATSON, Indiana.
DAVID A. REED, Pennsylvania.
SAMUEL M. SHORTRIDGE, California.
JAMES COUZENS, Michigan.
HENRY W. KEYES, New Hampshire.
HIRAM BINGHAM, Connecticut.
ROBERT M. LA FOLLETTE, Jr., Wisconsin.
JOHN THOMAS, Idaho.
WESLEY L. JONES, Washington.
JESSE H. METCALF, Rhode Island.

PAT HARRISON, Mississippi.
WILLIAM H. KING, Utah.
WALTER F. GEORGE, Georgia.
DAVID I. WALSH, Massachusetts.
ALBEN W. BARKLEY, Kentucky.
TOM CONNALLY, Texas.
THOMAS P. GORE, Oklahoma.
EDWARD P. COSTIGAN, Colorado.
CORDELL HULL, Tennessee.

ISAAC M. STEWART, *Clerk*

CONTENTS

	Page
Anderson, C. P., jr	1944
Chase Harris Forbes Corporation	1944
Barco Concession (communications in regard thereto)	2081
Barreda, Felipe, Peruvian Ambassador to the Argentine Republic (letter)	2107
Betancourt, Alfred (letter)	1931
Bolivia, Ambassador of (letter)	2110
Breck, Henry C.:	
J. and W. Seligman & Co. (letter re account of Juan Leguia)	2113
Brown, Hergert D., U. S. Bureau of Efficiency	1934
Chile, Government of (letters and other documents)	2045
Colombian loan	2181
Commerce Department (statement re Latin American concessions)	2097
Concessions, Latin American	2097
Cosach, nitrate combine	2050
Cuban Patriotic League (letter)	1931
Haiti, Republic of (letter)	1929
National Association for the Advancement of Colored People (letter re) Haiti	2161
Leger, George N. (re Haitian loans)	2127
Peru, Government of (letter)	1930, 1931
Peruvian loans	2106
Roberts, George E. (letter re Loan to Republic of Panama)	1943
Schmidlapp, Carl J	1944
Chase National Bank	2038
Strauss, Frederick; J. and W. Seligman & Co. (letters re Peruvian bonds)	2116
Williams, A. M., Chase National Bank	1944

SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

WEDNESDAY, JANUARY 27, 1932

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to call of the chairman, in the committee hearing room in the Senate Office Building.

Present: Senators Smoot (chairman), Metcalf, Harrison, King, George, Connally, and Gore.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order.

I have a letter from the Secretary of State, dated January 20, 1932, reading as follows:

MY DEAR SENATOR SMOOT: I have received the request of the Senate Finance Committee for a telegram of June 19, 1931. Mr. White's testimony stated correctly the substance of this telegram as to the Barco concession.

The telegram is available for examination in executive session to your committee if they desire to check the accuracy of Mr. White's testimony. It would not be in the interest of the United States in its foreign relations to publish the telegram itself.

Sincerely yours,

HENRY L. STIMSON.

The CHAIRMAN. Another letter from the Secretary of State, dated January 20, 1932:

The Hon. REED SMOOT,
Chairman Senate Committee on Finance,
United States Senate.

MY DEAR SENATOR SMOOT: In compliance with a request embodied in a note, dated January 15, 1932, from the Haitian minister to the United States, I inclose for the Senate Committee on Finance a copy of the above-mentioned note with a translation.

Sincerely yours,

HENRY L. STIMSON.

The inclosure is a copy of the translation of the note from the Haitian minister, dated January 15, 1932, and I ask that that be incorporated in the record at this point. Unless you desire it read, Senator Johnson. If you do, I will read it.

Senator JOHNSON. I will read it subsequently. I have not read it as yet, but I will read it subsequently.

(The translation of the letter from the Haitian minister is as follows:)

LEGATION OF THE REPUBLIC OF HAITI,
Washington, January 15, 1932.

Mr. SECRETARY: In the course of the inquiry which is being conducted by the Finance Committee of the United States Senate, a statement of extreme

gravity was made by the representative of an important New York banking house. It consisted in the affirmation that commissions are generally paid to the governments of Latin America which contract loans in the United States of America. According to this statement, the exorbitant profits allowed to the syndicates which make these loans thus serve to cover, in part, these illicit commissions.

It is not too much to say that such a declaration is an attack on the honor of all the American Governments that have contracted loans in the United States.

It is in particular an attack on the Republic of Haiti.

Your excellency will realize that my Government, of course, believes that it is to its most imperative interest, for the safeguarding of its dignity and its moral credit at home as well as abroad, that the most complete light be thrown upon the conditions under which the Haitian loan of 1922 was contracted in the United States, upon the profits which were made on this occasion by the National City Bank of New York which handled the matter (and) upon the commissions which may have been paid to the persons who participated in the negotiation of this loan.

Commenting upon the statement made before the Finance Committee of the Senate by Mr. Mitchell, president of the National City of New York, an American newspaper, the New York Telegram, stated:

"Haiti gave the National City its largest spread, 14.71 per cent on a $1,743,000 loan, on which the syndicate profits were $256,395.30."

My Government, which is composed of men who can not allow their integrity and honesty to be called in question, earnestly desires that the inquiry of the Senate of the United States should establish very definitely (1) the amount of profits made by the National City Bank on the issue of Haitian bonds in 1922 of a nominal value of $23,660,000, the commissions, whether illicit or not, which may have been paid to those who participated in the negotiation, the names of these persons; (2) the causes of the depreciation of these bonds on the United States market, although interest and amortization payments have been made on them regularly in advance.

I am certain that your excellency will appreciate the legitimacy of the step I am taking, and that you will be good enough to transmit this letter to the Hon. Senator Reed Smoot, as you did that of the Ambassador of Chile.

Please accept, Mr. Secretary, etc, etc.

DANTES BELLEGARDE.

The CHAIRMAN. Another letter from the Secretary of State dated January 21, 1932:

MY DEAR SENATOR SMOOT: I inclose herewith a copy of a note addressed to me on the 20th instant by the ambassador of Peru, which he has requested that I transmit to you.

Sincerely yours,

HENRY L. STIMSON.

It is just a short note, so I will read it so it will go into the record at this time.

Senator JOHNSON. Yes, please.

The CHAIRMAN. This is the letter from the ambassador of Peru to the Secretary of State:

JANUARY 20, 1932.

YOUR EXCELLENCY: My Government has followed closely the proceedings of the investigation undertaken by the Senate Finance Committee with regard to South America loans placed in the United States.

Acting under special instructions, I now have the honor to request that your excellency be so good as to convey to the investigating committee my Government's earnest hope that the inquiry into all the transactions connected with the issuances of Peruvian loans in the United States during the latter years be as thorough as possible, so that the responsibility of all those who participated in the said transactions affecting Peru's vital interests may be closely defined.

May I venture to renew my former verbal request to the effect that an authenticated copy of the evidence taken by the Senate Finance Committee in regard to Peruvian loans placed in the United States be furnished to the em-

bassy, if available, at the earliest date convenient for transmission to my Government.

Thanking your excellency in advance, I have the honor to renew the assurances of my highest consideration.

M. DE FREYRE Y S.

His Excellency HENRY L. STIMSON,
Secretary of State, Department of State, Washington, D. C.

The CHAIRMAN. There are some further letters that I wish placed in the record at this point, and I will hand them to the reporter.

(The letters referred to are here printed in the record in full, as follows:)

MIAMI BEACH, FLA., *January 25, 1932.*

Hon. REED SMOOT,
Chairman Senate Finance Committee,
United States Senate, Washington, D. C.

SIR: I beg to suggest that the investigation into Cuban loans be extended to include the $50,000,000 forced upon Cuba by J. P. Morgan & Co. during the Zayas administration, immediately prior to the present Machado régime.

The above loan marked the commencement of unscrupulous banking deals with Latin-America, and it is significant that Ambassador Crowder played an important part in the negotiations.

Not only could Cuba have gotten along without this loan but an interest of 5 per cent was charged for the money, while Cuba was paid for such part of the loan which was idle in the vault of Morgan & Co. a paltry 1½ per cent.

A great part of this money is still unpaid, and the depreciation affecting all Latin-American bonds has lowered their price so that a large loss is entailed to the investing American public.

Should you decide to extend your investigation to this prior loan, I am willing to furnish you all particulars connected with the transaction.

Respectfully yours,

ALFRED BETANCOURT.

CUBAN PATRIOTIC LEAGUE,
Washington, D. C., January 25, 1932.

Hon. REED SMOOT,
Chairman Senate Finance Committee,
United States Senate, Washington, D. C.

SIR: Remarking that officials of the Chase Securities Corporation have been summoned to appear before your committee on Wednesday next, for investigation of Cuban loans floated in this country, we beg to submit the following information:

The Chase Bank has loaned to Cuba $10,000,000 in 1927, and $50,000,000 in 1928.

Of the above, two $10,000,000 installments were floated in the New York market.

The balance of $40,000,000 was floated also, but as part of a bond issue of $80,000,000 made by the Cuban Government in 1930. Of this latter issue, as already stated, the Chase Bank floated $40,000,000 in the New York market and loaned the Cuban Government $20,000,000 on the remaining $40,000,000 in bonds.

The Chase Bank has consequently loaned the Machado government $60,000,000 floated to investors in the United States and $20,000,000 which is still due the Chase Bank, guaranteed with a collateral of $40,000,000 in bonds.

This loan has been extended repeatedly, inasmuch as the Cuban Government has been unable to meet it. Fat commissions and exorbitant interest is charged at each renewal.

The above bonds, issued at 98, are now currently quoted at 38. The interest and commissions on all of these loans will bear plenty of investigation.

With the exception of the first $10,000,000, the balance of the Chase loans were made with Machado's son-in-law as manager of the Chase Habana branch.

Machado's son-in-law was paid a $500,000 commission by presidential decree when the $50,000,000 loan was made. It is not known where the money went to. It is a replica of the episode of Dictator Leguia's son of Peru.

The perquisites in the later deals are unknown. By that time the dictatorship and press censorship was complete.

Ambassador Harry F. Guggenheim, aided by Grosvenor Jones, of the Washington Department of Commerce, subsequently worked on a $300,000,000 refunding project for Cuba for some time. Complete details are given in a pamphlet issued by the Cuban Information Bureau under the title "Ambassador Guggenheim and the Cuban revolt" which has been sent to you ere this.

Cuba's indebtedness, when Machado went into office six years ago, was but $97,000,000. It is now over $270,000,000.

We attach a circular issued by the secretary of this organization which was sent to all Members of Congress, the President of the United States and his Cabinet, as well as to all banks, banking firms, and brokers in 1930, prior to the $80,000,000 loan floated in accord with the Chase Bank.

The loans made by this bank were issued with perfect knowledge of the following facts:

1. That the Machado Government was illegal and despotic; that these loans were to be paid by the people of Cuba, who had had no say in the issuance thereof.

2. That there was a large deficit in the Cuban budgets, which started back in 1926. Machado was and is sustaining an immense army and bureaucracy to hold power and his budget outlay was and is more than Cuba can bear. Taxes are unbearable. The loans allowed him to remain in office by covering his budget deficits and the Chase Bank was thus merely handing out money which the Cuban people would have to pay and which was being utilized for their detriment and the suppression of their liberties.

3. A large part of the money advanced by the Chase Bank was pilfered by the Machado administration. It was chiefly used to build a 680-mile road at a cost of over $100,000,000 which could have been built for 40, or, at the utmost, 50 millions. The capitol, originally bid out for $3,500,000, cost over $20,000,000, although it is considerably larger than the original project. In any event, it is a monument to the extravagance of the Machado dictatorship, financed by the Chase Bank.

4. The money which is now being paid to the Chase Bank is sorely needed by the Cuban population. Widespread misery reigns in Cuba to an incredible degree; it is directly imputable to the Machado régime and in nowise to the price of sugar. Salaries of Government employees are three months in arrears, that the Chase Bank may be paid. The market price of 38, which represents an immense loss to American investors, is proof that Cuba is at the end of the rope and can not pay. But for the Machado iron rule, a moratorium, highly beneficial to the Cuban people, would have been already declared.

5. The Chase Bank has actually given the Machado dictatorship a two years' lease on life. It has permitted the wholesale murder and exploitation which has characterized the Machado despotism.

Prior to these Chase loans, J. P. Morgan & Co. made a loan of $9,000,000 to the Machado government. It was given to the said bankers as remuneration for Mr. Thomas W. Lamont's remarks, at a banquet given to Machado in New York, in the month of April, 1927, as follows: "We do not care by what means, but we would like to see such a good administrator remain in power." That was the actual birthplace of the Machado dictatorial régime. This money was used to take up credits of the previous Zayas government, which Machado and his partners had bought out at from 35 to 45 per cent of their face value, after depreciating them by suppressing the budget appropriations designed for their amortization.

Machado and his clique made over $6,000,000 profit in the deal.

Machado went into office in Cuba absolutely penniless. He had only debts and a plenty. He is now reputed to be worth over $50,000,000 and possesses valuable concessions, industrial enterprises, landed estates, and suburban properties, plus a fat bank account. His firm of Mestre & Machado have been doing all the governmental supplying for years.

I can be reached at any time at my present Miami Beach address: 5369 Pine Tree Drive, Miami Beach, Fla. My telephone is 5-1773.

Respectfully yours,

CUBAN PATRIOTIC LEAGUE.
ALFRED BETANCOURT,
President.

CUBA'S FINANCES

Any and all money advances to the present Cuban dictatorship of General Machado by American bankers, can only be viewed by the Cuban people as an act inimical to their sovereignty, despotically usurped by the prevailing régime.

The Machado dictatorship is financially on its last legs. The entire country, as the result of low-price sugar, crop restrictions, single seller and general maladministration by the wily general, is in a chaotic economical condition. Machado's rule can be prolonged only through further contributions of American capital.

Machado reelected himself, without opposition, to a new period commencing May 20, 1929, after illegally modifying the Cuban constitution and lengthening the presidential term of office to six years. Congressmen now in office have not been elected; their terms of office have been "prorogued" or extended by a framed-up constitutional convention.

The most prominent men in Cuba have voiced the views of the people; that no constitutional government exists in Cuba after May 20, 1929, that thereafter all contracts and legislative acts, as well as governmental decrees, are null and void, vitiated by a fundamentally illegal régime. Any contract entered into with such régime is bound to create future trouble.

The Machado dictatorship has been convicted, before the United States Senate committee investigating the sugar lobby, of persistent and malignant efforts to arouse Latin-American enmity towards the American people and its government and of opposition to American legislation through underhanded methods.

Such dictatorship, plainly antagonistic to the American Nation, now requires American funds to keep on going; to continue tyrannizing the Cuban people. Bankers are looking on this loan with longing eyes. It is the equivalent of furnishing ammunition to your own enemies.

Notwithstanding an enormous additional tax burden imposed upon the people, the Machado administration in four years has borrowed from American bankers $69,000,000. The national debt of Cuba (Machado's manifesto of May 20, 1929) was only $97,000,000. This represents an increase of more than 70 per cent.

All that the Cuban people have to show for these enormous expenditures are a thoroughly useless $20,000,000 capitol, a few park improvements, and 149.4 miles of Central Highway. (New York American of November 3, 1929.) The highway, 700 miles long, was let out on bid for $52,000,000. $54,000,000 have already been spent (Diario de la Marina, October 12, 1929) for barely 150 miles of 20-foot road. An American company offered to build the entire road in 14 months for $35,000,000.

The Cuban people are actually starving under the spendthrift and criminal administration of Machado. Hundreds of men have been assassinated; thousands have been deported. The press is muzzled; there is no security whatever for life, property, and individual liberty, guaranteed under the Cuban constitution and American laws. Graft and despotism are rampant. Ample funds have been sent into the United States to prevent a disclosure of such facts before the American people. A legal régime does not require a $4,500 a month lobbyist to hold back the facts, while pretending to disclose them.

There is no security for the American public or American bankers, unless it is desired that the United States Government will ultimately act as a collection agency for precarious loans. The very men heading Cuban finances are "stool pigeons" of the dictator. The president of the Habana Clearing House and Habana manager of the Chase National Bank is Machado's son-in-law. Prior to his marriage he was a $200 a month majordomo in the presidential palace. By his own admission, contained in the attached clippings, he is a "loyal and willing tool" of Machado and a "servant in whatever capacity he desires to utilize" his services. Such are the men surrounding the despot, aiding in an unequivocal attempt to wreck the Republic of Cuba.

Can American business men commit themselves to uphold such conditions? Is it either patriotic, or even businesslike to entrust American money to such lawless and ungrateful an administration?

Professor Emeritus Albert Bushnell Hart, of Harvard University, wisely states that "A foreign war would be hardly more damaging to the United States than a system of accepted responsibility for irresponsible, self-designated and despotic dictators in the Latin-American Republics."

And he has the present Government of Cuba in mind when making such a statement.

OCTAVIO SEIGLE.

NEW YORK, *February 10, 1930.*

The CHAIRMAN. That is all, Senator. The representative of the Chase National Bank is here. You asked, Senator, that he be here in relation to certain loans.

Senator KING. I made the request.

Senator JOHNSON. Yes; Senator King made it.

The CHAIRMAN. Yes.

Senator JOHNSON. Do you wish to proceed with the witness Senator King has requested to be here? I have one witness, and that will take 15 minutes, if you wanted me to proceed first.

Senator KING. Yes; I would rather that you finish.

The CHAIRMAN. Who is the witness?

Senator JOHNSON. Mr. Brown.

TESTIMONY OF HERBERT D. BROWN, CHIEF UNITED STATES BUREAU OF EFFICIENCY

(The witness was duly sworn by the chairman of the committee.)

Senator JOHNSON. Will you please state your name, your residence, and your occupation.

Mr. BROWN. Herbert D. Brown, chief of the United States Bureau of Efficiency, Washington, D. C.

Senator JOHNSON. How long have you been the chief of the United States Bureau of Efficiency?

Mr. BROWN. Since its organization in 1916.

Senator JOHNSON. Since 1916. And will you state in just a few words what the duties of that particular position are?

Mr. BROWN. The duties of chief of the United States Bureau of Efficiency are to direct and supervise the work of the bureau. The work of the bureau consists in making studies and recommendations for improving the business organization and methods of the Government and reporting to the President and to the executive officers our findings, and frequently we make reports to Congress at its direction.

Senator JOHNSON. I presume that the name sufficiently indicates the purposes of the organization of the bureau, efficiency, does it not?

Mr. BROWN. The name is not a pleasing one to me. It is a challenge to every other man's efficiency. It might better have been called a planning bureau, for that is really what it is.

Senator JOHNSON. On any occasion with the representative of the National City Bank did you go to Panama?

Mr. BROWN. I did.

Senator JOHNSON. The purpose of that was what, please?

Mr. BROWN. To make a financial survey of the Panaman Government with a view of finding ways to balance their budget.

Senator JOHNSON. How long were you engaged, if you undertook the work—how long were you engaged in it?

Mr. BROWN. We were in Panama about two months, and we spent some weeks after our return in completing the report.

Senator JOHNSON. Did you make a complete report upon the situation of the Republic of Panama, its financial condition, and the like?

Mr. BROWN. We did.

Senator JOHNSON. Have you that report in front of you there?

Mr. BROWN. I have.

Senator JOHNSON. During the period that you were in Panama investigating its financial condition and generally the situation there existing, was the representative of the National City Bank present?

Mr. BROWN. He was.

Senator JOHNSON. What was his name, if you please?

Mr. BROWN. The representative of the National City Bank from New York City was George E. Roberts, vice president.

Senator JOHNSON. Yes. After you made your report of the financial condition of the Republic of Panama, was that report given to the National City Bank or to Mr. Roberts?

Mr. BROWN. It was given to Mr. Roberts as vice president.

Senator JOHNSON. Were any portions of it thereafter published or sent out generally?

Mr. BROWN. It was very much modified and changed by Mr. Roberts.

Senator JOHNSON. Yes, but subsequently was a report upon the financial condition of Panama sent out by the National City Bank?

Mr. BROWN. I can not say with respect to that. The report which Mr. Roberts submitted to the President of Panama was afterwards published, I am told. I have never seen the published report.

Senator JOHNSON. In the publication of the report by Mr. Roberts of the National City Bank, were any portions of your report deleted?

Mr. BROWN. Yes; quite a few of them.

Senator JOHNSON. Were those portions particularly in which you spoke of the finances of Panama being in a critical condition eliminated from the report thus given out by Mr. Roberts?

Mr. BROWN. They were. Practically every critical comment was deleted.

Senator JOHNSON. Now, if you would state a few. I do not wish you to do it in great detail, but state a few of the deletions of the report that was made by the United States Bureau of Efficiency, that were deleted by the National City Bank or Mr. Roberts?

Mr. BROWN. One of the important recommendations that we made was for an income tax. Every reference to an income tax was deleted by Mr. Roberts.

Senator JOHNSON. Yes?

Mr. BROWN. We recommended that the practice of levying a tax for political purposes of 5 per cent upon the salaries of the Government employees of Panama should be discontinued. That recommendation was also deleted.

Senator JOHNSON. Do you recall in the early pages of your report stating—I quote now. "The finances of Panama are now in a critical condition"—end of quote?

Mr. BROWN. That was omitted.

Senator JOHNSON. That was deleted?

Mr. BROWN. Yes; that was deleted.

Senator JOHNSON. Will you state some other portions of the report that were altered, amended, eliminated, or deleted?

Mr. BROWN. I will. I might say in a general way that everything that had any snap to it or that was designed to impress upon the officers of the Panaman Government that the finances were in a critical condition and should be overhauled, was eliminated. For example, we pointed out to them on page 13–1 of our report in Table 6 that their account in the Banco National, was overdrawn $106.000, and that was omitted.

We pointed out the fact that the Panaman Government was obligated for bonds issued by the city of Panama to the extent of $500.000, and that was omitted.

We dealt at considerable length on the immediate problems of the Panaman Government. That covered, as we had written it, six pages. That was condensed to two pages, and all of the critical comments deleted on the important problems of Panama.

We also wrote concerning the future problems of Panama. That was entirely omitted by Mr. Roberts.

We dealt with the budgetary procedure and accounting and control, and Mr. Roberts made a few minor changes, and eliminated all of the critical comments.

We also dealt with the accounting methods. Mr. Roberts made a few minor changes, but did not do that section much damage.

On pages 74 to 107 we dealt with the Government organization and its methods. We made a good many critical comments. These were all toned down by Mr. Roberts.

We dealt with the personnel problems. The critical were largely eliminated and toned down by Mr. Roberts.

We dealt with the question of the tenure of office. That was omitted by Mr. Roberts.

We commented upon the low salaries that the Government was paying its employees, and this was entirely eliminated by Mr. Roberts.

The whole section on the levy on salaries that I mentioned a few moments ago was omitted by Mr. Roberts.

We pointed out a number of undesirable practices of high officials of the Government, such as being stockholders in companies that sold goods to the Government and the purchase of unnecessary supplies at prices that were unwarranted. The critical parts of this section were largely omitted by Mr. Roberts.

We had two sections, one entitled "Detailed Discussion of Present Revenues," and the other "Suggested Changes in Revenue System." These were combined into one section by Mr. Roberts under the head of "Revenue system," and a number of our important points were omitted.

Most of the material in these two chapters was used by Mr. Roberts, but our discussion of free trade policy and increase in direct taxation was toned down, and the discussion of the proposed income tax was omitted.

The CHAIRMAN. When you say "toned down" what do you mean?

Mr. BROWN. Well, I mean that everything of importance, Senator——

The CHAIRMAN. Was deleted?

Mr. BROWN. Was deleted or softened: yes. That is what I mean.

The CHAIRMAN. I wanted to know whether he changed your language?

Mr. BROWN. Oh, yes; oh, yes. It was softened in——

The CHAIRMAN. Did he claim that this was the report that you made?

Mr. BROWN. Oh, yes; it was published afterwards without our consent as coming from us. May I just dwell for a moment on that very point?

Senator JOHNSON. I was going to come to that. Go ahead and proceed now and dwell upon that proposition.

The CHAIRMAN. Yes.

Mr. BROWN. I should like to read to the members part of the covering letter of Mr. Roberts's report. Do you want me to put it in at this point?

Senator JOHNSON. Go ahead and read it, please.

Mr. BROWN. This is a quotation from letter of Mr. George E. Roberts transmitting Economic Survey of the Republic of Panama to the President of the Republic of Panama. September 20, 1929.

I might say in the beginning that this report started out to be a financial survey, but it wound up as an economic survey. The economic part of it, which was prepared by Mr. Roberts, so far as I have examined it, seems to be made up of excerpts from the Encyclopœdia Britannica or other publications of that sort, trade reports, consular reports, and so on, and has very little to do with the problem that we had in hand of helping the Panamanian Government balance their budget.

The CHAIRMAN. Who is Mr. George E. Roberts?

Mr. BROWN. Mr. George E. Roberts is the vice president of the National City Bank, and was formerly director of the mint here in Washington. The letter to which I referred reads as follows in part——

The CHAIRMAN. These statements were issued by him as the vice president of the bank?

Mr. BROWN. Sir?

The CHAIRMAN. Were these statements issued by him as vice president of the bank?

Mr. BROWN. The letter which I am about to read was part of the covering letter which he put on the front of his report, or our report—or our joint report—when it was transmitted to the President of Panama. Does that answer your question, Senator?

The CHAIRMAN. Yes; that answers the question.

Mr. BROWN. The letter reads as follows [reading]:

Having regard for the value in such a task of special knowledge and experience in governmental organization and accounting, the project was laid before Mr. Herbert D. Brown, Chief of the Bureau of Efficiency of the United States Government, Washington, D. C., a bureau which, under Mr. Brown's direction, has been engaged for many years in a study of governmental methods in the executive departments. Mr. Brown responded to the inquiry with friendly interest and similar interest was shown by all officials of the United States Government whose cooperation was necessary, with the result that an arrangement was effected by which Mr. Brown and four members of his regular staff obtained leave of absence without pay for the period of time estimated as necessary to visit Panama and perform the proposed task. The action of the United States Government in this matter was prompted by a desire to cooperate in a service to the Republic of Panama, and the

arrangement effected by the bank with Mr. Brown and his aides was simply that the Panama Government would pay them the salaries which they would receive for similar services under the United States Government. The members of this party were Messrs. Herbert D. Brown, Chief, Herbert H. Rapp, James V. Bennett, Paul L. Rapp, and Archie L. Peterson. *They have conducted an intensive survey of the executive departments of the Government and have reported upon the same with comments and recommendations which form the body of the fiscal section.* (Italics not in original.)

The CHAIRMAN. Mr. Brown, who employed you to go down there?

Mr. BROWN. Mr. George E. Roberts.

The CHAIRMAN. And did you then make any report to Panama officials?

Mr. BROWN. Did I, did you say?

The CHAIRMAN. Yes; as head of the party that went there for the investigation?

Mr. BROWN. It was my understanding when we were employed that the report was to be a financial survey of the Panama Government. We were to make the survey and be responsible for the report, as I understood it. Mr. Roberts told me at a luncheon which I attended at the National City Bank in New York that he and his wife and daughter and a friend of his daughter would accompany us to Panama. That he would stay there a few days until the work was started, and then he would go on from Panama to San Francisco with his family and spend some time there, and then return to the United States. But after reaching Panama for some reason or other he decided that he would remain over, and it gradually dawned upon me that the kind of a report which we had contemplated making, which was designed to be helpful to the Panama Government, was not going to materialize, because Mr. Roberts was going to delete everything that really was constructive.

Finally when the report was finished we turned it over to Mr. Roberts. He proceeded to delete most of the important sections; that is, the sections that had any emphasis in them, and part of our report which he seemed to like best he lifted bodily and put into his own report over his own name, thus making our report look puerile and unworthy of the effort and expense that we had put into it, and enlarged the report very considerably, as I have said, by material which I could not see had any bearing upon the finances of Panama.

The CHAIRMAN. So I will ask you again: Did you make any report or give a copy of this to Panama officials?

Mr. BROWN. No, sir. No; I felt that we could not do that, because we had been asked by Mr. Roberts to go down there and make the report. I might say this, that Mr. Roberts agreed with us at the time of our departure that the report would be submitted to the President of Panama the day following our departure. At that time——

The CHAIRMAN. Well, why did you not make the report to the President of Panama?

Mr. BROWN. Well, I did not want to be a bull in a china shop. We had been asked to go there by Mr. Roberts, and I felt——

The CHAIRMAN. Well, I thought that there was an agreement that you should do it; that the report should be made to the President of Panama. Why did you not do it?

Mr. BROWN. I did not intend to say, Senator, that it was agreed that we should submit the report to Panama, for the reason the arrangement for the report was made between the Panama Government and the National City Bank.

The CHAIRMAN. In other words, Mr. Roberts, of the National City Bank, employed you to go there to make a survey of the financial situation of Panama?

Mr. BROWN. That is right.

The CHAIRMAN. And that report was to be made to them and not to Panama?

Mr. BROWN. No question of that sort was raised, Senator, at the time.

The CHAIRMAN. Well, that is what you anticipated then, was it not?

Mr. BROWN. No; I could not say that I anticipated it.

The CHAIRMAN. Well, why did you not furnish Panama with a copy of the report if you did not anticipate that?

Mr. BROWN. I could have done that, but it never occurred to me that Mr. Roberts was going to tear it all to pieces.

The CHAIRMAN. Well, if you could have done it, why did you not, after he tore it all to pieces, submit your report?

Mr. BROWN. After I found what Mr. Roberts was going to do I did submit our report to the Panama Government. But as a matter of courtesy I felt in the beginning that I ought not to do that.

The CHAIRMAN. I thought you were sent down there for that purpose?

Mr. BROWN. We were.

The CHAIRMAN. Well, you ought to have done it.

Senator JOHNSON. Well, he said he did do it.

The CHAIRMAN. I mean when he first submitted his report to Mr. Roberts he ought to have done it.

Senator JOHNSON. But he said he submitted first his report to Mr. Roberts, Mr. Roberts deleted certain portions of it. If I am in error, correct me.

Mr. BROWN. That is correct.

Senator JOHNSON. And when he found the deletions had been made then he submitted his original report to the Panama Government.

Mr. BROWN. That is correct.

The CHAIRMAN. How long after was it that you submitted it?

Mr. BROWN. It was a considerable time after.

The CHAIRMAN. Well, how long was it?

Mr. BROWN. Let me see—Mr. Roberts, Senator, kept the report in New York City preparing his economic section for a considerable number of months.

The CHAIRMAN. After Roberts had submitted his, how long was it before you submitted yours?

Mr. BROWN. It was about six months, I believe, as near as I can remember.

The CHAIRMAN. About six months?

Mr. BROWN. Yes.

The CHAIRMAN. Was there any request made from Panama for that?

Mr. BROWN. No.

The CHAIRMAN. So you waited six months before you sent it down to Panama?

Mr. BROWN. I was out of the country, Senator, I might say, during a part of that period, and therefore did not have an opportunity to follow it up.

The CHAIRMAN. But you sent it just as soon as you returned to the country?

Mr. BROWN. As soon as I could have it prepared. Our report covers 300 pages, and I had to have it stenciled, as you see here. And when that was completed I sent it to them. Of course, I had other things to do and I could not devote my entire time to this thing.

The CHAIRMAN. We understand that, of course.

Mr. BROWN. Yes.

Senator JOHNSON. Well, the National City Bank had a loan or had been floating a loan in Panama, had they not?

Mr. BROWN. Yes; they had.

Senator JOHNSON. I believe it is in evidence here how much it is, so that we need not inquire into the amount thereof. If you know, state what was the amount of the original loan.

Mr. BROWN. The authorized amount of the loan was $16,000,000. Do you want me to state what it was for?

Senator JOHNSON. Go ahead and state if you know, what it was for.

Mr. BROWN. $12,000,000 was to consolidate a considerable number of loans that had been made prior to that time from various concerns, and to provide funds for the construction of roads and other public works. The other $4,000,000 was reserved for future needs.

Senator JOHNSON. Making $16,000,000 in total?

Mr. BROWN. Yes, sir.

Senator JOHNSON. Well, now, did you complain to any official of the United States Government concerning the delegations after you learned that they had occurred?

Mr. BROWN. Upon my return from Panama I called upon Mr. White of the State Department and told him my experiences in Panama, but at that time I did not know that the report was to be deleted as it was afterwards. You see, if I may return to Senator Smoot's question, this information in regard to the manner in which Mr. Roberts was going to treat our report came to me rather gradually. I did not realize for a long time just what he was doing to it.

The CHAIRMAN. Well, Mr. Brown, did you, after the report was concluded, decide that it would be unwise to loan that money to Panama?

Mr. BROWN. Did we decide that?

The CHAIRMAN. Yes.

Mr. BROWN. No. That question was not considered for the reason that the loan had been made some eight or nine months, as I recall it, prior to the time that we were asked to go to Panama.

The CHAIRMAN. Well, do you now think that it was an unsound loan?

Mr. BROWN. Well, I can not say that it was an unsound loan for the reason that up to this time, as I understand it, they have been able to meet their principal and interest payments.

The CHAIRMAN. In other words, $12,000,000 of it was loaned before, and there was $4,000,000 advanced, making the $16,000,000. Now, has there been any default in those loans?

Mr. BROWN. Not that I have heard of.

The CHAIRMAN. And the loan, in your opinion, after the investigation you have made—was it a sound loan?

Mr. BROWN. The loan seemed to be amply secured by various revenues which were pledged to the bank to meet the interest and principal.

I might say, however, that it seemed to us that perhaps a smaller loan would have answered the purpose if the survey had been made in advance of the loan and the Panama Government had been shown how they might curtail their expenses. One of the things that made me sorry that all of our best points were eliminated from the report was that we showed the Panama Government how they could balance their budget without making any subsequent loans. We felt very strongly that they were up to the hilt in loans after the $12,000,000 had been given them. The only free asset that I recall that they had at that time was the parcels-post revenue. And the only way that an additional loan could be secured was by pledging that revenue. We felt that if the Panama Government could be given a report of the type that we provide it would show them how to balance their budget, and in a short time have a considerable surplus on hand. It was the deletion of the things that were designed to help them that disappointed me most.

I might say that one of the points that we emphasized most was the necessity of reducing their expenditure and reducing their import duties in order that Panama might become a more popular place for tourists to buy the things that tourists buy. If you have ever been to Panama—and of course you have—you know that the Panamanians charge that the commissaries run by the Panama Canal are in active competition with the Panamanian stores.

The goods that are bought for the commissaries pay no duty. Many persons who go through the canal have friends or acquaintances or relatives there, and so frequently these friends or relatives buy things for them at the commissary. This is very much resented by the Panamanian merchants. So we pointed out that if the 15 per cent duty on goods coming into the Panamanian Republic could be reduced it would enable the merchants of Panama to compete more successfully with the commissaries and thus eliminate one of the sore spots between the Panamanian Government and the canal administration.

The CHAIRMAN. Well, if there was any duty collected at all—and Panama must collect duty to pay her public debts—there would be a disadvantage no matter what it was, whether it was 15 per cent or whether it was 25 per cent.

Mr. BROWN. But we felt that the better way would be for the Panamanian Government to collect more direct taxes from the people and reduce the import duties, which were frequently evaded, and thus attract the tourist trade more than they did.

The CHAIRMAN. Do you think that Mr. Roberts had any power to bring that about?

Mr. BROWN. Mr. Roberts had the power to leave our recommendations in our report, and we strongly recommended that the duties be reduced, and we felt that that would be helpful to the Panamanian Government. I might say that I have been told——

The CHAIRMAN. I doubt whether Mr. Roberts had the power to change those rates in Panama.

Mr. BROWN. O, I am sure he did not. I am sure he did not.

Senator JOHNSON. Is there any doubt on that subject?

The CHAIRMAN. No.

Senator JOHNSON. Go ahead.

Mr. BROWN. I have been told that since that time the Panaman Government has increased the tariff rates, which I should think would increase the difficulty that they have all the time with the commissaries.

The CHAIRMAN. Do you know the total amount of indebtedness that Panama now has?

Mr. BROWN. I do not, Senator.

The CHAIRMAN. Do you think that the $16,000,000 that the National City has covers all of their foreign obligations?

Mr. BROWN. I have the impression that there is a small additional loan since then, but I would not be able to say.

The CHAIRMAN. So that is practically all they are owing foreign concerns or individuals?

Mr. BROWN. I do not know, Senator. I have paid very little attention to Panama since I have left there because I have had so many other things to do.

The CHAIRMAN. They have not defaulted, have they, on the payment of their interest?

Mr. BROWN. Not that I know of, Senator.

Senator JOHNSON. Did you have a talk with Mr. Francis White about the situation generally when you returned?

Mr. BROWN. I did.

Senator JOHNSON. Will you state what it was?

Mr. BROWN. While I was in Panama the local representative of the National City Bank frequently referred to his visits to the State Department to get their authority to make the loan. I got the impression that the bank attached considerable importance to the approval by the State Department. And it seemed to me that if the State Department was approving these loans, that that approval might be used by the bank in selling their securities in such a way as to give the impression to the purchasers of the bonds that in some way the Federal Government might be behind the security—might be guaranteeing the payment of the principal and interest.

So when I returned to Washington I called on Mr. White, and I told him that I had gained this impression and that it seemed to me that the Federal Government ought to do one of two things: It ought to avoid the risk of the purchasers of these bonds thinking that the Federal Government was guaranteeing these loans, or else it ought to make a thoroughgoing financial survey before the loan was approved by the State Department.

The CHAIRMAN. Well, did you think that Mr. Roberts or the National City Bank had any idea that the Government of the United States was backing those bonds?

Mr. BROWN. No. But it seemed to me that it was a rather risky business for the Federal Government to be approving loans when they had not made a thoroughgoing survey of the country to see, first, that they needed the money; and, second, that they would be able to meet the payments when due.

Senator JOHNSON. Well, finish your conversation with Mr. White.

Mr. BROWN. Mr. White listened very interestedly, and when I had finished he said:

Well, the trouble about your recommendation is that it would require a rather large organization here in the State Department to make the kind of a survey that you have made in Panama, and it would take a great deal of time. Furthermore, the Latin-American countries might resent the interference on the part of the United States Government.

Of course, I recognized the soundness of his argument. But, nevertheless, I had the feeling that the Government was taking some risk.

Later—perhaps seven or eight months ago—I met Mr. White again and discussed the matter, and he said then that they had a matter right at that time that we might be able to help on. He said he would take it up with the representative of that government here and see what his reaction might be. A few days later he telephoned me that he had done so, and that the representative did not look with favor upon the making of such a survey.

I want to say that what I have said is not intended in any way as a criticism of Mr. White.

Senator JOHNSON. Yes.

Mr. BROWN. Or the State Department.

Senator JOHNSON. I ask you concerning it because of my contemplation of certain legislation, and for that purpose alone. I think that is all, Mr. Brown.

The CHAIRMAN. That is all, Mr. Brown. Thank you.

(Letter received by the chairman from George E. Roberts, New York City:)

NEW YORK, *February 1, 1932.*

Hon. REED SMOOT,
Chairman Committee on Finance, United States Senate,
Washington, D. C.

DEAR SIR: In the testimony of Mr. Herbert D. Brown before the Committee on Finance of the United States Senate on January 27, 1932, it is stated that the amount of the loan issued by the National City Bank in 1928 for the Republic of Panama was $16,000,000, and that $12,000,000 was to consolidate other loans made prior thereto and that $4,000,000 was loaned to continue the Central Highway west from Panama City. The facts are as follows:

Of an issue of $16,000,000 5 per cent bonds authorized by Law 5 of March 23, 1928, by the Congress of the Republic of Panama, the National City Company bought $12,000,000 principal amount of bonds which were offered to the public in June 1928. The proceeds of the loan received by the Panama Government were $11,460,000. There were no commissions of any kind paid in connection with this purchase by the National City Co. The bonds were issued to the public at 96¾ per cent. The proceeds were used as follows:

To the redemption on Nov. 1, 1928, of all of the Republic of Panama 5 per cent bonds, issue of 1914 then outstanding	$1,327,200.00
To the redemption on Dec. 1, 1928, of all of the Republic of Panama 6½ per cent bonds, issue of 1926	2,645,076.64
To the redemption on Dec. 1, 1928, of all of the Republic of Panama 6½ per cent bonds, issue of 1926	2,246,636.13
Expenses in connection with the preparation of the definitive bonds, including listing, engraving, signing, countersigning, authentication, etc.	50,000.00
Remained on deposit with the National City Bank as trustee for highway construction, and released and paid out from time to time on the certificate of the road commissioner of Panama as the work was completed. The final payment under this head was made on June 1, 1931	5,191,087.23

Of the authorized amount of $16,000,000, the $4,000,000 not as yet issued is reserved for the sole purpose of redeeming the Republic of Panama 5½ per cent bonds due in 1953, which are not redeemable until June 1, 1933.

It should be noted that the issue of bonds above referred to was publicly offered in June, 1928, and that the report which I made at the invitation of the President of the Republic of Panama was not undertaken until the early part of 1929. At the time the report was made there was no further financing in contemplation. In the intervening period, a presidential election had taken place and the President of Panama, Florencio H. Arosemena, an engineer by profession, had requested the National City Bank to place my services at his disposal to advise him on financial and economic matters.

As to Mr. Brown's complaint that the manuscript which he submitted to me for the Panama report was revised, it should be sufficient for me to say that I was in full charge of the survey, upon express invitation of the President of the Republic of Panama, and that Mr. Brown was engaged by me to assist in the undertaking. Under the circumstances Mr. Brown had no reason to expect that in case of differences of opinion regarding recommendations or language his own views would prevail. My omitting the sentence quoted by Senator Johnson from Mr. Brown's report, "the finances of Panama are now in a critical condition," is justified by the satisfactory record of the Panama Government in meeting its obligations since 1929. The report which I submitted to the President amply sets forth the Government financial position at that time.

The report had no bearing on any proposed or pending financial operations of the Panama Government in the American market. In fact, there has been no public issue of Panama bonds since the operation in 1928, described in the first paragraph of this letter. After the $12,000,000 par value of bonds were sold in 1928 no $4,000,000 loan for highway construction was made as indicated in Mr. Brown's testimony.

It should be further noted that there never have been, so far as our records show, any defaults either in payment of interest or principal on Republic of Panama bonds outstanding with the public. Even under the present adverse economic conditions, which have not been without their effects in Panama, there has not been the slightest delay in the remittances by the Panama Government for the service of its loans.

In view of the grave inaccuracies in Mr. Brown's testimony, I respectfully request that this letter be made a part of the record.

Respectfully yours,

GEORGE E. ROBERTS.

TESTIMONY OF CARL J. SCHMIDLAPP, VICE PRESIDENT THE CHASE NATIONAL BANK, NEW YORK CITY; C. P. ANDERSON, JR., VICE PRESIDENT CHASE HARRIS FORBES CORPORATION, NEW YORK CITY; AND A. M. WILLIAMS, OF RUSHMORE, BISBEE & STERN, ATTORNEYS FOR THE CHASE NATIONAL BANK, NEW YORK CITY

Senator JOHNSON. Would the chairman do me the kindness to give me the name again?

The CHAIRMAN. Mr. Carl J. Schmidlapp, vice president The Chase National Bank.

Mr. SCHMIDLAPP. Mr. Chairman, if permitted, I have a brief statement which has been prepared in regard to Cuban Government finance that I would like to read if you will bear with me.

The CHAIRMAN. There are no objections to that, Mr. Schmidlapp.

Mr. SCHMIDLAPP. The financing by the Chase National Bank and its associates for the Cuban Government was in connection with the construction of public works, pursuant to the public works law of July 15, 1925, effective originally until 1935 and later extended to 1945. This financing consisted of three operations, each of which was negotiated directly with the Cuban Government, and no inter-

mediaries were used and no commissions paid. The Chase National Bank and its associates had no direct or indirect interests in any construction contracts or profits arising therefrom. Each of these three operations was submitted to the Department of State in the usual manner. The operations were as follows:

I. Upon invitation of the Cuban secretary of public works, acting in pursuance to Executive decree, to submit proposals for financing payments to the contractors for work as completed under construction contracts in an aggregate principal amount of $10,000,000, the Chase National Bank as the successful bidder in behalf of itself and Blair & Co. (Inc.), entered into a contract with the Cuban Government under date of February 19, 1927, whereby the bank agreed that during the period of July 1, 1927–June 30, 1930, it would purchase from the contractors, deferred-payment work certificates issued by the Cuban Government for highway construction actually completed and accepted, up to but not exceeding $10,000,000; the amount of said certificates to be payable during the fiscal year beginning July 1, 1930, and to bear interest at the rate of 6 per cent per annum and to be secured by a first lien on 90 per cent of the revenues from the public-works taxes. The bank received a commission of 1 per cent per annum for each of the four years ending July 30, 1930, or a total of $400,000 for its commitment in this connection.

The agreement was originally limited to work done in connection with the central highway but an amendment of the agreement, dated May 31, 1928, provided that the credit would be divided and applied equally between the central highway and the Capitol Building. Under this agreement, the Government of Cuba drew $4,258,-799.41.

Expenses in connection with this business amounted to approximately $66,100. The Chase National Bank's share of the profits was approximately $164,750.

Two other important financial groups bid unsuccessfully for this business.

II. The Secretary of the Treasury, in April, 1928, duly authorized by resolution of the Cabinet, invited banking institutions doing business in Havana to submit proposals to the Republic for financing payments to the contractors in amounts aggregating not less than $40,000,000 nor more than $50,000,000, on terms and conditions which they might consider applicable.

In response to this invitation, the Chase National Bank, as well as other important financial groups, submitted proposals. The Chase National Bank was again the successful bidder and as a result, a supplemental agreement between the Republic of Cuba and the Chase National Bank was entered into under date of June 22, 1928, and submitted to and ratified on June 29, 1928, by a two-thirds vote of each house of the Cuban Congress. Associated with the Chase National Bank in this business were Chase Securities Corporation, Blair & Co. (Inc.), Equitable Trust Co., of New York, and the Continental National Co. of Chicago.

This supplemental agreement made available to the Government $50,000,000 of new money by transforming the original credit of $10,000,000 into a revolving credit of $60,000,000 on the condition that when the bank had advanced $10,000,000 against the deferred payment work certificates, these work certificates could be converted into

$10,000,000 of public works 5½ per cent serial certificates, which in turn could be offered to the public. After such conversion from work certificates into serial certificates, the Government could resume further withdrawals under the credit evidenced as previously by work certificates. The interest rate on the credit was reduced from 6 per cent to 5½ per cent. The commission on the original $10,000,000 was left unchanged and a commission of 1 per cent on the additional $50,000,000 was added. It was further provided that upon conversion of work certificates into serial certificates on a par for par basis the bank should receive 1.80 per cent of the principal amount of the work certificates so converted, up to but not exceeding $50,000,000 principal amount. The serial certificates and the work certificates were to be secured by a first lien on (90 per cent of the revenues from the public works taxes.

Under this supplemental agreement the bank and its associates advanced $20,000,000 against work certificates which were converted into serial certificates and sold to the public. There were also advanced an additional $30,000,000 against work certificates which were converted into serial certificates and retained in portfolio for the account of the Chase National Bank and its associates. Of the remaining unused credit of $10,000,000, there were advanced $7,723,348.83 against work certificates which were not converted into serial certificates prior to the carrying out of the next operation below described. (Sec. III.)

Of the serial certificates sold to the public, $10,000,000 dated July 1, 1928, due $6,250,000 December 31, 1931, and $3,750,000 June 30, 1932, were offered on October 23, 1928, at 99¾ and interest. The remaining $10,000,000 dated January 1, 1929, due $2,500,000 June 30, 1932, $6,250,000, December 31, 1932, and $1,250,000 June 30, 1933, were offered on January 28, 1929, at 100 and interest. After deducting the expenses of the bank and associates amounting to approximately $191,495, the share of the net profits applicable to the Chase National Bank and Chase Securities Corporation amounted to $130,425.

III. The Chase National Bank on February 26, 1930, on behalf of itself and its associates above mentioned, entered into a third agreement with the Cuban Government. This agreement was likewise submitted to and ratified by a two-thirds vote of each house of the Cuban Congress. The agreement provided for the creation of an authorized issue of public works 5½ per cent gold bonds dated January 1, 1930, due June 30, 1945, in a principal amount of $80,000,000. It further provided that the Chase National Bank would sell and deliver for cash at par to the Cuban Government the $37,723,348.83 of the serial certificates and deferred payment work certificates held in portfolio as stated in the preceding Section II. Provision was likewise made for the purchase from the Government by the Chase National Bank at 95 and interest of $10,000,000 of public works 5½ per cent bonds in addition to the granting to the Government of a 1-year credit not to exceed $20,000,000 to be evidenced by deferred payment work certificates. The terms of this credit provided for a commitment commission of 1 per cent per annum payable quarterly and interest at the rate of 5½ per cent on moneys used. The public works 5½ per cent gold bonds, in addition to being a direct obligation of the Republic of Cuba, are specifically secured by a first

preferential lien and charge on 90 per cent of the public works taxes, subject to the $20,000,000 of public works 5½ per cent serial certificates issued to the public and maturing serially on and prior to June 30, 1933. The deferred payment work certificates evidencing the above mentioned credit rank pari passu in lien with public works 5½ per cent gold bonds. The proceeds of the additional $40,000,000 of public works 5½ per cent bonds, when and if issued, are to be first used to retire the credit.

The $40,000,000 of public works 5½ per cent gold bonds purchased under the terms of this agreement were offered to the public in February, 1930, by these associates of the Chase National Bank at 98 and interest, giving a nominal gross spread of 3 points, but after considering a gain of 1.80 per cent on the $30,000,000 of 5½ per cent public works serial certificates resold to the Government at par, the actual gross spread on these $40,000,000 of bonds was 4.35 per cent.

After deducting expenses of approximately $230,950, the Chase's share of the profits to date on this transaction, including the sale of the serial certificates to the Government, the bonds, and the credit, is approximately $371,200. Included in these profits are those applicable to the Equitable Trust Co. and the Equitable Corporation since the merger with the Chase. The $20,000,000 credit is still outstanding.

The Chase National Bank and Chase Securities Corporation each have an interest of about 25 per cent in the outstanding credit of $20,000,000. In addition to this, as of January 23, 1932, the Chase National Bank held in portfolio $1,343,000 par amount of public works 5½ per cent gold bonds and $693,000 par amount of 5½ per cent public works serial certificates. As of the same date, Chase Securities Corporation held in portfolio $2,923,000 par amount of public works 5½ per cent gold bonds and $456,000 par amount of 5½ per cent public works serial certificates. This gives a total of $5,415,000 par amount of these securities held by the Chase National Bank and Chase Securities Corporation which have either been marked down to prevailing market prices or against which reserves have been provided to cover the difference between the cost and the market price.

After deduction of expenses of the Chase National Bank and associates of approximately $488,600, total profits to the Chase organization on the three categories of Cuban financing above mentioned have amounted to $627,927. This does not take into consideration the loss incurred by reason of declining markets, on the above-mentioned securities held in the portfolio.

I will be glad to answer any questions, Mr. Chairman, that I am able to.

Senator KING. I did not catch the gentleman's name?

Mr. SCHMIDLAPP. Schmidlapp.

Senator KING. Mr. Schmidlapp, did you prepare the statement you just read?

Mr. SCHMIDLAPP. I assisted in its preparation. Counsel has also been advising. Counsel is sitting here.

Senator KING. How long have you been connected with the organizations that this purports to speak for?

Mr. SCHMIDLAPP. Seventeen years.

Senator KING. Are you familiar with these loans to which reference has been made in the paper that you have just read?

Mr. SCHMIDLAPP. Quite.

Senator KING. Were you a participant in the negotiation of those loans?

Mr. SCHMIDLAPP. No.

Senator KING. Did you go to Cuba at any time for the purpose of making any of these advances or loans?

Mr. SCHMIDLAPP. No.

Senator KING. Who immediately of these organizations represented by you negotiated the loans?

Mr. SCHMIDLAPP. Well, my predecessor, Mr. Barr, who died two years ago, was principally active in it.

Senator KING. You know then in regard to those loans only by hearsay or the books and data found in the companies with which you are associated?

Mr. SCHMIDLAPP. Yes; and from my associates.

The CHAIRMAN. Did you ever consult the directors at any time with relation to the loans, at a directors' meeting?

Mr. SCHMIDLAPP. These matters are always submitted to our board.

The CHAIRMAN. Well, that is what I asked you, whether you did or not.

Mr. SCHMIDLAPP. These matters are always submitted to our directors.

Senator KING. Was any investigation made by your banks, or either of these banks, Blair & Co. or the Equitable, prior to its consolidation, concerning the outstanding loans of the Cuban Government?

Mr. SCHMIDLAPP. Yes, sir.

Senator KING. When the Chase made its first loan to Cuba it discovered, did it not, that there were loans outstanding of $67,000,000 or $70,000,000?

Mr. SCHMIDLAPP. I do not recall he figures, Senator, but the amount seemed to us entirely in balance at the time of entering this first financing.

Senator KING. Balanced or unbalanced?

Mr. SCHMIDLAPP. In balance.

Senator KING. In balance. Well, did you think that the outstanding indebtedness, foreign loans plus the internal loans, was such as to warrant further credits?

Mr. SCHMIDLAPP. We did.

Senator KING. Did you have a representative in Cuba?

Mr. SCHMIDLAPP. Yes, sir.

Senator KING. Who was that representative?

Mr. SCHMIDLAPP. When?

Senator KING. During these negotiations, and during the period when these loans were made?

Mr. SCHMIDLAPP. Well, we have a branch office in Cuba.

Senator KING. When was that established?

Mr. SCHMIDLAPP. 1923 or 1924.

Senator KING. Well, was it established before you contemplated making loans to Cuba?

Mr. SCHMIDLAPP. Yes, sir.

The CHAIRMAN. Was it a branch office or a branch bank?

Mr. SCHMIDLAPP. It is a branch bank. They receive and take deposits and do a regular banking business.

Senator KING. Well, was it a commercial bank?

Mr. SCHMIDLAPP. Yes, sir.

Senator KING. Was it a bank other than for the purpose of being a conduit through which your loans were delivered to Cuba and your receipts obtained from Cuba in payment of the loans, interest charges, and so forth?

Mr. SCHMIDLAPP. Yes; quite so.

Senator KING. I beg your pardon?

Mr. SCHMIDLAPP. Quite so. It is a bank doing a general banking business through the island.

Senator KING. And did your bank do that?

Mr. SCHMIDLAPP. Our bank did that. We did and we continue to do so.

The CHAIRMAN. Receive deposits?

Mr. SCHMIDLAPP. Receive deposits and loan out money.

The CHAIRMAN. Time deposits and demand deposits?

Mr. SCHMIDLAPP. Yes.

Senator KING. Who was in charge of your bank in 1924 in Cuba?

Mr. SCHMIDLAPP. Mr. Seiglie and Mr. Wilson.

Senator JOHNSON. In order that the record may be clear may it show the names of the two gentlemen who are sitting one on the right and one on the left of the witness?

The CHAIRMAN. I thought I had already stated that, Senator, but I will again.

Senator JOHNSON. It is better to have that done.

The CHAIRMAN. Mr. C. P. Anderson, jr. is the vice president of Chase-Harris-Forbes Corporation. Mr. Schmidlapp, vice president of the Chase National Bank. And Mr. A. M. Williams, of the firm of Rushmore, Bisbee & Stern, attorneys for the Chase National Bank.

Senator JOHNSON. Thank you, sir.

Senator KING. Are you the attorney?

Mr. WILLIAMS. Yes.

Senator KING. Mr. Williams?

Mr. WILLIAMS. Yes.

Senator KING. Did you make any change in the person who had charge of your bank in Habana?

Mr. SCHMIDLAPP. Yes; there were several changes, Senator.

Senator KING. One of the persons having charge of your bank, at least a paper charge, was a son-in-law of Mr. Machado, was he not?

Mr. SCHMIDLAPP. That is correct.

Senator KING. When did he take charge?

Mr. SCHMIDLAPP. April 1, 1927.

Senator KING. April 1, 1927. What had been his position, if you know, prior to that time?

Mr. SCHMIDLAPP. He had been with the Royal Bank of Canada, who also have an office in Habana.

Senator KING. In a clerical position?

Mr. SCHMIDLAPP. I don't know just what capacity. I think he had a managerial job.

Senator KING. What position did he occupy in your bank?
Mr. SCHMIDLAPP. Well, first as a new-business man.
Senator KING. I beg your pardon.
Mr. SCHMIDLAPP. First as a new business man.
Senator KING. What do you mean by that?
Mr. SCHMIDLAPP. A man that had contacts in Havana; that had contacts through the island, that could be perhaps helpful in bringing business to the bank.
Senator KING. Secondly, if he had any other position?
Mr. SCHMIDLAPP. Later he was made joint manager.
Senator KING. With whom?
Mr. SCHMIDLAPP. With Mr. Quealy.
Senator KING. And how long did he occupy that position?
Mr. SCHMIDLAPP. Until April 15, 1931; he resigned.
Senator KING. What position does he hold now, do you know?
Mr. SCHMIDLAPP. I do not know.
Senator KING. Was he the business man to whom you referred or one of the joint managers when the $50,000,000 loan was negotiated between Cuba and your banks?
Mr. SCHMIDLAPP. Yes.
Senator KING. Who were the participants in that $50,000,000 loan?
Mr. SCHMIDLAPP. The Chase National Bank, the Equitable Trust Co., the Chase Securities Corporation, and the Continental National Bank of Chicago. And Blair & Co. (Inc.).
Senator KING. When were the negotiations entered upon which culminated in the making of that loan or in the agreement for the making of the loan?
Mr. SCHMIDLAPP. In April, 1928.
Senator KING. And Mr. José Emilio Obregon y Blanco, son-in-law of Mr. Machado, was then employed in the bank?
Mr. SCHMIDLAPP. He was.
Senator KING. In a managerial capacity?
Mr. SCHMIDLAPP. Yes.
Senator KING. Did he participate in the negotiations?
Mr. SCHMIDLAPP. I would say not. I was not down there.
Senator KING. He had cognizance of that?
Mr. SCHMIDLAPP. Oh, undoubtedly.
Senator KING. Your organization knew that he was the son-in-law of Mr. Machado?
Mr. SCHMIDLAPP. They did.
Senator KING. By the way, was not your company advised repeatedly that Mr. Machado was not a de jure President, or even de facto, but was holding position by reason of usurpation and violation of the constitution of Cuba?
Mr. SCHMIDLAPP. No.
Senator KING. You were not so advised?
Mr. SCHMIDLAPP. We were not.
Senator KING. Well, did you not know that Mr. Machado had prorogued his term of office; that is, prolonged it by unconstitutional or alleged unconstitutional methods?
Mr. SCHMIDLAPP. No.
Senator KING. Did you not know that Mr. Machado by the same methods had secured the prolongation of the terms of office of the

senators and congressmen, and that to accomplish his end he had suppressed all political parties, and was governing by military rule? Were you not so advised?

Mr. SCHMIDLAPP. No.

Senator KING. You knew that he had rather a large standing army? That there was rather a large standing army, did you not?

Mr. SCHMIDLAPP. I had not given it a thought one way or the other. I did not know what the Army of Cuba was.

Senator KING. Various funds in the budget or in the treasury department were drawn upon interchangeably, were they not, so that money obtained from loans ostensibly for one purpose might be used for any purpose connected with the Government?

Mr. SCHMIDLAPP. Correct me if I am wrong on this, will you (addressing Mr. Williams)? My impression is that the funds created by the financing which I have described to you were to be segregated and kept separate for the specific purpose.

Mr. WILLIAMS. Senator, the funds were kept on deposit with the bank and were paid over directly to the construction contractor against certificates of work done. Were not paid directly to the Government.

Senator KING. Were not the funds commingled?

Mr. WILLIAMS. No.

Mr. SCHMIDLAPP. No.

Senator KING. Funds derived from revenue and derived from loans and used interchangeably in the meeting of the expenses of the Government?

Mr. WILLIAMS. You have two questions. Funds derived from revenues and funds derived from loans.

Senator KING. Yes.

Mr. WILLIAMS. We were not advised as to what was done with the funds derived from revenues. They were entirely in charge of the Treasury Department.

Senator KING. Do you know what was done with the funds derived from loans?

Mr. SCHMIDLAPP. They were paid to contractors.

Senator KING. All of them?

Mr. WILLIAMS. Yes.

Mr. SCHMIDLAPP. All that we supplied.

Senator KING. The $50,000,000?

Mr. SCHMIDLAPP. Yes. More than that.

Senator KING. You mentioned a $50,000,000 loan, and I was directing my attention to that first.

Mr. SCHMIDLAPP. Yes.

Senator KING. All of that was paid to contractors?

Mr. SCHMIDLAPP. Yes.

Senator KING. Are you sure of that?

Mr. SCHMIDLAPP. Yes.

Senator KING. And what was the method by which they were paid?

Mr. SCHMIDLAPP. On these work certificates, which were the obligation of the Government, and created on specified work accomplished on the part of the specific contractor.

Senator KING. Were those work certificates presented always by employees? Were they not presented, in other words——

Mr. SCHMIDLAPP (interposing). Well, they had to be certified by the Government, you see.

Senator KING. Yes; but were they not presented indiscriminately by representatives of the Government as well as by individuals who may have been employed?

Mr. SCHMIDLAPP. Well, it contained the signature of both the contractor and the Government authorities.

Senator KING. As to whether the work was done you would not know? You simply relied upon the certification that was brought to you?

Mr. SCHMIDLAPP. It takes the usual course of certifying for any work accomplished.

The CHAIRMAN. They were transferable, were they?

Mr. SCHMIDLAPP. They were not transferable.

The CHAIRMAN. They were not transferable?

Mr. SCHMIDLAPP. No.

Senator KING. They were transferred, though, were they not?

Mr. SCHMIDLAPP. They were only transferred to the bank. After the bank had advanced $10,000,000 we could exchange them for these 5½ per cent serial certificates.

Senator KING. Yes; but the certificates were in circulation throughout the island?

Mr. SCHMIDLAPP. They were never in circulation. Could not be in circulation. They were not negotiable except through the Chase bank.

Senator KING. Well, if an employer received a certificate, what steps were taken to transmute it into a payment of money?

Mr. WILLIAMS. Senator, I can explain that in detail if you wish.

Senator KING. Very well, answer that. What was the process?

Mr. WILLIAMS. The process was this: The Secretary of Public Works or the public works department would issue to a construction contractor a certificate specifying that a certain amount of work had been done and accepted by the Government, and that there was due for that work a certain amount of money. That certificate was signed by the engineer in charge of the public works. It was approved or accepted by the Secretary of Public Works, and countersigned by the Secretary-Treasurer of the Republic. The contractor then would take that certificate to the Chase Bank and assign it to the bank and receive from the bank the face amount of the certificate. So that the bank by that application was subrogated to the rights of the contractor under his construction contract.

Senator KING. You mean no one transferred those except a contractor?

Mr. WILLIAMS. No. I mean none was transferred except by a contractor.

Senator KING. How were the employees paid?

Mr. WILLIAMS. The employees of whom?

Senator KING. Of the contractor or subcontractor?

Mr. WILLIAMS. They were paid by the contractor, I assume, out of the proceeds paid to him by the bank. In other words, how the

contractor financed his own operations we do not know. We never had any connection whatever with the construction contractor.

Senator KING. Did any of your loans go for the construction of the capitol?

Mr. WILLIAMS. Yes; part of the money that we advanced went for the construction of the capitol.

Senator KING. What are the aggregate of the loans made by your associates to Cuba?

Mr. SCHMIDLAPP. $80,000,000.

Senator KING. Were all of those loans made while Mr. Machado's son-in-law was one of your employees?

Mr. SCHMIDLAPP. No; not the first loan. The first loan of $10,000,000 was prior to his having office with us. And the first and second loans of course were made on public bidding.

Senator KING. I invite your attention to the Official Gazette of the Republic of Cuba, the Gaceta Oficial. You are familiar with that, are you? You know that there is such a publication?

Mr. SCHMIDLAPP. Yes.

Senator KING. Published in Spanish?

Mr. SCHMIDLAPP. Yes.

Senator KING. Did you know that Mr. Jose Emilio Obregon y Blanco, as per a statement contained in the official publication to which I have just referred, received 500,000 pesos ($500,000)?

Mr. SCHMIDLAPP. I did not, sir.

Senator KING. I offer in evidence the Spanish statement contained in the Gaceta Oficial, and I have a translation into English here of that statement.

The CHAIRMAN. The translation may be printed in the record.

Senator KING. And I called it to the attention of Mr. Matthews, who is a Spanish scholar, when he was on the stand, and he said the translation was correct. I will read the translation [reading]:

[Translation]

OFFICIAL GAZETTE OF THE REPUBLIC OF CUBA,
HAVANA, YEAR 26, VOLUME 1, No. 5,
Friday, July 6, 1928.

RESOLUTION

(P. 291:)

"Whereas the agreement in article 22 of the supplementary convention agreed to in public deed on June 22 last, before the notary, Dr. Regino Truffin y Perez de Abreu, in accordance with which the bank shall receive and the Republic agrees to pay as compensation for the commitments and additional services of the bank, by virtue of and in agreement with this convention (a) A sum equivalent to 1 per cent on a principal of 50,000,000 pesos of certificates issued in series, which represents the additional credit granted by this convention and which shall be paid immediately upon the entering into effect of this convention, as is provided in article 23, and considering that the act of June 28, 1928, published in the Official Gazette of the 29th of that month, ratified and approved for all the above purposes, the said convention by which it entered into effect and was made obligatory for all parties, in virtue of the agreement in article 23 of said convention.

"Making use of the faculties given by the presidential decree of May 31, last, and of those granted me by existing laws, in order that the agreed payment may be made, it is fitting to resolve and I hereby do resolve:

(P. 292:)

"That in the fulfillment of the agreement in letter 'a' of article 22 of the supplementary convention of June 22 of this year, before Dr. Regino Truffin y Perez de Abreu, there be paid to Mr. Jose Emilio Obregon y Blanco,"—

That is the son-in-law of Mr. Machado.

Mr. SCHMIDLAPP. Correct.

Senator KING (continuing reading):

as authorized representative of the Chase National Bank of the city of New York, the sum of 500,000 pesos ($500,000) official money, which represents 1 per cent of the credit of $50,000,000 which is the principal in said article, the proper orders being given that this be paid immediately, and charged to the special fund for public works.

* * * * * * *

"Habana, July 3, 1928.

"SANTIAGO GUTIERREZ DE CELIS,
"*Secretary of the Treasury.*"

Mr. SCHMIDLAPP. Senator, may I interrupt a moment?

Senator KING. Yes.

Mr. SCHMIDLAPP. In my description of the second group of financing, which I have read before this committee, it is stated as follows:

The commission on the original $10,000,000 was left unchanged and a commission of 1 per cent on the additional $50,000,000 was added.

And that is the commission which the article to which you referred, means.

Senator KING. That commission, whatever it is, whether it was a commission or a gratuity, was paid to the son-in-law of Mr. Machado?

Mr. SCHMIDLAPP. For account of the bank. It is in the bank. It came into our figures. It is stated here openly that we received it, and I bring down these figures to show you exactly what the profits and loans were in this business to its finality through the three successive stages of financing.

Senator KING. Why would you pay to your own agent, who was the son-in-law of the President, $500,000?

Mr. SCHMIDLAPP. We did not pay it to him.

Senator KING. The translation to which I have referred——

Mr. SCHMIDLAPP. It is admitted that it was paid to him as manager of the bank, or as so-and-so, treasurer. That is all it refers to, I can assure you.

Senator KING. Well, did he receive it?

Mr. SCHMIDLAPP. For account of the bank. We did not pay it back to him as an individual, if that is what you mean.

Senator KING. Well, I can not quite——

Mr. SCHMIDLAPP. It is the group profit on the transaction.

Mr. WILLIAMS. That was a commission paid to the bank, Mr. Obregon never received it individually. It came to the bank.

Senator KING. You paid a commission to yourself, is that it?

Mr. WILLIAMS. The Government paid that commission to the bank.

Mr. SCHMIDLAPP. The Government paid the commission.

Senator KING. That is it exactly. The Government paid the commission.

Mr. SCHMIDLAPP. A part of the cost of the money.

Senator KING. Well, why did you make it payable to the son-in-law of Mr. Machado?

Mr. SCHMIDLAPP. As manager of the bank. He was an official of the bank.

Senator KING. Have you got a statement here from the bank showing the disposition that was made of that $500,000?

Mr. SCHMIDLAPP. I have given it to you in this statement.

Senator KING. Have you the books of the bank here or anything——

Mr. SCHMIDLAPP. The books of the bank; no.

Senator KING (continuing). To show what became of that $500,000?

Mr. SCHMIDLAPP. Yes.

Senator KING. What became of that?

Mr. SCHMIDLAPP. It was distributed to the members of this syndicate.

Senator KING. Well, now, will you please give the allocation of that?

The CHAIRMAN. Did you have any other commission besides this?

Mr. SCHMIDLAPP. Well, the commission on each successive stage as we reported it. The commission of exchanging this $50,000,000 of certificates. When you change your revolving fund you receive 1.80 per cent. Then you receive a commission of 1 per cent on the $50,000,000, and the 1 per cent on the $50,000,000 is what is referred to in the article.

Senator KING. Was not this an independent payment made to Mr. Machado's son-in-law?

Mr. SCHMIDLAPP. It was not.

Senator KING. Was he used in the negotiation of the loan?

Mr. SCHMIDLAPP. He did not negotiate the loan. He may have had some minor duties to perform in connection with its negotiation.

Senator KING. Is it not a fact that he was employed largely for the purpose of negotiating the loan with the Government?

Mr. SCHMIDLAPP. It is not.

Senator KING. And after your loans had been made to the Government his services in connection with your company were discontinued?

Mr. SCHMIDLAPP. No.

Senator KING. They were discontinued?

Mr. SCHMIDLAPP. They were discontinued. He resigned—the date is in there. In 1931.

Senator KING. Have you any other statement showing that the commissions were paid in a different manner or a like manner?

Mr. SCHMIDLAPP. Well, we can give you a complete statement of just how the commissions were paid.

Senator KING. I beg your pardon?

Mr. SCHMIDLAPP. We can give you a complete statement as to just how the commissions were paid.

Senator KING. Well, I should like to have that. And I would like a statement as to the disposition made of the $500,000 paid to this man, this son-in-law of Mr. Machado.

Mr. SCHMIDLAPP. After deducting the expenses of advertising and whatnot, the legal expenses, and one thing and another, it was divided among the syndicate members in their proportionate interest in the business.

The CHAIRMAN. Based upon the amount of money they had advanced towards the loan?

Mr. SCHMIDLAPP. Right. Mr. Obregon never received any part of any of the commissions received in connection with these loans.

Senator KING. In what manner did you make payment of your other commissions?

Mr. SCHMIDLAPP. In the same manner. After deducting the expense of conducting the business they were divided pro rata among the syndicate members in the proportion that they had to the business.

Senator KING. I find in examining the publications, no reference to other commissions paid to Mr. Obregon. To whom were they paid, if there were others paid?

Mr. SCHMIDLAPP. The commission was not paid, Senator, to Mr. Obregon, I can assure you unqualifiedly. If they went through his hands they went through his hands as an officer of the bank or as manager of the bank. The same as if they paid me a check, Schmidlapp, vice president of the Chase Bank. That does not mean Schmidlapp individually. And it did not mean so in Obregon's case.

Senator KING. Why was not the payment made to the bank itself rather than to him?

Mr. SCHMIDLAPP. As an officer you have to have some individual to whom it goes.

Senator KING. Was he the principal officer at that time?

Mr. SCHMIDLAPP. He was a joint manager.

Senator KING. Well, why wasn't it made payable to the two joint managers?

Mr. SCHMIDLAPP. It is not customary to do so.

Senator KING. Well, why didn't you make the payment to the bank instead of to Mr. Obregon? Or if you were paying it to the bank through the manager, why didn't you name both managers?

Mr. SCHMIDLAPP. It is not customary to name more than one officer. How often do you see a check drawn to so and so, president, and so and so, vice president, and so and so, treasurer? You would make it out to one of the officers of the bank.

Senator KING. As a matter of fact it would be payable to the bank itself, would it not?

Mr. SCHMIDLAPP. Yes.

Senator KING. So that it might be indorsed by any proper official of the bank?

Mr. SCHMIDLAPP. Yes; either way.

Senator KING. Have you any other checks that were made payable to Mr. Obregon at the time when he was joint manager?

Mr. SCHMIDLAPP. In his capacity as manager, undoubtedly.

Senator KING. Made payable to him?

Mr. SCHMIDLAPP. Undoubtedly. From anyone that brought it in.

Senator KING. From the loans which were made or from the bank itself to its branch bank in Habana?

Mr. SCHMIDLAPP. Will you state the question?

Senator KING. Do your books or accounts show any other payments of money to the bank in Habana under any of these Cuban loans which were made payable to Mr. Obregon, the son-in-law of Mr. Machado?

Mr. SCHMIDLAPP. If they were made payable to him they were made payable to him as manager of the bank, and only in an official capacity.

Senator KING. I am asking you whether there is any other case where in the transmission of these payments in the loan of $50,000,-

000 there is a single other instance where the payment was made to Obregon?

Mr. SCHMIDLAPP. Perhaps as manager of the bank. Only in that capacity.

Senator KING. Well, as manager or otherwise, have you any other payments that were made to him as manager of the bank? Or as joint manager of the bank?

Mr. SCHMIDLAPP. Whether the checks came through with his official title on them or not I can not answer.

Senator KING. Is it not a fact that in all of your payments, if any payee was named, it was the bank?

Mr. WILLIAMS. No.

Senator KING. The Chase Bank, or the Chase Corporation, whatever title your organization bore that was in Habana?

Mr. WILLIAMS. Well, it is a branch of the bank. It bears there the same title as their home office.

Senator KING. I do not know the correct name, so I made it rather comprehensive. What I am trying to get at is: Is not this the same situation in all of the payments in the $50,000,000 loan or $80,000,000 loan that you made down there, where he is named as the payee, or his name appears as a payee?

Mr. WILLIAMS. I don't know. There may be any number of them go through with the payee as manager.

In the first instance on the $10,000,000 credit, the initial commission of $100,000 was paid to Mr. Sciglie as manager of the bank.

In the second operation the commission of $500,000 was paid to Mr. Obregon as manager of the bank in his official capacity as such, and he accounted for that money and turned it over to the bank. He did not share or participate in one penny of it himself individually.

In the third operation the initial payment on account of the credit of $20,000,000 was paid to Mr. Obregon as manager of the bank. He merely received it as agent, accounted for it, and turned it in to the bank. And I am speaking of personal knowledge, because I handled it personally. He did not receive one single, solitary penny of any of those commissions for his individual account.

Senator KING. Are you familiar with the books of the company in Habana?

Mr. WILLIAMS. I am familiar with the—of course, I have not examined the books myself.

Senator KING. That is what I mean.

Mr. WILLIAMS. But I was the lawyer in charge of those transactions, and I know what was done with that money.

Senator KING. Well, the lawyer does not know much about books.

Mr. WILLIAMS. He generally knows what happens to the money, though.

Senator KING. I ask you again: Are you familiar with the books of the company there and whether they show the disposition and allocation of that $500,000?

Mr. WILLIAMS. No; but I am familiar with the agreements between the participants in this business. I did not actually see the checks which the Chase Bank sent out to its associates for their participating interest.

Senator KING. And you do not know from any examination of the books the disposition of the $500,000 or the allocation of the $500,000?

Mr. WILLIAMS. No.

Mr. SCHMIDLAPP. I can give you a statement on that very accurately.

Senator KING. Well, I would like to have that statement. And the dates, or any earmarks that would indicate the disposition made of that $500,000.

Mr. SCHMIDLAPP. Yes, sir.

Mr. ANDERSON. Could I straighten out now that statement of the $500,000? I won't take a minute, and you will have it right in the record there.

The CHAIRMAN. Yes; it will be all right to do so now.

Mr. ANDERSON. That, as stated by Mr. Schmidlapp, was a 1 per cent commission on $50,000,000 to be payable to the banking group who negotiated the business with the Government. Of that $500,000, $125,000 was reserved to cover expenses of negotiating and expenses of the sale of the serial certificates.

Senator KING. Who got that $125,000 for negotiating?

Mr. ANDERSON. That was paid in the form of legal fees, of advertising fees, cable fees, telegraph fees, all of the usual expenses in connection with an operation of that sort. That left $375,000 to be distributed amongst the members of this banking group who had handled this particular piece of business.

Of that $375,000 the Chase Securities Corporation received $50,000, the Chase National Bank received $50,000, which takes $100,000 off, leaving $275,000 to be divided between the other participants in the group in proportion to their interest in the business.

Well, that $500,000 was paid entirely to the bank participants, and it was in the form of a stand-by commission really on agreeing to take a liability on $50,000,000 of obligations of the Government. It was given to the banks and not to anybody outside.

Now the list of these expenses I will be glad to put into the record.

Mr. WILLIAMS. Do your records indicate that Mr. Obregon received any part of that total amount of $500,000?

Mr. ANDERSON. He received none of it whatsoever. It was all distributed up here in this country.

Senator KING. Why do you make it a charge on your accounts there?

Mr. ANDERSON. Well, it was paid in to the bank there.

Senator KING. It was paid in to the bank there?

Mr. ANDERSON. Yes.

The CHAIRMAN. You have a complete list of that, or will you furnish it?

Mr. ANDERSON. I have a complete list of the expenses which were covered out of this $500,000.

The CHAIRMAN. Can you put it into the record at this time?

Mr. ANDERSON. Yes.

The CHAIRMAN. That is what Senator King asked for.

Senator KING. Yes.

The CHAIRMAN. And it may be placed in the record at this point.

(The statement of expenses presented by Mr. Anderson is here printed in the record in full, as follows:)

Statement of expenses in connection with supplemental agreement providing for $60,000,000 (of which $10,000,000 was provided for in agreement dated February 19, 1927)

Legal:		
American—		
Rushmore, Bisbee & Stern	$31,005.70	
H. W. Catlin	20,000.00	
Cuban—		
Antonio S. Bustamente	10,000.00	
E. Hernandez Cartaya	47,500.00	
Garcia Montes	555.07	
		$109,060.77
Traveling expenses		8,267.62
Cable expense		357.73
Telephone expense		5,148.50
Printing supplemental agreements		1,509.20
Expenses incurred by Chase Securities Corporation		2,883.36
		127,227.18
Expenses on:		
$10,000,000 5½ per cent serial certificates dated July 1, 1928 (see attached schedules)		37,189.60
$10,000,000 5½ per cent serial certificates dated January 1, 1929 (see attached schedules)		27,105.55
Total		191,522.33

Statement of expenses in $10,000,000 Republic of Cuba public works 5½ per cent serial certificates dated July 1, 1928—Due $6,250,000 December 31, 1931; $3,750,000 June 30, 1932

Advertising	$10,630.39
Legal	2,699.67
Telephone and telegrams	2,045.20
Cables	193.01
Stationery and printing	1,172.82
Miscellaneous	215.42
Authenticating charge	5,000.00
Sundry office expense	172.71
Surety bond	150.00
Addressograph	25.00
Private wire	375.00
Closing	50.00
Loss in trading account	12,308.88
Loss in interest account	1,917.93
Postage and insurance	233.57
Total	37,189.60

Statement of expenses in $10,000,000 Republic of Cuba public works 5½ per cent serial certificates dated January 1, 1929—Due $2,500,000 June 30, 1932; $6,250,000 December 31, 1932; $1,250,000 June 30, 1933

Advertising	$7,705.75
Postage and insurance	641.89
Countersigning and authentication	5,000.00
Legal	68.06
Loss in tradingg	7,445.03
Loss in interest	.21
Loss in suspense	.01
Cables, telephone, and telegraph	3,028.27
Stationery and printing	1,491.12
Miscellaneous	748.09
Sundry	327.12
Surety bond	150.00
Addressograph	25.00
Closing	75.00
Private wire	400.00
Total	27,105.55

The CHAIRMAN. You only paid one commission, no matter who it went to? You did not pay two commissions of $500,000, did you, on that loan?

Mr. SCHMIDLAPP. There is only one commission of $500,000 on loan No. 2, as explained in this description here.

Senator KING. How many loans to Cuba have you?

Mr. SCHMIDLAPP. Three.

Senator KING. The aggregate is how much?

Mr. SCHMIDLAPP. $80,000,000.

Senator KING. $80,000,000?

Mr. SCHMIDLAPP. For ourselves and associates.

Senator KING. Yes. You have commitments for an additional sum, have you not?

Mr. SCHMIDLAPP. No; we have no commitments outstanding now.

Senator KING. Have you extended a credit in addition to the $80,000,000?

Mr. SCHMIDLAPP. Not in addition. $20,000,000 of the $80,000,000 referred to is in the form of a credit.

Senator KING. Can you tell me the obligations of Cuba at the present time?

Mr. SCHMIDLAPP. External?

Senator KING. Yes; external. They are practically $270,000,000 are they not?

Mr. ANDERSON. It shows a little less than that here, Senator King. Shows a total of external and internal both $204,277,000, and of that $7,865,000 is internal.

The CHAIRMAN. How much was internal? I did not get that.

Mr. SCHMIDLAPP. $7,865,000.

Senator KING. Well, the amount due on those Morgan and Speyer loans is how much?

Mr. SCHMIDLAPP. This is as of December 31, 1931.

Senator KING. Well, there is not much change since then. Approximately $69,000,000 is it not?

Mr. ANDERSON. Approximately $60,000,000.

Senator KING. Do you understand Spanish, Mr. Anderson?

Mr. ANDERSON. No, I do not; I am sorry to say.

Mr. SCHMIDLAPP. This would show a total of $204,000,000.

Mr. ANDERSON. Internal and external.

Mr. SCHMIDLAPP. Internal and external.

Senator KING. Let me see if I can get this in a little more concrete form. Your first loan was $10,000,000, is that right?

Mr. SCHMIDLAPP. Yes.

Senator KING. That was a credit?

Mr. SCHMIDLAPP. Yes.

Senator KING. And then that was a part of an $80,000,000 issue?

Mr. SCHMIDLAPP. No.

Senator KING. That is independent of the——

Mr. SCHMIDLAPP. No; it is not independent. That is the reason I tried to read it in this way so as to give you the three successive stages. First, you had a $10,000,000 credit.

Senator KING. Well now, let me pause right there. What commission did you get for that?

Mr. SCHMIDLAPP. We got 1 per cent per annum. $400,000.

Senator KING. And what interest did those bonds bear?
Mr. SCHMIDLAPP. Six per cent.
Senator KING. Six per cent?
Mr. SCHMIDLAPP. On the credit.
Senator KING. I beg your pardon.
Mr. SCHMIDLAPP. On the credit. And then it was reduced on the next one to five and one-half.
Senator KING. Now, was that credit taken up by bonds?
Mr. SCHMIDLAPP. No.
Senator KING. Was it transmuted into bonds?
Mr. SCHMIDLAPP. No. No; it became part of a revolving credit of $60,000,000, $20,000,000 of which were sold to the public, $30,000,000 of which were converted into serial bonds and held in portfolio. And seven million odd remained as these original work certificates and were subsequently sold at par to the Government when we agreed to take the last bonds, $40,000,000 of the $80,000,000 public works 5½ per cent bonds maturing in 1945. And at that time we put it on the additional $20,000,000 of credit.
Senator KING. Let me ask in the aggregate how many bonds did you and your associates receive?
Mr. SCHMIDLAPP. We received $40,000,000—Well, of which issue? It is difficult to say.
Senator KING. Well, of all of them?
Mr. SCHMIDLAPP. Our total financing on behalf of ourselves and our associates was $80,000,000, and it went through these successive stages which I have read to you, so as to give you the detail of each separate transaction and to show you its purpose and how it came about.
Senator KING. What was the commission you received upon the $80,000,000 of credits extended by you and your associates?
Mr. SCHMIDLAPP. After deducting the expenses of the Chase National Bank and associates of approximately $488,600——
Senator KING. In the aggregate?
Mr. SCHMIDLAPP. I will add these two together. The gross profits on all the transactions were $3,317,666. The expenses of the Chase Bank and associates were $488,600. The net profits for distribution to the Chase Bank and associates was $2,829,066. The net profit to the Chase Bank and Chase Securities Corporation and Equitable Corporation subsequent to its merger with the Chase is $627,927, as I have previously read.
Senator KING. What part of the bonds which you received were sold to the public in the United States?
Mr. SCHMIDLAPP. Well, of the second serial issue, $20,000,000 were sold.
Senator KING. At what price?
Mr. SCHMIDLAPP. At 99¾ on the first $10,000,000 of that and par and interest on the second $10,000,000.
Senator KING. Now, any others?
Mr. SCHMIDLAPP. Of the $40,000,000 maturing in 1945 they were offered to the public at 98 and interest.
Senator KING. And what did you pay for the bonds?
Mr. SCHMIDLAPP. We paid 95 for them.
Senator KING. Ninety-five?
Mr. SCHMIDLAPP. Right.

Senator KING. And you offered them at 98?
Mr. SCHMIDLAPP. Yes.
Senator KING. A spread there of 3 per cent.
Mr. SCHMIDLAPP. Yes. But there is an additional spread, as I tried to indicate. On the basis of having converted work certificates into serial bonds we had a spread of 1.80.
Senator KING. In addition to that?
Mr. SCHMIDLAPP. Yes.
The CHAIRMAN. You mean 1.8 per cent?
Mr. SCHMIDLAPP. Yes; 1.8 per cent.
Senator KING. Yes.
Mr. SCHMIDLAPP. So that it made the gross spread on the $40,000,000 of bonds sold 4.35 per cent.
Mr. WILLIAMS. From your gross spread of 4.35.
Senator KING. That was the gross spread?
Mr. SCHMIDLAPP. Yes.
Senator KING. Have any of those bonds been paid?
Mr. SCHMIDLAPP. $6,250,000 of the 5½ per cent serial certificates matured December 31, 1931, and were paid.
The CHAIRMAN. Has there been any default?
Mr. SCHMIDLAPP. There has been no default, Senator.
The CHAIRMAN. Interest or principal?
Mr. SCHMIDLAPP. On principal or interest.
Senator KING. Did you take up any of the sugar bonds, so called, the Chadbourne sugar bonds?
Mr. SCHMIDLAPP. We have taken them up through individual customers.
Senator KING. What was that bond issue?
Mr. SCHMIDLAPP. Between $40,000,000 and $50,000,000. I am not certain of the exact figure.
Senator KING. Do you hold any of those bonds?
Mr. SCHMIDLAPP. As collateral.
Senator KING. Those bonds were issued by the Government in order to meet the obligations of some of the affiliated sugar companies, that is, they were sugar companies affiliates of some of the banks of New York, were they not? Perhaps I did not make the question clear. A large part of the sugar business of Cuba is in the hands of American corporations, is it not? Perhaps 60 to 70 per cent?
Mr. SCHMIDLAPP. I should think that was roughly correct.
Senator KING. Yes. And those companies are in part controlled, are they not, by some of the banks of New York? The National City, for instance?
Mr. SCHMIDLAPP. I am not prepared to answer that.
Senator KING. You are not prepared to answer that. At any rate, those corporations being indebted, induced the Government, or at any rate the Government issued forty odd millions of dollars of bonds for the purpose of taking up the obligations of those companies. Is that not true?
Mr. SCHMIDLAPP. I do not think that was its purpose, Senator, but I do not think I had better read into a record here without knowing what my statement is.
Senator KING. But at any rate, those bonds labeled Sugar Bonds were issued by the Government not to meet any sugar operations that it was engaged in?

Mr. SCHMIDLAPP. That the Government was engaged in?

Senator KING. Yes. It was not engaged in the sugar business, was it?

Mr. SCHMIDLAPP. I would not like to go into the technical points there, Senator.

Senator KING. At any rate, you have some of those bonds?

Mr. SCHMIDLAPP. As collateral.

Senator KING. As collateral. Did you buy any of those bonds?

Mr. SCHMIDLAPP. No, sir.

Senator KING. Have they been sold to the public, so far as you know, the American public?

Mr. SCHMIDLAPP. No, sir. Not in any general distribution.

Senator KING. Do you know whether the National City Bank has distributed any of those bonds?

Mr. SCHMIDLAPP. No one has publicly.

Senator KING. I see. But the bonds were issued by the Government?

Mr. SCHMIDLAPP. I do not think they were technically. I think they bear the guarantee of the Government.

Senator KING. Well, do you make any distinction there between the Government bonds and the guarantee of the Government? Who were they issued by if not by the Government?

Mr. SCHMIDLAPP. Well, I think they created a corporation for the handling of the situation.

Senator KING. At any rate they are obligations of the Government, either direct or a guarantee.

Senator GORE. What was the name of the corporation created for that purpose?

Mr. SCHMIDLAPP. I am not prepared to answer it, Senator. I do not know. I did not come prepared with those statistics.

Senator KING. Do you know what the bonds that have been sold to the American public are quoted at now? Some that were sold by your organizations?

Mr. SCHMIDLAPP. The 5½ per cent long-term bonds maturing in 1945 are quoted at 38¼.

Senator KING. And what are the residue quoted at?

Mr. SCHMIDLAPP. Those serial certificates vary a great deal. The market on them is quite inactive. June 30, 1932, maturity are bid 71. Due December 31, 1932, are bid 60 and asked 65. Due on June 30, 1933, the bid is 57 and the offering is 65.

Senator KING. Were any of your organizations interested with the contractors who bid for the Capitol?

Mr. SCHMIDLAPP. We had no interest with them whatsoever.

Senator KING. Or who were interested in those road construction serial certificates that were issued?

Mr. SCHMIDLAPP. We had no interest with them whatsoever. I read that in the statement, Senator.

Senator KING. Very well. Before making the loans for this so-called road construction did you make any investigation to ascertain the operations of the contractors?

Mr. SCHMIDLAPP. We had no interest with the contractors whatsoever. We dealt entirely with the Government and as bankers.

Senator KING. Well, did you discover that the road which was being built was costing in the neighborhood of $130,000 to $160,000

a mile, at least reputed to cost that, and that much was expended per mile?

Mr. SCHMIDLAPP. Well, my offhand opinion is that the roadway work comprised approximately $100,000,000.

Senator KING. Well, you did not figure the amount per mile, then?

Mr. SCHMIDLAPP. Well, I understood it was about seven hundred and forty-odd or seven hundred and fifty miles.

Senator KING. You do not know the per mile cost?

Mr. SCHMIDLAPP. The per mile cost I have not figured.

Senator KING. And were you not interested to determine whether or not this subscription that you were receiving, or bonds or securities which were expended, were going to Cuba quid pro quo, and that the money was not being embezzled or improperly utilized? In other words, you just accepted the certificate of the Government, is that it, without making any investigation as to the purpose of the loan and the application of the funds?

Mr. SCHMIDLAPP. Well, we knew the purpose of the loan. We knew that it went to public works, that it went to highways, went to schools, went to the capitol building, went to the improvements on the Malecon at Havana.

Mr. WILLIAMS. Senator, all these operations had the peculiar feature that the money was not turned over to the Government to be used as it might see fit, but the money was paid out to a particular construction contractor on his own certificate plus the approval of the Government officials that the work had been done.

Senator KING. Well, weren't you somewhat concerned or interested or curious when you discovered, if you had made any investigation, that some of those certificates indicated the cost of construction of roads that ought to have been built for a very few thousand dollars, of $130,000 a mile?

Mr. WILLIAMS. We do not feel that we were authorized to usurp the functions of the Cuban Government to investigate their works.

Senator KING. You just accepted their statement?

Mr. WILLIAMS. What we did was we accepted these certificates as being true. And we were dealing with the Cuban Government only as bankers, only as financial institutions financing the loans to them. We did feel an added security in the fact that the moneys we provided would be paid over to the construction contractors themselves on the basis of certificates of work done. But we did not undertake to investigate the accuracy of the particular certificate. We accepted it as delivered to us when it was made out in proper form.

Senator KING. Did you feel any security by reason of any communication you had with the State Department and any assurance which it gave you as to the validity of the loan?

Mr. SCHMIDLAPP. We consulted the State Department on each of these successive three transactions.

Senator KING. Did you ask for their approval?

Mr. SCHMIDLAPP. We did.

Senator KING. Did the State Department approve those loans?

Mr. SCHMIDLAPP. In the manner that they usually do. There is no specific—they do not disagree with you, that is about the force of it.

Senator KING. Well, was there any affirmative approval?

Mr. WILLIAMS. We received advice that they had no objection to the consummation of the transaction, but they did not assume any responsibility for the validity of the loan or its security.

Senator KING. Was the attention of the State Department called by you, or did the State Department call your attention to the fact that perhaps the Platt amendment had something to do with the relation of our Government to Cuba? Did you rely, in other words, upon the Platt amendment or any representations made by the State Department, negatively or otherwise, as a basis for your loans?

Mr. SCHMIDLAPP. We did not go into that at all.

Senator KING. You did not consider that at all?

Mr. SCHMIDLAPP. No.

Senator KING. What was the form of the letter that you addressed to the State Department anterior to the making of any of these loans?

Mr. SCHMIDLAPP. Have you a copy of it? [Addressing Mr. Anderson.]

Senator KING. While the gentleman is looking for the letter I will ask you another question. Was the form of the reply of the State Department to your communications uniform?

Mr. SCHMIDLAPP. Substantially the same.

Senator KING. Substantially the same. Did you discuss with the State Department or any representatives of the State Department these loans and the purpose of them?

Mr. SCHMIDLAPP. We submitted the financing to them in each case, here is a copy.

Senator KING. Is this one of your communications?

Mr. SCHMIDLAPP. Yes. [Handing same to Senator King.]

Senator KING. Did you come to Washington to confer with the State Department, or did the State Department have representatives come to you in New York in connection with these loans?

Mr. WILLIAMS. On the first operation of the $10,000,000 credit one of my partners, Mr. Mudge, stopped in Washington on his way from Habana to New York and explained the proposed financing. He left with the State Department copies of the proposed papers.

Senator KING. Well, was that the only personal contact had by the Chase Bank or its associates in any of these loans?

Mr. WILLIAMS. Do you mean with the State Department?

Senator KING. Yes; with the State Department.

Mr. WILLIAMS. So far as I am advised, yes. As each operation was under way we submitted the papers to the State Department in the usual course. We received in each instance advice from them that they had no objections to the consummation of the transaction. They did not assume the responsibility of advising us to make the loan or not to make it. We did not ask them. We merely submitted it, as we always do, in connection with foreign financing. The Platt amendment was not particularly discussed. We assumed, of course, they had as much if not greater information about the Platt amendment than we did.

Senator KING. I perceive here by a letter signed by Mr. Francis White, Assistant Secretary, February 8, 1930, there had been some telephonic communication in regard to Cuban loans. Do you recall

anything about that, Mr. Schmidlapp? In regard to the $80,000,000 5½ per cent public loan?

Mr. SCHMIDLAPP. I do not recall it, Senator.

Mr. ANDERSON. I think there was, Senator King.

Senator KING. Was there any controversy over that loan in any way?

Mr. WILLIAMS. No. The only purpose of telephoning in that connection was to ask the State Department to let us have their action as promptly as possible, so that we could conclude the transaction in Cuba if they should not have any objection to it.

Senator KING. This letter to which I have referred, signed by Mr. White, states that the department refers to your letter dated January 31, 1930, concerning a proposal for new financing by the Cuban Government whereunder the Republic of Cuba is to propose an issue of $80,000,000 of 5½ per cent public-works gold bonds to be dated January 1, 1930.

In reply to your request to be advised of the attitude of the State Department with respect to this proposed financing, the department desires to confirm the notification made to you by telephone to the effect that the Government of the United States does no perceive occasion for raising any objection to the proposal in question.

And signed by Mr. White, Acting Secretary. Was that substantially the course which you pursued in making these loans? That you would communicate with the State Department and ask if they had any objection, and you would receive a negative reply of this character?

Mr. SCHMIDLAPP. Yes, sir.

The CHAIRMAN. That covered all of the loans which were made?

Mr. SCHMIDLAPP. That was done in this case.

Mr. WILLIAMS. Each case covers a separate transaction.

Senator KING. Because the $80,000,000 was split up.

The CHAIRMAN. It mentions the $80,000,000.

Mr. ANDERSON. That is the authorized amount of the long-term bonds.

The CHAIRMAN. That is the total amount of the long-term bonds.

Mr. ANDERSON. It just happens to be the total amount, Senator. It does not cover the three operations. It covers the last operation.

The CHAIRMAN. Yes.

Senator KING. You hold some bonds now, do you not, as collateral for advances which have been made on some of these certificates?

Mr. SCHMIDLAPP. No; I do not think we are holding it as collateral in any instance. We have some in portfolio. I gave you the figures in portfolio.

Senator KING. What do you mean by that?

Mr. SCHMIDLAPP. Hold as our own investment.

Senator KING. As your own investments?

Mr. SCHMIDLAPP. As our own investments.

Senator KING. And how much do you own of those bonds?

Mr. SCHMIDLAPP. Well, the two organizations own $5,415,000 par amount.

Senator KING. Is that all?

Mr. SCHMIDLAPP. The Chase National Bank and the Chase Securities Corporation have an interest of 25 per cent each in the outstanding credit of $20,000,000. Approximately $10,000,000 together.

Senator KING. And what represents your security for that credit? Bonds?

Mr. SCHMIDLAP. Deferred payment work certificates.

Senator KING. You have those certificates in your portfolio?

Mr. SCHMIDLAPP. Yes, sir.

Senator KING. Will they be converted into bonds or taken up by bonds?

Mr. SCHMIDLAPP. If the remaining $40,000,000 of your long-term bonds are sold those certificates are to be first paid.

Senator KING. The bonds which you hold as collateral, the so-called sugar bonds, what are the terms of those bonds? When do they mature?

Mr. SCHMIDLAPP. They mature serially over a 5-year period.

Senator KING. Do you know what they were sold for?

Mr. SCHMIDLAPP. I do not think they were sold.

Senator KING. None of them?

Mr. SCHMIDLAPP. None of them. Excepting by private negotiation.

Senator KING. Well, do they have any market value, and if so, what?

Mr. SCHMIDLAPP. I do not think they are quoted.

Senator KING. Do you know what the internal debt of Cuba is, including the floating debt, accumulated deficit, Government supply bills, salaries of civil employees, rents due on buildings occupied by the Government?

Mr. SCHMIDLAPP. The figures which we have, which are of December 31, 1931, show the internal debt, the funded debt of $7,865,000.

Senator KING. Well, that is the funded.

Mr. SCHMIDLAPP. Yes.

Senator KING. But what is the floating debt?

Mr. SCHMIDLAPP. We do not have the figure.

Senator KING. I see. Is it not a fact that there is a large amount of floating debt, including the employees' salaries that have not been paid for some time?

Mr. SCHMIDLAPP. I am not informed, Senator.

Senator KING. You are not informed as to that. I think that is all.

Senator GORE. How many of these construction companies were there that took part in the building of these roads, to whom you made payment?

Mr. WILLIAMS. The principal contractor was Warren Bros. Co. And the Cuban contractors. The Cuban Contractors Corporation.

Senator GORE. Did any of these banks that made these loans own any of the stock of these contractors?

Mr. WILLIAMS. No, sir.

Senator GORE. Did they have any interest in any concern that did own stock in these contracting concerns?

Mr. WILLIAMS. No, sir.

Senator GORE. Did your bank have anything to do with floating any of these sugar bonds? Not Government bonds, but of the Oriente Co., for instance?

Mr. ANDERSON. No; Senator. The sugar bonds were not sold.

Mr. WILLIAMS. The Senator is speaking now of private sugar companies.

Senator GORE. Private sugar companies. The Oriente is one. I believe that is the name. I do not know the name. Do you have any of their bonds?

Mr. SCHMIDLAPP. I do not recall any, Senator.

Senator GORE. Your company had nothing to do with the sale of those bonds and distribution of those bonds?

Mr. SCHMIDLAPP. The Chase National Bank did not have.

Senator GORE. Or its affiliates, so far as you know?

Mr. SCHMIDLAPP. So far as I know none of the affiliates did have.

Senator GORE. Does your bank now own, or has it heretofore owned, any mortgages on any of the sugar plantations in Cuba?

Mr. SCHMIDLAPP. Well, as collateral.

Senator GORE. Have any of those bonds been in default?

Mr. SCHMIDLAPP. I think a number of them are in default.

Senator GORE. I have been told this—I may be shooting in the air—that about 40 plantations were involved in loans from some bank in New York; that they did not make their payments; that a company was organized and these notes and mortgages turned over to the company. That the company issued bonds, and the bonds were sold in the country in order to extricate the bank from that situation. Do you know anything about any transaction of that sort on the part of any bank?

Mr. SCHMIDLAPP. No, sir; I do not.

Senator GORE. That is all.

Senator CONNALLY. Mr. Chairman, may I ask the witness a question?

The CHAIRMAN. Certainly.

Senator CONNALLY. Have you handled any transactions for the Cuban-American or the American-Cuban Sugar Co. recently? Bond sales?

Mr. SCHMIDLAPP. No, sir; we have not.

Senator CONNALLY. Or paper of any kind?

Mr. SCHMIDLAPP. No, sir; we have not. They do business with us. They do a regular banking business with us. We have handled none of their securities.

Senator CONNALLY. An ordinary commercial banking business?

Mr. SCHMIDLAPP. An ordinary commercial banking business. Just a commercial banking business.

Senator CONNALLY. Are you their New York representative in the banking business?

Mr. SCHMIDLAPP. I would not say we were their principal bank.

Senator GORE. This Oriente Co. that I mentioned; you do not know anything about that?

Mr. SCHMIDLAPP. No, sir; I do not, Senator. There is a province of that name. But I do not know.

Senator GORE. A bank down in my country failed that had a $5,000 sugar bond that is rated at $150. And a good many of those banks through the West have them.

Senator CONNALLY. If you are the commercial representative of that company, who handles their securities?

Mr. SCHMIDLAPP. I think their principal bank is the National City Bank, and I think perhaps the City Co. has sold some of their securities.

Senator CONNALLY. Have they sold any in recent times?

Mr. SCHMIDLAPP. I have no knowledge of that.

Senator KING. Mr. Witness, you said that your bank had some of these sugar bonds as collateral?

Mr. SCHMIDLAPP. All the sugar stabilization bonds, yes, sir; that we have are held as collateral.

Senator KING. Well, did you not make some investigation as to the purpose for which they were issued? The so-called Chadbourne sugar bonds?

Mr. SCHMIDLAPP. Yes; we made some investigation.

Senator KING. Yes. You understood that there was a $42,000,000 bond issue by the Government, did you not?

Mr. SCHMIDLAPP. Approximately $40,000,000, I understood.

Senator KING. And that $36,000,000 of those bonds were for the purpose of meeting obligations of some of these sugar companies, some of which were affiliates of the National City Bank or other banks of New York?

Mr. SCHMIDLAPP. I can not answer that.

Senator KING. Do you know what became of the other $4,000,000, or the entire issue of bonds?

Mr. SCHMIDLAPP. It is a highly technical thing, and I am answering really unprepared. My understanding is that they were issued in proportion to the amount of sugar that was to be held over a period of five years.

Senator KING. Well, do you understand that the entire $40,000,000 were issued?

Mr. SCHMIDLAPP. For that purpose.

Senator KING. The entire issue?

Mr. SCHMIDLAPP. For that purpose, and that purpose alone.

Senator KING. Well, do you understand that all of the bonds that were issued, authorized to be issued and issued, were actually delivered to the sugar companies that were in debt?

Mr. SCHMIDLAPP. I do not know that their being in debt had any part to play with it. I think they were issued in the amount of sugar which the various companies were obliged to carry over under the stabilization plan.

Senator KING. Do you know whether or not there were some four or five million dollars of that issue not employed for that purpose, but used for alleged commissions and payment for services rendered by government officials or otherwise?

Mr. SCHMIDLAPP. I never heard of it.

Senator KING. You made no investigation as to the exact number of bonds issued? And to whom they were issued?

Mr. SCHMIDLAPP. I would not say we made no investigation. We just understood as to the purpose for which they were issued.

Senator KING. Did you take them as collateral for some of the affiliates of these banks? I use the word "affiliates" there to characterize corporations, American corporations owning large sugar plantations and sugar lands, and financed by or owned by some of the New York banks.

Mr. SCHMIDLAPP. No affiliates of the Chase National Bank.

Senator KING. By the way, does the Chase National Bank, or any of your associates, own affiliated sugar companies in Cuba, or own sugar companies in Cuba?

Mr. WILLIAMS. They do not own sugar companies. They own the securities of some of the sugar companies in Cuba.

Senator KING. Do you own the securities of a large number of them?

Mr. SCHMIDLAPP. Not a number. The only one I can recall is the Fidelity.

The CHAIRMAN. What do you advance on sugar per hundred?

Mr. SCHMIDLAPP. It varies each year, Senator.

The CHAIRMAN. But in this holding of sugar in a pool, as it were, under the Chadbourne plan, was there any definite amount agreed upon per hundred pounds of sugar?

Mr. SCHMIDLAPP. Yes; there was a plan agreed upon. There was a specified amount, but I would not quote it because I am not sure of my figures. I was not prepared on it.

Senator KING. How much does your company or your affiliated companies hold as collateral or own of that forty-odd million dollars bond issue?

Mr. SCHMIDLAPP. I could not answer that, Senator, accurately. I did not collect those figures.

Senator KING. Would it be a third?

Mr. SCHMIDLAPP. I would think very much less.

Senator KING. I have been told, and if I am in error I want to be corrected, that your company owns or holds as collateral a very large amount, $20,000,000 or $30,000,000, of bonds issued by the government for the purpose of relieving the obligations of American sugar companies in Cuba.

Mr. SCHMIDLAPP. I do not think that is an accurate statement.

Senator KING. Well, how much do you hold as collateral of those bonds?

Mr. SCHMIDLAPP. I can not tell you that without referring to the records.

Senator KING. Would it be $20,000,000?

Mr. SCHMIDLAPP. I would say very much less. I would say, perhaps, between $5,000,000 and $10,000,000.

Senator KING. Do you know who holds the rest of those bonds?

Mr. SCHMIDLAPP. No, sir; I do not.

Senator KING. I think you answered that none of them, as far as you knew, had been sold to the American public?

Mr. SCHMIDLAPP. They have not been, to the best of my knowledge.

Senator KING. They are held by New York banks?

Mr. SCHMIDLAPP. They are held by these sugar companies.

Senator KING. Well, I understood you to say that the bonds were issued to relieve them? That the Government guaranteed the bonds?

Mr. SCHMIDLAPP. They are the owners of them. We hold them only as collateral.

Senator KING. But you look to the Government for payment?

Mr. SCHMIDLAPP. Not necessarily.

Senator KING. If they are not paid?

Mr. SCHMIDLAPP. Or the sugar.

Senator KING. At any rate you would hold the Government——

Mr. SCHMIDLAPP (interposing). The security is sugar. The bonds are secured bonds, secured by sugar.

Senator KING. Issued by the Government or guaranteed by the Government, as I understand it?

Mr. SCHMIDLAPP. That is correct.

Senator KING. And if the sugar is lost or deteriorates in value, of course you would look to the Government for payment?

Mr. SCHMIDLAPP. Correct.

Senator KING. And you would look to the Government to meet the interest charges on those bonds?

Mr. SCHMIDLAPP. Correct.

Senator KING. Have the interest charges been paid as they matured?

Mr. SCHMIDLAPP. Yes, sir. The first maturity has been largely redeemed. I do not know if entirely so or not.

Senator KING. I see. That is all.

The CHAIRMAN. That is all.

Senator JOHNSON. Will you take your adjournment now? I want to ask a few questions. They will take but a few moments.

The CHAIRMAN. If it will only take a few minutes we can adjourn and take it up at the afternoon session. These gentlemen wish to leave for home this afternoon.

Senator JOHNSON. Yes; I will see that they get off this afternoon if we will take our luncheon adjournment.

The CHAIRMAN. Very well, we will recess until 1.30.

(Thereupon at 12.10 p. m., Wednesday, January 27, 1932, a recess was taken until 1.30 p. m. the same day.)

AFTER RECESS

The Senate Committee on Finance reconvened at 1.30 o'clock p. m., Wednesday, January 27, 1932.

The CHAIRMAN. The committee will come to order.

Senator JOHNSON. Can you state the compensation that was paid Mr. Blanco as your employee?

Mr. SCHMIDLAPP. Mr. Obregon?

Senator JOHNSON. Yes.

Mr. ANDERSON. When he was first employed he received compensation at the rate of $12,000 per annum. At the time when he resigned he was receiving compensation at the rate of $19,000 per annum.

The CHAIRMAN. He received that from whom?

Mr. SCHMIDLAPP. From the Chase National Bank.

Mr. ANDERSON. From the bank, as a manager of the bank.

Senator JOHNSON. You have the Chase National Bank; then there is an institution that has the name of Chase as well, has it not?

Mr. SCHMIDLAPP. Chase Securities Corporation.

Senator JOHNSON. Chase Securities Corporation. Is there any other that has the name of Chase?

Mr. SCHMIDLAPP. Chase-Harris-Forbes Corporation.

Senator JOHNSON. Chase-Harris-Forbes Corporation. Is there any other?

Mr. SCHMIDLAPP. The Chase Bank, Paris.

Mr. ANDERSON. There is the Chase Bank.

Senator JOHNSON. Well, I assume that is your branch in Paris.

Mr. SCHMIDLAPP. That is our branch in Paris; a separate corporation. The Chase Safe Deposit Co.; the Chase National Executors & Trustees (Ltd.), London.

Senator JOHNSON. Any others?

Mr. SCHMIDLAPP. That is all, Senator.

Senator JOHNSON. Does the Chase National Bank on any occasion transfer its securities to the next organization to which you referred—what did you call it?

Mr. SCHMIDLAPP. Chase Securities?

Senator JOHNSON. Yes; Chase Securities?

Mr. SCHMIDLAPP. No, sir; they do not.

Senator JOHNSON. They do not deal one with the other?

Mr. SCHMIDLAPP. Oh, yes; they have dealings together.

Senator JOHNSON. The nature of the dealings, generally speaking—I am not asking in detail at all—is what?

Mr. SCHMIDLAPP. Well, we have made them loans from time to time. They have a deposit relationship. They draw checks on us.

Senator JOHNSON. There is the Chase National Bank, and then there is the Chase Securities Co.; that is correct, is it?

Mr. SCHMIDLAPP. The Chase National Bank and Chase Securities Corporation.

Senator JOHNSON. Chase Securities Corporation. What was the next one?

Mr. SCHMIDLAPP. Chase-Harris-Forbes Corporation. Chase Safe Deposit Co.

Senator JOHNSON. Well, I am assuming from the name of the last one you mentioned that it does not do a banking business. Does it?

Mr. SCHMIDLAPP. It does a safe deposit business.

Senator JOHNSON. That is what I mean.

Mr. SCHMIDLAPP. And the Chase Bank, Paris. An Edge Act corporation.

Senator JOHNSON. Is either one of the institutions which you have named of the first three an investment trust?

Mr. SCHMIDLAPP. The Chase Securities Corporation in a nature is an investment trust. It is a holding company.

Senator JOHNSON. Yes. When the Chase National Bank deals with a flotation is Chase Securities Co. made a part of it subsequently?

Mr. SCHMIDLAPP. Well, we do not do that business. The Chase Bank as such does not go into the flotation business. That is done through the Securities Co., and Chase-Harris-Forbes do the distributing.

Senator JOHNSON. The original contracts that you had with Cuba were they with the Chase National Bank?

Mr. SCHMIDLAPP. That was with the bank.

Senator JOHNSON. That was with the bank?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. Well, then, the bank, you say, does not deal with the trust investments?

Mr. SCHMIDLAPP. It does not deal with the distribution of them.

Senator JOHNSON. Exactly. Then would Chase Securities Co. deal with the distribution of them?

Mr. SCHMIDLAPP. As at present constituted, it would be done through Chase-Harris-Forbes.

Senator JOHNSON. Through Chase-Harris-Forbes?

Mr. SCHMIDLAPP. At the time of this financing it would have been done through the Securities Company?

Senator JOHNSON. Yes. I am simply trying to get the mode of the doing of business. The Chase National Bank would make its contract, for instance, to float a loan. Until the absorption of Harris-Forbes it would deal with the Chase Securities Co. in the flotation of the loan; is that correct?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. Subsequently, when Chase-Harris-Forbes was formed then it dealt with Chase-Harris-Forbes in the flotation of a loan; is that correct?

Mr. SCHMIDLAPP. Through the Securities Co.

Senator JOHNSON. Through the Securities Co. Well, would a flotation of a loan to-day, for instance, be first by virtue of a contract with the Chase National Bank; secondly go into the Chase Securities Co.; and, thirdly, into Chase-Harris-Forbes?

Mr. SCHMIDLAPP. No; in most cases it would go either directly to the Securities Co. or to Chase-Harris-Forbes, and the bank would not come into it as a contract matter at all.

Senator JOHNSON. Well, would the bank come into the original negotiations?

Mr. SCHMIDLAPP. No. In most cases; no.

Senator JOHNSON. In most cases not?

Mr. SCHMIDLAPP. No.

Senator JOHNSON. In the Cuban instances, however, the Chase National Bank was the original negotiator?

Mr. SCHMIDLAPP. They were the original negotiators.

Senator JOHNSON. And one of the parties to the contract?

Mr. SCHMIDLAPP. Quite so.

Senator JOHNSON. Now when a flotation is undertaken by the next house, in the case of the Cuban flotation the original ones I presume were undertaken by Chase Securities Co.?

Mr. SCHMIDLAPP. They handled the syndicate account.

Senator JOHNSON. When the Chase National Bank has the Chase Securities handle the syndicate account what arrangement, if any, exists in relation to the compensation of each?

Mr. SCHMIDLAPP. Oh, it would vary in any case.

Senator JOHNSON. Well, there would be compensation to the Chase National Bank, would there not?

Mr. SCHMIDLAPP. Yes, the bank would be compensated.

Senator JOHNSON. And there would be compensation to the Chase Securities Co.?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. And at the present time, with Chase-Harris-Forbes, if it went through the three, each one would obtain its proportion of the compensation, commission, or whatever might be derived?

Mr. SCHMIDLAPP. I think that is correct.

Senator JOHNSON. Yes, sir.

The CHAIRMAN. Do they go through the three?

Mr. SCHMIDLAPP. No. If the bank entered the arrangement it would either go through the Securities Co. or through Chase-Harris-Forbes. If it was going to be a distribution of securities to the public, and was signed by the bank to-day it probably would not be. It would have to be an exceptional case. If we did additional business

in Cuba by reason of the bank's name being known in Cuba, it might be taken in the name of the bank. But Chase-Harris-Forbes Corporation would do the distributing of any of the securities.

Senator JOHNSON. Can you tell me from the accounts that you have at hand just exactly in the first instance of the loans that were made by you to Cuba what the Chase bank derived and what the Chase Securities Corporation derived in the matter of remuneration?

Mr. SCHMIDLAPP. In the case of the first credit it was $164,750 for the bank. The Securities Co. did not participate in that.

Senator JOHNSON. Did the Chase Securities Co. participate in that?

Mr. SCHMIDLAPP. They did not.

Senator JOHNSON. Did Chase-Harris-Forbes participate in that?

Mr. SCHMIDLAPP. No, sir. In fact all of this financing was done before the formation of Chase-Harris-Forbes.

Senator JOHNSON. All right. In the second loan that was made did the Chase Securities Co. participate?

Mr. ANDERSON. May I answer that, Senator?

Senator JOHNSON. Surely.

Mr. ANDERSON. In the second loan, which was the $50,000,000 5½ per cent public works serial certificates, the Chase bank formed a purchase group to take over from itself the liability to distribute these securities from time to time.

Senator JOHNSON. All right. The Chase bank formed the group?

Mr. ANDERSON. Yes.

Senator JOHNSON. It had the contract?

Mr. ANDERSON. Yes.

Senator JOHNSON. Its contract was at what? They were to pay what?

Mr. ANDERSON. To the Government?

Senator JOHNSON. Yes.

Mr. ANDERSON. They were to receive from the Government 1 per cent stand-by commission on the $50,000,000.

Senator JOHNSON. All right. Was there a specific rate fixed for the sale of the bonds?

Mr. ANDERSON. There was a specific rate fixed for the price at which the deferred payment works certificates were to be converted into serial certificates. That was 1.80 per cent.

Senator JOHNSON. Yes; that was explained this morning by your colleague.

Mr. ANDERSON. That was explained this morning.

(At this point Mr. Williams made a suggestion to Mr. Anderson.)

Senator JOHNSON. A little louder, please. I am perfectly willing that all three of you should participate in this discussion. I have nothing to conceal from you or from anybody else in this matter. I am trying to get details if I can of a situation that exists in the flotation of loans that may, from the standpoint, you know, of the man who hasn't anything, be a system that ought to be remedied, and I am looking forward ultimately to providing a remedy for the situation that I think exists.

Mr. WILLIAMS. What happened in this case, Senator, was the Chase Bank advanced the full amount of the deferred payment works certificates which it acquired from contractors.

Senator JOHNSON. Exactly.

Mr. WILLIAMS. And these certificates were converted into serial certificates par for par. So answering your question directly, the bank paid the Cuban Government par for the certificates which it received, less the commission of 1 per cent of the $50,000,000, and the conversion commission of 1.80.

Senator JOHNSON. Who received that commission?

Mr. ANDERSON. I can run right through this account here, which shows exactly what you are getting at, I think.

Senator JOHNSON. What I am getting at is this, gentlemen. There is no secret about it. With its left hand the bank makes a loan to a South American country—I am not speaking of your institution particularly—this bank making a loan with its left hand to a South American country gives it over to its right hand, which constitutes an investment trust, which thereupon proceeds to do what is essential in the loan and the like? Is that the way the business was done in this Cuban loan?

Mr. ANDERSON. I would not say exactly that.

Senator JOHNSON. Well, I will call the method something else. Call my hands my feet. We might get at it in that fashion.

Mr. ANDERSON. Well, I can show you just how this transaction was handled from the time the bank signed the contract.

Senator JOHNSON. Very well. I will not interrupt you.

Mr. ANDERSON. This purchase group which I spoke of included the Chase National Bank, 13⅓ per cent interest; Chase Securities Corporation, 13⅓ per cent interest; Blair & Co. (Inc.), 26⅔ per cent interest; the Equitable Trust Co. of New York, 26⅔ per cent interest; Continental National Co., 20 per cent interest. That was the purchase group.

The 1 per cent commission on the $50,000,000, or the amount of $500,000, after deduction of $125,000 for expenses—the remaining amount being $375,000—was distributed to this group on the basis of their interest in that group. So that on that transaction the Chase Bank received $50,000 and Chase Securities Corporation received the same amount, $50,000. The other participants received the $275,000 remaining, in proportion to their interest. In other words, Blair & Co. (Inc.) would have received 26⅔ per cent. That is the originating commission.

Senator JOHNSON. You are taking the originating commission. Where did the bonds go?

Mr. ANDERSON. Now of those deferred payment works certificates $20,000,000 were converted into serial certificates and offered to the public. That first offering was in October, 1928. This purchase group that I have spoken of purchased at 98.20, which is par less the 1.80 commission. $10,000,000 of 5½ per cent serial certificates, of which $6,250,000 were due December 31, 1931, and $3,750,000 on June 30, 1932. This purchase group sold those certificates to a selling group at a price of 98¾.

The CHAIRMAN. What is that? 98¾?

Mr. ANDERSON. 98¾. The purchase group therefore had a gross spread on that $10,000,000 of 0.55 per cent, or $55,000. That is their gross spread between their purchase price and the price at which they turned them over to the selling group.

Senator JOHNSON. Yes. Who were the selling group?

Mr. ANDERSON. The selling group in this case was composed of 336 banks and dealers throughout the country.

Senator JOHNSON. Yes?

Mr. ANDERSON. After deducting the usual expenses of distribution, which amounted to approximately $37,200, the net profit of the purchase group was approximately $17,800. On the basis of their respective participations in this group, Chase Securities Corporation received $2,374.72 and the Chase Bank received a net profit in that purchase group of this same amount, $2,374.72. The other participants received their proportionate interest of this $17,800 that was left to be distributed.

Now the selling group, which was managed by Chase Securities Corporation, Blair & Co. (Inc.), Equitable Trust Co., and Continental National Co., consisted of approximately 336 banks and dealers throughout the United States. This group offered the serial certificates to the public at 94¾, which gave the members of this selling group a selling compensation of 1 per cent. They bought them at 98¾ and sold them at 99¾. So the participants in that group received a 1 per cent commission. Out of that 1 per cent, one-fourth of 1 per cent was reallowable to dealers, banks, investment companies, insurance companies, and other institutions of like character, which is the usual practice in distributing securities.

The Chase Securities Corporation was allotted $750,000 of the certificates for their New York office, and had $1,125,000 for their London office.

In the selling of these certificates Chase Securities Corporation realized a loss of $4,417.50; that is, they took these bonds down to sell, and between the time they took them down and the time they finally distributed them the markets had probably fallen off so what they sold them at was less than what they bought them at.

Senator JOHNSON. Have you got any on hand?

Mr. ANDERSON. Yes. That was in the record this morning.

Senator JOHNSON. Yes; that was in the record this morning.

The CHAIRMAN. Let me see if I understand it. There was 4.35 between the price of the purchase and for what it was ultimately sold?

Mr. ANDERSON. That is another operation, Mr. Chairman. That is the third operation. This one that I am speaking of——

The CHAIRMAN. Just a moment. First there was 1 per cent, and then 1.80 per cent, and 0.55 per cent, and now this one is 1 per cent? That makes 4.35 total?

Mr. ANDERSON. Well, the total is 1.80.

The CHAIRMAN. Well, that is 1.8.

Mr. ANDERSON. Yes. That is the gross spread.

The CHAIRMAN. That is the first?

Mr. ANDERSON. That is the gross spread.

The CHAIRMAN. Well, then, this would be 3.35.

Mr. ANDERSON. The actual compensation—there was 1 per cent paid on the $50,000,000, which covered the whole $50,000,000.

The CHAIRMAN. Yes.

Mr. ANDERSON. That is not taken into consideration on these $20,000,000 which were issued to the public. These were a part of that total amount of $50,000,000. Now, just what I was arriving at here is the break-up of that 1.80, which is the——

The CHAIRMAN. Then you will give just what the spread is from the time of the purchase price until the time it was sold to the ultimate consumer?

Mr. ANDERSON. I have already given that here on this 1.80 split up there. They were bought at 98.20.

The CHAIRMAN. Bought at 98.20; yes.

Mr. ANDERSON. And they were sold at 99¾.

The CHAIRMAN. That is, sold to the first——

Mr. ANDERSON. Sold to the public.

The CHAIRMAN. Sold to the public?

Mr. ANDERSON. They were sold to the first group at 98¾.

The CHAIRMAN. In other words, there was .55——

Mr. ANDERSON. That is the .55.

The CHAIRMAN. Yes; that is what I wanted to get at.

Mr. ANDERSON. Then the Chase Securities Corporation received $7,625 selling compensation for account of the New York office, and $11,250 for account of the London office, out of which $6,575 was paid out in re-allowances. Chase Securities Corporation therefore received a net selling compensation of $12,300.

Senator JOHNSON. What do you mean by "re-allowances"?

Mr. ANDERSON. That is the one-fourth I spoke of. When you sell to an institution you allow them one-fourth of your 1 per cent compensation.

Senator JOHNSON. Well, the regular course of business is for the contract to be made by the particular banking house that deals with the foreign government? Then it makes up a step-up price to a small coterie who constitute the first syndicate?

Mr. ANDERSON. It might not be a step-up price. It might be the original price.

Senator JOHNSON. It might be, but the testimony taken here in nearly every instance indicates there was a step-up price. It might be possible that there would not be. I can recognize that.

Mr. SCHMIDLAPP. In this Cuban financing there was not a step-up.

Senator JOHNSON. Well, there was in part of it?

Mr. SCHMIDLAPP. Not on the formation of the original group.

Mr. ANDERSON. In distributing there is a step-up?

Mr. SCHMIDLAPP. In distributing there is a step-up.

Senator JOHNSON. Yes.

The CHAIRMAN. That is where I thought the error occurred, Senator, when I asked the question. I thought there was also that step-up that you spoke of, but he says now there was not.

Senator JOHNSON. In the last issue of bonds that you were dealing with over there, all of them have not yet been issued, have they?

Mr. SCHMIDLAPP. No. There are still 40,000,000 of them unissued.

Senator JOHNSON. Where are they?

Mr. SCHMIDLAPP. They are in the treasury of the Cuban Government.

Mr. WILLIAMS. They have not been executed yet. They are in the possession of the bank-note company.

Senator JOHNSON. They are in the possession of whom?

Mr. WILLIAMS. Of the bank-note company that prepared them.

Senator JOHNSON. In the possession of the bank-note company; they have not been printed?

Mr. WILLIAMS. They have been engraved, but not executed.

Senator JOHNSON. Are there any of them that are being utilized, so far as you are aware, at all?

Mr. WILLIAMS. No.

Senator JOHNSON. Any of them being pledged?

Mr. WILLIAMS. No.

Mr. SCHMIDLAPP. They are not executed.

Mr. WILLIAMS. Under the terms of the Cuban Government they were to hold these reserves of $40,000,000 of bonds in their own portfolio, and as and when issued to apply the proceeds to the $20,000,000 credit.

Senator JOHNSON. Exactly. Have you copies of the agreements that were made with the Cuban Government?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. Will you produce them, please, for the record?

Mr. ANDERSON. There is the first one. There is the second.

Mr. WILLIAMS. There was an agreement amending that one. You ought to have that, too.

Mr. ANDERSON. That is an amendment to the first one. There is the second one. And there is the third one.

Senator JOHNSON. I ask, Mr. Chairman, that these be inserted in the record as the agreements entered into between the Chase Bank and the Cuban Government.

The CHAIRMAN. Without objection they may be so inserted. Would you like these returned to you?

Mr. ANDERSON. We would appreciate it if, when you are through with them, they might be returned to us.

Senator JOHNSON. They are photostatic copies.

Mr. ANDERSON. The first two are photostatic copies; the others are printed copies.

(The following agreements are here printed in the record in full: Agreement dated February 19, 1927; agreement dated May 31, 1928; supplemental agreement dated June 22, 1928; agreement dated February 26, 1930, and agreement dated March 5, 1931.)

NO. 142 AGREEMENT

In the city of Habana, Republic of Cuba, on the 19th day of February, 1927, before me, Dr. Conrado Ascanio y Suarez, notary public of the college and district of this city, of which I am a resident, and in which I have an office open in the building No. 128 Perfecto Lacoste Street, in the presence of the witnesses, Messrs. ——— and ———, residents of this city, without disqualification to act as such, appear in the Presidential Palace, where I have been requested to constitute myself.

Dr. Enrique Hernandez y Cartaya, the secretary of treasury of the Republic, of legal age, married, lawyer, native of the Province of Habana, and resident of this city, in the building without number, Eleventh Street, between H and I, borough of Vedado;

Dr. Carlos Miguel de Cespedes y Ortiz, secretary of public works of the Republic, of legal age, married, lawyer, native of the Province of Matanzas, and a resident of this city in the building No. 33 O'Reilly Street, actually Presidente Zaynas.

Mr. Mario Seiglie y Martinez, of legal age, married, banker, native of the Province of Santa Clara, and a resident of this city, in the building No. 86 Aguiar Street.

I, the notary, certify to being acquainted with the parties who appear, and to being informed by their declarations of their occupations and residences, nothing to the contrary being known to me.

Dr. Enrique Hernandez y Cartaya and Dr. Carlos Miguel de Cespedes y Ortiz appear in this act in the name and in representation of the Republic of

Cuba, and in their respective characters of secretary of treasury and secretary of public works, which high offices they at present respectively fill, under and in pursuance of powers and authority conferred upon them by executive decree No. 2033 of the national executive, dated the 30th day of December, 1926, and published in the Gaceta Oficial on the 4th day of January, 1927, to all of which I, the notary, certify.

Mr. Mario Seiglie appears in this act in the name and in representation of, and in his character of attorney in fact of the bank, called in English, "The Chase National Bank of the City of New York," and in Spanish "El Banco Nacional Chase de la Ciudad de Nueva York," a national banking association organized and existing under and in accordance with the laws of the United States of America, with its principal office in the city and State of New York, United States of America, and a branch office in this city, establishing such character by the special power of attorney executed in the city of New York, United States of America, on the 24th day of January of the present year, before the notary, Mr. Thomas R. Strahan, of the city, county, and State of New York, United States of America, which, duly legalized by the consul general of the Republic of Cuba in said city of New York and by the department of state of this nation, will be attached at the end of the present instrument, the appearer assuring me under his strictest responsibility that said public document has not been revoked, suspended, or limited in any manner whatever and is now in full force and effect.

The appearing parties assure me, the notary, that they are in the full enjoyment and exercise of their respective civil rights, and I, the notary, find them with the legal capacity necessary for the execution of this agreement.

EXPOSITION

The exponents, Drs. Cartaya and Cespedes, state as follows:

1. The national executive, in discharge of the duty imposed upon him by the public works law of July 15, 1925, to endeavor to cause the public works of greatest importance or necessity to be constructed within a period of four years, has determined, by executive decree No. 1338, dated August 23, 1926, that the central highway should be constructed, and in order to make this possible within the limitations of the public works law, the national Executive, pursuant to and in exercise of the powers and authority conferred upon him by the public works law to adopt the system or method of procedure considered by him to be most efficacious for the purpose of constructing the public works, by said executive decree No. 1338, authorized the board of award to receive proposals relative to the financing of part of the cost thereof on a basis to bring such cost within the calculated revenues of the special fund for public works created by said law, and charged the secretary of public works with the execution of such decree.

2. The secretary of public works, acting in pursuance of executive decree No. 1728, by official invitation, invited proposals for financing payments to the contractors for work completed under the construction contracts up to an aggregate principal amount of $10,000,000, and the Chase National Bank, of the city of New York, in response to said invitation and complying with the conditions thereof, submitted its proposal to the secretary of public works, dated the 30th day of November, 1926, to finance such payments up to said maximum aggregate principal amount.

3. The national executive, acting in pursuance of the authority conferred upon him by the constitution and laws of the republic, by executive decree No. 2033, dated the 30th of December, 1926, and published in the Gaceta Oficial on the 4th day of January, 1927, awarded to said bank the financing of payments to the contractors for work completed under their construction contracts up to a maximum aggregate principal amount of $10,000,000, under the terms and conditions of said proposal, as explained by the bank, and of said decree. The National executive by said decree charged the secretary of treasury and the secretary of public works with the execution thereof.

The appearers, in representation of their respective principals, in order more clearly to establish the rights and obligations of the parties, proceed to execute and formalize this agreement under the terms and conditions expressed in the following articles, in accordance with the terms and conditions of said proposal of the bank, as explained, and of said decree of the national executive.

ISSUE AND REGISTRATION OF CERTIFICATES

ARTICLE 1. The Republic of Cuba (hereinafter called the Republic) may issue and deliver to contractors constructing the central highway, under contracts entered into between them and the republic in conformity with said law, deferred payment work certificates (hereinafter called certificates) up to but not exceeding $10,000,000 aggregate principal amount, for work completed by such contractors under and in accordance with their respective construction contracts and accepted by the republic. Such certificates may be issued and delivered to the contractors during the period beginning July 1, 1927, and ending June 30, 1930, whenever and in such principal amounts, within said limit, as the republic shall consider necessary or advisable in the execution of such contracts.

ART. 2. The certificates and the indorsements thereon shall be in substantially the following forms, with all blanks properly completed, to wit:

REPUBLIC OF CUBA DEPARTMENT OF PUBLIC WORKS DEFERRED PAYMENT WORK CERTIFICATE

General plan of public works.—Law of July 15, 1925.

Work of ——— contract dated —— of ———, 19—. Contractor ——— Statement of work number ———. Total of work done covered by this certificate up to the — of ———, 19—. Amount ———. Items ———. Class of work ———. Contract price ——— dollars — cents. Total amount ———. Amount of 10 per cent retained under contract ———. Amount difference in favor of the contractor ———. Net amount of the work executed covered by this certificate, the form of payment of which is regulated by contract of ——— under article 10 of the public works law ———.

I certify that the present liquidation is a true statement of work done according to this certificate, up to the day of measurement ———, 19—, and according to the prices and conditions stipulated in the contract, the net amount of work done is as stated. ——— of ———, 19—.

——— ———
Contractor.

Examined and approved.

——— ———
Chief Engineer.

Issued to ———, contractor, under contract executed between the Republic and such contractor before notary, ———, on the ——— day of ———, 19—, under No. ———, for work completed and accepted in construction of ———. Dated ———, 19—. Due ———, 19—.

The Republic of Cuba (hereinafter called the Republic) certifies that the amount for work completed by such contractor covered by this certificate under the contract above described, according to determination made on this date, and accepted by the Republic, is the principal amount of ——— dollars, the payment of which shall be effected by the Republic during the fiscal year 1930-31.

The Chase National Bank of the city of New York (hereinafter called the bank), under the terms and subject to the conditions of the agreement executed between the Republic and the bank before the notary, Conrado Asenio y Suarez, on the ——— day of ———, 19—, under No. ——, will pay to the contractor above named the principal amount of this certificate, without discount, upon the execution by such contractor of the assignment hereof and the registration of such assignment by the secretary of treasury or his authorized representative, in the forms indorsed hereon, and the delivery hereof to the bank at its branch office in the city of Habana.

The Republic will repay to the bank, as registered assignee and in subrogation to the rights of such contractor, or on its order, on the ——— day of ———, 193—, the principal amount of this certificate, in official gold coin of or equal to the standard of weight and fineness as it existed on the 30th day of December, 1926, and will pay interest thereon, in like gold coin, semiannually on the 30th day of June and the 31st day of December in each year, at the rate of 6 per cent per annum from the date of such payment by the bank to said contractor (such payment and the date thereof to be conclusively proved by

the assignment receipt executed by said contractor and registered by the secretary of the treasury in the form indorsed hereon) until repayment of such principal amount. Such principal and interest are payable at the principal office of the bank in the Borough of Manhattan, city and State of New York, or, at the option of the Republic, at the branch office of the bank in the city of Habana, in which latter event the Republic in each instance will pay, in addition, the amount of any tax then established by or within the Republic, which shall be payable by the bank upon or in connection with the transfer of the amounts so paid to New York City.

This certificate is issued as provided in and is entitled to the benefits of the above-mentioned agreement between the Republic and the bank, to which reference is made for a further statement of the nature of the security and of the terms and conditions upon which this certificate is issued, received, assigned, and held.

As provided in said agreement, this certificate, when assigned and registered as herein and thereon provided, represents and constitutes the irrevocable and incontestable contract obligation of the Republic to pay the principal amount hereof and interest thereon to such registered assignee or on its order, as and when due in accordance with the terms hereof and of said agreement and in the manner herein and therein provided, without right of reduction or counterclaim for any reason whatsoever, such payments being secured, in the case of the principal amount hereof and the interest thereon, by a first preferential right to 90 per cent of the normal revenues, estimated at $18,000,000 according to decree 1338 of 1926, to be derived from the taxes and economic resources specified in Articles XII to XIX, both inclusive, for the period fixed in Article XX of the public works law of July 15, 1925, in the fiscal year, beginning July 1, 1930, and the same preferential right in the subsequent fiscal years of the 10-year period specified in said law, to the extent necessary, until the payment in full of such principal and interest, and in the case of the installments of interest accruing in each fiscal year of the intervening period ending June 30, 1930, by a first preferential right to the necessary part of the estimated normal revenues to be derived in each such intervening year.

This certificate is not assignable or transferable by the contractor above named, except to the bank for its payment in cash as provided herein and in said agreement, and, if assigned, transferred, pledged, or otherwise disposed of by said contractor to any other person or entity, this certificate and all rights under it shall thereby become without value or effect.

This certificate shall not be valid or obligatory for any purpose or entitled to any benefit or security under said agreement until it shall have been signed on behalf of the Republic by its secretary of public works and registered by the secretary of the treasury or his duly authorized representative.

In witness whereof and in the name of the Republic of Cuba, I issue this certificate signed by me as secretary of public works and affix the seal of my department, this ——— day of ———, 19—.

REPUBLIC OF CUBA.
By ——— ———,
Secretary of Public Works.

[Form of registration]

This certificate, issued under agreement between the Republic of Cuba and the Chase National Bank, of the city of New York, has been registered in the department of treasury this ——— day of ———, 19—, at folio —— of the corresponding register, registration No. ——.

——— ———,
Secretary of Treasury.
By ——— ———,
Duly Authorized Representative.

[Form of receipt and assignment by contractor]

The undersigned, being the contractor named in the within certificate, in consideration of the principal amount thereof paid without any discount on the date hereof by the Chase National Bank, of the city of New York, receipt whereof is acknowledged, hereby irrevocably assigns and transfers the within certificate to said bank, but without right of recourse against the undersigned.

and by this assignment subrogates said bank to all rights and interests of the undersigned in and under said certificate.

Dated the ——— day ———, 19—.

———— ————,
Contractor.
By ———— ————,

The foregoing assignment is registered in the department of the treasury this ——— day of ———, 19—, at folio —— of the corresponding register, registration No. ——.

———— ————,
Secretary of the Treasury,
By ———— ————,
Duly Authorized Representative.

ART. 3. The certificates shall be numbered 1 and consecutively upwards, and shall be executed in the name and on behalf of the Republic by its secretary of public works, on the basis of work, in accordance with measurements made, completed by the contractors and accepted by the Republic under and in accordance with contracts entered into between the Republic and such contractors in conformity with the public works law for the construction of the central highway, and shall thereupon be delivered to the secretary of treasury for registration. The secretary of treasury or his duly authorized representative shall then inscribe such certificates, registering each one in his department in the name of the contractor specified therein, and shall deliver them to the contractors entitled thereto, for assignment by such contractors to the bank as hereinafter provided. The certificates shall be issued in duplicate, and the original, signed and registered as herein provided, shall be delivered to the contractor, and the duplicate shall be delivered to the secretary of treasury and kept in the records of his department. Only such of the certificates as shall be registered as provided in this section shall be valid or obligatory for any purpose, and such registration shall be conclusive evidence that the certificate so registered has been duly issued hereunder and may be assigned to the bank as hereinafter provided.

The secretary of public works and the secretary of treasury, respectively, shall file with the bank at its branch office in the city of Habana, prior to the issue of any of the certificates, specimens of their signatures; and the secretary of treasury in like manner shall file the names and specimens of the signatures of his representatives, who are duly authorized to act for him in registering the certificates; and the bank shall be entitled to accept and act upon any certificates signed and registered by such representatives of the Republic until notified in writing of their resignation or of the revocation of their authority.

ART. 4. The certificates shall bear as their date of issue the date on which they are signed by the secretary of public works. Each certificate shall mature and be payable on the 30th day of September or 31st day of December, 1930, on the 31st day of March or 30th day of June, 1931, as shall be determined by the Republic at the time of the issue thereof and expressed in such certificate. The certificates shall bear interest at the rate of 6 per cent per annum on the principal amounts thereof, from the respective dates on which the principal amounts thereof are paid by the bank to the contractors named therein until such principal amounts shall be repaid to the bank by the Republic. The date of payment by the bank of the principal amount of each certificate shall be conclusively proved by the date of the assignment of such certificate executed by the contractor named therein, in the form indorsed thereon, and registered by the secretary of treasury or his authorized representative.

ASSIGNMENT OF CERTIFICATES TO BANK AND PAYMENT OF PRINCIPAL AMOUNTS THEREOF TO CONTRACTORS

ART. 5. All the certificates shall necessarily be assigned and delivered to the bank, at its branch office in the city of Habana, by the contractors to whom they are respectively issued but without any right of recourse by the bank or any other person or entity against the contractors for the payment of the principal or interest of such certificates. Such assignment of each certificate shall be effected by the contractor named therein executing the assignment thereof in the form indorsed thereon and delivering such certificate to the bank, and the bank shall thereupon become and be subrogated to all the rights

and interests of the contractor under such certificate. The certificates shall not be assignable or transferable by the contractors to whom they are issued, except to the bank as herein and therein provided, and if any of the certificates shall be assigned, transferred, pledged or otherwise disposed of by the contractor named therein to any other person or entity, then such certificate shall thereby become without value or effect.

ART. 6. The bank agrees with the Republic that, subject to compliance by the Republic with the conditions of this agreement, it will pay to the contractors named in the respective certificates issued under and in accordance with this agreement, upon the delivery thereof to the bank at its branch office in the city of Habana any time in business hours during the period ending June 30, 1930, duly assigned by such contractor and registered by the secretary of treasury or his authorized representative, the principal amounts of such certificates without any discount up to but not exceeding in the aggregate $10,000,000, which is hereby agreed upon as the total principal amount of deferred payment work certificates that the Republic will issue while this agreement is in force, under contracts for the construction of public works authorized by the public works law, except such deferred payment work certificates as may be secured by the normal revenues to be derived in the fiscal years subsequent to the fiscal year 1930–31 and which, by their terms and the terms of the agreement under which they are issued, shall be subject and subordinate to the first preferential right to the payment of the principal and interest of the certificates issued under this agreement out of the necessary part of such revenues. The bank shall be fully protected in relying upon the assignment of the certificates when registered by the secretary of the treasury or his authorized representative as herein provided.

In so far as shall be practicable the certificates will be issued to the contractors and will be assigned and delivered by them to the bank on the first days of the month during said period, in principal amounts of $100,000 or multiples thereof, for convenience in keeping the accounts and computing the interest, and the secretary of public works will arrange to advise the bank from time to time of the certificates about to be issued and the principal amounts thereof, at least five days prior to the issue of such certificates, in order that the bank may arrange for the transfer of any necessary funds from its principal office in New York City to its branch office in Habana and thus facilitate prompt payment of the principal amounts of such certificates to the contractors.

For the purpose of facilitating the registration of the certificates in the names of the contractors and the registration of the assignments thereof in the name of the bank, the secretary of treasury will keep suitable registration books and will arrange to have a representative at the branch office of the bank in the city of Habana, duly authorized to register the certificates and the assignments thereof as and when presented for that purpose. The bank agrees to provide suitable office facilities for such representative at its branch office, without charge to the Republic.

PAYMENT OF CERTIFICATES BY THE REPUBLIC—SECURITY

ART. 7. The Republic agrees that it will repay to the bank as registered assignee and in subrogation to the rights of the contractors, or on its order, the principal amounts of all certificates issued to contractors and assigned by such contractors as herein provided, on the maturity dates specified in the respective certificates, in official gold coin of or equal to the standard of weight and fineness as it existed on December 30, 1926, and that it will pay to the bank interest on the principal amounts the 30th day of June and the 31st day of December in each year, at the rate of 6 per cent per annum from the date or dates on which the principal amounts of the respective certificates shall have been paid by the bank to the contractors named therein, which date or dates shall be conclusively proved by the assignment and receipt executed by the contractors and registered by or on behalf of the secretary of treasury in the form indorsed on the certificates, until the principal amounts thereof shall be paid in full. Such principal and interest shall be paid by the Republic at the principal office of the bank in the borough of Manhattan, city and State of New York, or, at the option of the Republic, at the branch office of the bank in the city of Habana, in which latter event the Republic shall pay in each instance, in addition, the amount of any tax then established by or within the

Republic which shall be payable by the bank upon or in connection with the transfer of the amounts so paid to the city of New York.

ART. 8.—The Republic agrees that the certificates to be issued by it to the contractors and assigned by such contractors to the bank as herein provided shall represent and constitute the irrevocable and incontestable contract obligations of the Republic to repay the amounts paid by the bank to the contractors as evidenced thereby with interest, as and when due in accordance with the terms thereof and of this agreement and in the manner therein and herein provided, subject to no offsets or counterclaims.

ART. 9. The certificates issued by the Republic to contractors and assigned by such contractors to the bank, as herein provided, shall have and be entitled to, and the Republic hereby creates and confers a first preferential right to 90 per cent of the normal revenues, estimated at $18,000,000 according to decree 1338 of 1926, to be derived from the taxes and economic resources specified in Articles XII to XIX, both inclusive, for the period fixed in Article XX of the public works law, in and during the fiscal year commencing July 1, 1930, and ending June 30, 1931, and the same preferential right in each subsequent fiscal year of the 10-year period specified in the public works law, to the extent necessary, until the principal of and interest on all such certificates shall be paid in full, as a special guaranty and security for the payment of such principal and interest as and when the same shall become due and payable in accordance with the terms thereof and of this agreement. The Republic also creates and confers a preferential right to the necessary part of 90 per cent of the estimated normal revenues to be derived in each fiscal year of the intervening period, beginning on July 1, 1927, and ending on June 30, 1930, as a special guaranty and security for the payment, as and when due, of the installments of interest accruing in each such intervening year and for the payment of the commission payable to the bank in each such year for its commitment and services under this agreement. In order to give effect to such guaranty and security, the Republic will set aside in a special account in each fiscal year, 90 per cent of such revenues or the necessary part thereof as and when collected in such year, until the amount so set aside shall equal the amount payable in each year for principal or, as the case may be, for interest and/or commision, and will apply the amount so set aside to the payment of said principal, interest, and/or commission when and as the same shall be payable pursuant to the terms of the certificates and the provisions of this agreement.

COMMISSIONS PAYABLE TO BANK

ART. 10. As compensation for its commitment and services under this agreement the bank shall receive from the Republic, and the Republic agrees to pay to the bank, $100,000 at the time of the execution and delivery of this agreement, $100,000 on the 1st day of July, 1928; $100,000 on the 1st day of July, 1929; and $100,000 on the 1st day of July, 1930, each payment to be made in official gold coin of or equal to the standard of weight and fineness as it existed on December 30, 1926.

MISCELLANEOUS

ART. 11. For the purpose of keeping the bank informed of the construction contracts under which certificates may be issued to the contractors and assigned to the bank, as contemplated in this agreement, the Republic agrees that as any such contracts are awarded it will deliver to the bank a copy thereof, certified by the secretary of public works.

ART. 12. The bank will at all times keep complete and accurate records of its operations under this agreement and the secretary of treasury or any person designated for that purpose by him or by the President of the Republic shall have access thereto at all times during the business hours of the bank.

ART. 13. Upon payment in full of the principal and interest of all of the certificates issued to the contractors and assigned to the bank as herein provided, at or after their respective dates of maturity, and of all amounts to be paid to the bank as compensation for its commitment and services hereunder, and upon the performance by each party of their respective obligations hereunder, this agreement shall cease and be at an end, and the Republic and the bank shall be released from any further liability hereunder, but until so terminated, this agreement shall be binding upon the respective parties hereto accord-

ing to its terms and can be amended or supplemented only by the written consent of both parties. So long as this agreement shall be in effect the Republic agrees that the taxes and economic resources established by the public works law, the collection of which shall be necessary for compliance with this agreement, will remain in force and will be collected as provided in said law.

ART. 14. All notarial charges and all taxes payable in connection with or as a result of the execution of this agreement, with a certified copy thereof for the secretary of treasury, another for the secretary of public works and another for the Chase National Bank of the city of New York, shall be for the account of and shall be paid by the Republic.

ART. 15. The parties hereto designate the city of Habana as the place where all notifications, citations, and other judicial and extrajudicial notices emanating from this agreement are to be served, and submit themselves to the judges and tribunals of the Republic in said city, the bank hereby expressly waiving its own domicile.

ART. 16. Notices under this agreement from the bank to the Republic shall be addressed to the secretary of treasury and to secretary of public works and shall be sufficiently given if sent by registered mail to the secretary of treasury and the secretary of public works; notices from the Republic to the bank shall be sufficiently given if signed by the secretary of treasury and the secretary of public works and delivered to the bank at its branch office in the city of Habana.

SECURITY FOR FAITHFUL PERFORMANCE

ART. 17. The appearer, Mr. Seiglie, in representation of the bank, delivers in this act to the secretary of public works its certified cashier's check for $1,000,000 as security for the faithful performance by the bank of its obligations under this agreement, the receipt of which is hereby acknowledged by the secretary of public works on behalf of the Republic, to which I, the notary certify, and the secretary of public works returns in this act to said representative of the bank the certified cashier's check for $500,000 deposited by the bank at the time of the submission of its proposal as hereinabove recited, the receipt of which is acknowledged by said representative of the bank, to which I, the notary, also certify.

The bank shall have the right to recall and the Republic agrees to return such security in the form deposited, pro rata as the bank shall pay the principal amounts of the certificates to the contractors named in such certificates upon the assignment thereof to the bank as herein provided, in the ratio of $1,000 of security returned for each $10,000 principal amount of certificates paid to the contractors; and on July 15, 1930, unless the bank shall then be in default hereunder, the entire balance, if any, of such security in the form deposited shall be returned to the bank.

The certified cashier's check delivered in this act by the representative of the bank to the secretary of public works shall not be collected for a period of 30 days after the date of the execution of this agreement, in order that the bank at any time during said period may substitute in its place, in whole or in part, an equal principal amount of cash or bonds of the Republic.

It is also agreed that the bank shall have the right, at any time after the expiration of said 30-day period, to substitute in place of all or any part of the security then deposited hereunder, an equal principal amount of bonds of the Republic. The bank, unless in default hereunder, shall have the right to collect and receive all interest accruing upon any obligations deposited by it as security and the secretary of the treasury or secretary of public works, as the case may be, will deliver to it the coupons for such interest as they severally mature, or, if in registered form, without coupons, will deliver to the bank any orders necessary for the collection of such interest.

PAYMENT OF FIRST INSTALLMENT OF COMMISSION

ART. 18. The appearer, Mr. Seiglie, in representation of the bank, receives in this act, to its entire satisfaction, from the hands of the secretary of treasury of the Republic, check for the sum of $100,000 in payment of the first installment of the compensation for its commitment and services as provided in article 10 hereof, the receipt of which is acknowledged by said representative of the bank in favor of the Republic, to which I, the notary, certify.

CONCLUSION

The appearers, Dr. Enrique Hernandez y Cartaya and Dr. Carlos Miguel de Cespedes y Ortiz, in their respective characters of secretary of treasury and secretary of public works of the Republic, and Mr. Mario Seiglie y Martinez in his character of attorney in fact and in representation of the Chase National Bank of the city of New York, state that they accept on behalf of their respective principals all of the rights and obligations contained in the foregoing articles.

Thus they stated and declared in my presence and in the presence of the witnesses above mentioned, who state that they are not legally disqualified to act as such, nothing to the contrary being known to me.

I, the notary, gave to the parties appearing the pertinent legal admonitions and they stated that they were fully advised of the same.

I, the notary, certify that I know the appearers, their occupations and residences; that they have stated all that is contained in this document; and I have informed them and the witnesses of their right to read it themselves and they renounced such right; that I have read it to them in its entirety at their request; and that being in accord with the contents thereof the appearers ratified the same in behalf of their respective principals and signed together with the witnesses.

Signatures of parties, witnesses, and notary follow.

No. 99.—DEED No. 63 OF THE PUBLIC WORKS DEPARTMENT.

In the city of Habana, this 31st day of May, 1928.

Before me, Dr. Regino Truffin y Perez de Abreu, lawyer and notary public of the district and associations of this capital, with residence herein.

Appear: Dr. Santiago Gutierrez de Celis y de la Cruz, native of San Cristobal, Province of Pinar del Rio, of lawful age, married, lawyer, Secretary of the Treasury of this Republic, and resident of this capital, at No. 263 Banos Street, in the borough of Vedado.

Dr. Carlos Miguel de Cespedes y Ortiz, native of Matanzas, secretary of public works of this Republic and resident of this capital, at No. 33 Presidente Zayas Street.

And Mr. Jose Emilio Obregon y Blanco, of lawful age, married, banker, native, and resident of this city, at No. 80 Aguiar Street.

PERSONALITIES

Drs. Santiago Guiterrez de Celis y de la Cruz and Carlos Miguel de Cespedes y Ortiz are parties hereto in the name and representation of the Republic of Cuba, and in their respective characters of secretary of the treasury and secretary of public works, respectively, by virtue of and in conformity with the authorization conferred on them by presidential decree No. 497 of April 13 last, published in the Official Gazette of this Republic on the 17th of said month, to which I certify, as also that both parties are now in the possession and exercise of their respective offices, by virtue whereof they are parties hereto; and

Mr. Jose Emilio Obregon y Blanco is a party hereto in the name and in representation, and in his character of delegate attorney-in-fact of the Chase National Bank of the city of New York, in Spanish "banco National Chase de la Ciudad de Nueva York," which is a banking corporation organized and existing in accordance with the laws of the United States of America, with office in this capital, making use of the power of attorney which said corporation conferred on Mr. William Ignacious Quealy, on June 30, 1927, before Notary Public John F. Brosnan, of the city of New York, the original whereof, duly legalized, and with its translation into Spanish, was protocolized before my colleague, Dr. Conrado Ascanio y Saurez, on August 22, 1927, under No. 672, which power of attorney was integrally delegated by the said William Ignacious Quealy in favor of the party hereto, Mr. Jose Emilio Obregon y Blanco, by means of another notarial document executed before the said notary Ascanio y Suarez, on the 1st day of December, 1927, under No. 700, which power of attorney I am assured by the said party hereto, Mr. Obregon, who binds himself to that effect, has not been revoked, suspended, or limited in any manner, and contains ample powers for the execution of this document.

They assure me they are in the full enjoyment and exercise of their civil rights, have in my judgment the legal capacity necessary for the execution of this document, and they state:

First. That the Chief Executive, in the performance of the duties imposed on him by the law of public works, of July 15, 1925, to arrange for construction of the public works of greatest importance or necessity, within a period of four years, specified among those, by Executive Decree No. 1338, of August 23, 1926, the central highway, and by notarial document No. 69, of January 18, 1926, the construction of the capitol, and in order to make this possible within the limitations of the law of public works, the Chief Executive, in fulfillment and exercise of the faculties and authorizations conferred on him by the law of public works, to adopt the system or method of procedure which is most efficacious for the purpose of constructing the said public works, by his aforesaid Executive Decree No. 1338 authorized the board of awards to receive proposals for the financing thereof, on the basis of limiting the cost thereof to the estimated revenues of the special public works fund, created by said law, and charged by the secretary of public works with the execution of said decree.

Second. That the secretary of the public works, proceeding in conformity with Executive Decree No. 1728, by official call, asked for proposals for the financing of the payments due to the contractors for work completed in accordance with their construction contracts, up to a total principal amount of $10,000,000, and the Chase National Bank of the city of New York, in response to said request and complying with the conditions thereof, submitted its proposal to the Secretary of Public Works, on November 30, 1926, for the financing of said payments, up to the said maximum amount of principal.

Third. That the Chief Executive, proceeding in conformity with the authority duly conferred on him by the Constitution and the laws of the Republic, by Executive Decree No. 2033, dated December 30, 1926, and published in the Official Gazette of January 4, 1927, awarded to the Chase National Bank of the city of New York the financing of the payments to the contractors, for work completed by virtue of their construction contract, up to a maximum total as to principal of $10,000,000 on the terms and conditions of said proposal, and in which decree the chief executive charged the Secretary of the Treasury and the Secretary of Public Works with the execution thereof, and by reason thereof, the said two secretaries and the lawful representative of the Chase National Bank of the city of New York, in order to formally conclude the contract in a legal manner and to establish with greater clearness the rights and obligations of the parties, executed before notary Dr. Conrado Ascanio y Suarez, under date of February 19, 1927, under serial No. 43, the proper public notarial document, which contains the stipulations of that agreement, in accordance with the terms and conditions of the said proposal of said bank, as supplemented and explained in the said decree of the chief executive.

Fourth. That this same desire of the government to speed up and expedite the work on the central highway, has always extended to other works of great importance which are under way, among them being that of construction of the capitol or congressional palace, in this city; and the contract referred to in the preceding clause being under execution, as a result of the activity indicated, and the desire of the present administration not to further delay the termination of the capitol, or congressional palace, the chief executive, under date of April 3 of the present year, issued decree No. 497, previously referred to, published in the Official Gazette of this Republic, on the 17th of said month, in explanation of the one dated December 30, 1926, No. 2033, in the sense that the award to the Chase National Bank of the city of New York, of the financing of the work of construction of the central highway, for the payment of certificates of work, deferred or subrogated, would be only for the sum of $5,000,000, and that said bank would undertake the financing also of the work of construction of the capitol or congressional palace, to a maximum limit of $5,000,000, in like form and as a charge to the normal estimated revenues of the special public works fund, and all of the foregoing subject to the stipulations of the aforesaid notarial document No. 143, executed before notary Dr. Conrado Ascanio y Suarez, of this city, on February 19, 1927, which division has been accepted by all the central highway contractors, as is shown by a document executed before the undersigned notary and in his files, on the 10th of the present month of May, under No. 83 in series.

Fifth. That, the division referred to in the said decree No. 497 having been accepted by the central highway contractors, and the only ones interested in the matter in question being said contractor, the Cuban Government, and

the Chase National Bank of the city of New York, the representative of said banking institution declares, for his part, that he expressly accepts the said division, for all lawful purposes, and by virtue thereof the financing of the aforesaid $10,000,000, agreed upon, will be divided, without other alteration, half and half between the work of the central highway and that of the capitol or congressional palace, that is to say, in the proportion of $5,000,000 for the first of the said works and the other $5,000,000 for the second of said works, all under the same compacts and conditions contained in the said notarial document No. 143, executed before Ascanio y Suarez, on February 19, 1927, which compacts and stipulations are ratified and considered as here reproduced, for all lawful purposes, without it being understood that the rights and obligations imposed on each party in that document are modified or novated in any manner whatsoever.

All the parties, in their characters as indicated, add:

Sixth. That insofar as respectively concerns them, they accept the present notarial document, for all lawful purposes.

Seventh. That all the expenses and fees caused by the present document, with a certified copy for the Secretary of the Treasury, another for the department of public works, and another for the Chase National Bank of the city of New York, shall be for account and charge of the Republic of Cuba and shall be paid for by the latter.

Eighth. That they designate this city as the place for the service of all notifications, citations, and other judicial and extrajudicial steps to which this notarial document may give rise, and they submit themselves to the judges and tribunals thereof, the Chase National Bank of the city of New York expressly waiving its legal right of domicile, if otherwise.

I, the Notary, orally gave the parties the pertinent legal advice.

Witnesses are Enrique Varona y Rodriguez and Lorenzo Saladrigas y Heredia, of lawful age, residents of this city, and without legal exception to acting as such.

Thus the parties execute, in their respective characters, in my presence and in that of the aforesaid witnesses.

I, the notary, certify to acquaintance with the parties, their occupation and domicile; that they made the statement contained in the present document; that I read it to them, because of their waiver, integrally and at a single sitting; and that being in conformity with its contents the parties ratify it and sign it with the witnesses.

To all of which I certify. (Errata follows.) Santiago Gutierrez de Delis, C. M. Cespedes, J. E. Obregon, Enrique C. Varona, Lorenzo Saladrigas, Regino Truffin. There is a marginal note which states: Note: On this date I issued a copy in seven sheets for the Chase National Bank, on which I affixed in National revenue stamps (sic) which I canceled

Habana, May 31, 1928.

Attest:

TRUFFIN.

It agrees with its original which, under the No. 99 in series with which it is headed, is in the general current file of the notarial office in my charge, to which I have compared it. And for the Department of Public Works, I issue this copy, in seven sheets, under my seal, having made note of the issuance thereof on the margin of its matriz. Haban, on the date of its execution.

No. 114. SUPPLEMENTAL AGREEMENT BETWEEN REPUBLIC OF CUBA AND THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, DATED JUNE 22, 1928, RELATING TO FINANCING PAYMENTS TO CONTRACTORS UNDER PUBLIC WORKS LAW

In the city of Habana, Republic of Cuba, on the 22d day of June, 1928, before me, Dr. Regino Truffin y Perez de Abreu, counsellor at law and notary public of the district and college of this capital, of which I am a resident, and in which I have my office at Nos. 76 and 78 Cuba Street, appear in the presidential palace, where I have been requested to constitute myself:

Dr. Sr. Santiago Gutierrez de Celis y de la Cruz, Secretary of Treasury of the Republic of Cuba, of legal age, married, lawyer, native of the Province of Pinar del Rio, and a resident of this city at No. 263 Baños Street, borough of Vedado;

Dr. Carlos Miguel de Cespedes y Ortiz, Secretary of Public Works of the Republic of Cuba, of legal age, married, lawyer, native of the Province of

Matanzas, and a resident of this city, at No. 33 Presidente Zayas (formerly O'Reilly) Street; and

Mr. Jose Emilio Obregon y Blanco, of legal age, married, banker, and a native and resident of this city, at No. 86 Aguiar Street.

I, the notary, certify to being acquainted with the parties who appear, and to being informed by their declarations of their occupations and residences, nothing to the contrary being known to me.

Dr. Santiago Gutierrez de Celis y de la Cruz and Dr. Carlos Miguel de Cespedes y Ortiz appear in this act in the name and in representation of the Republic of Cuba (hereinafter called the Republic) and in their respective capacities as Secretary of Treasury and Secretary of Public Works, which high offices they at present respectively hold, under and in pursuance of powers and authorities conferred upon them by executive decree No. 849 of the national executive, dated the 31st day of May, 1928, and published in the Gaceta Oficial on the 1st day of June, 1928, to all of which I, the notary, certify.

Mr. José Emilio Obregon y Blanco appears in this act in the name and on behalf of and in his character of attorney in fact of the bank, called in English, "The Chase National Bank of the city of New York," and in Spanish, "El Banco Nacional Chase de la Ciudad de Neuva York" (hereafter called the bank), a national banking association organized and existing under and in accordance with the laws of the United States of America, with its principal office in the city and State of New York, United States of America, and a branch office in this city, establishing such character by the power of attorney executed by the bank in favor of Mr. William Ignatius Quealy in the city of New York, United States of America, on the 30th day of June, 1927, before Mr. John F. Brosnan, notary public of the city, county, and State of New York, United States of America, the original of which, duly legalized by the consul general of the Republic of Cuba in said city of New York, and by the department of state of this Republic, with its translation in Spanish, was protocolized before the notary of this city, Dr. Conrado Ascanio y Suarez, on the 22d day of August of the same year, under No. 572, which power was substituted in its entirety by the said Mr. William Ignatius Quealy in favor of the appearer, Mr. José Emilio Obregon y Blanco, by another deed executed before said notary, Dr. Conrado Ascanio y Suarez, on the 1st day of December, 1927, under No. 700, and Mr. Obregon, the appearer, assures me on his strictest responsibility that said power of attorney and said substitution have not been revoked, suspended, or limited in any manner whatsoever, paragraphs 1 and 2 thereof containing powers sufficient for the execution of this instrument, which I literally quote from a certified copy of said power that has been exhibited to me by the appearer and which I return to him and I, the notary, certify that said clause reads as follows:

"First. To maintain, conduct, and operate the branch bank of said bank, now established in the city of Habana, Republic of Cuba, and to carry on its business; to manage, control, and supervise said branch bank and any other branch banks which may now or hereafter be established by said bank in the Republic of Cuba, and its and their businesses, and all of said bank's properties, real, personal, or mixed, in the Republic of Cuba; and in connection with, and in fulfillment of, any power conferred, to do and perform, or cause to be done and performed, every act and thing necessary, appropriate or advisable to meet and comply with the requirements and regulations of any public or governmental authority constituted within the Republic of Cuba, for the establishment of said bank's legal status in the Republic of Cuba, and for the obtaining of any and all legal decrees of authorization that may be required by the laws of the Republic of Cuba, or by the regulations or requirements of its Government, or of any department or subdivision thereof, or by any governmental or public authority constituted therein, including specifically, but without limitation upon the general powers conferred, the power to accept limitations, required by the laws of the Republic of Cuba, upon the exercise in the Republic of Cuba of any rights conferred on said bank by its articles of association or by laws."

"Second. To negotiate with the Republic of Cuba or with any Province, municipality, or other governmental department or subdivision thereof, and its and their officials and accredited representatives, and to conclude by contract or otherwise any such negotiation, in regard to any matter affecting, or in any connection with, said bank's legal status in the Republic of Cuba or its business, or in regard to the loaning of money or granting of credit to, or

the obtaining or acceptance of concessions or privileges of any sort from, said Republic, Province, municipality, or other governmental department or subdivision, and to perform any and all contracts or commitments so made."

The parties hereto assure me, the notary, that they are in the full enjoyment and exercise of their respective civil rights, and I, the notary, find them with the legal capacity necessary for the execution of this agreement.

EXPOSITION

The exponents, Drs. Gutiérrez de Célis and Cespedes, state as follows:

First. That the national executive, in discharge of the duties imposed upon him by the public works law of July 15, 1925, to endeavor to cause the public works of greatest importance or necessity to be constructed within a period of four years, by executive decree No. 1338, dated August 23, 1926, authorized the board of awards to receive proposals relative to the financing of the cost of the central highway and other public works on a basis to bring such cost within the calculated revenues of the special fund for public works created by said law, and charged the Secretary of Public Works with the execution of said decree, and that the Secretary of Public Works, acting in pursuance of executive decree No. 1728, by official invitation, invited proposals for financing payments to the contractors for work completed under the construction contracts up to an aggregate principal amount of $10,000,000, and the bank, in response to said invitation and complying with the conditions thereof, submitted its proposal to the Secretary of Public Works, dated the 30th day of November, 1926, to finance such payments up to said maximum principal amount.

Second. That the national executive, acting in pursuance of the authority conferred upon him by the constitution and laws of the Republic, by executive decree No. 1033, dated the 30th day of December, 1926, and published in the Gaceta Oficial on the 4th day of January, 1927, awarded to the bank the financing of payments to the contractors for work completed under their construction contracts, up to a maximum aggregate principal amount of $10,000,000 under the terms and conditions of said proposal as explained by the bank and of said decree, and by public document executed on the 19th day of February, 1927, before the notary, Dr. Conrado Ascanio y Suarez, under No. 143, the Republic and the bank entered into an agreement which established in favor of the Republic a credit limited to the principal amount of $10,000,000 and conferred upon the Republic the right to issue and deliver to contractors constructing the said central highway under contracts entered into between them and the Republic in conformity with such public work law, deferred payment work certificates (hereinafter called the work certificates) up to but not exceeding $10,000,000, aggregate principal amount for work completed by such contractors under and in accordance with their respective construction contracts and accepted by the Republic, and obligated the bank, subject to the terms of said agreement, to pay to the ontractors named in the respective work certificates issued under and in accordance with said agreement, upon the assignment thereof to the bank, at its branch office in the city of Habana, at any time during the period ending June 30th, 1930, duly assigned by such contractor and registered by the Secretary of Treasury or his authorized representative, the principal amount of such work certificates without any discount up to but not exceeding in the aggregate $10,000,000 and further obligated the Republic to repay to the bank, as registered assignee of the work certificates and in subrogation to the rights of the contractors, or on its order, the principal amount of all work certificates issued to contractors and assigned by such contractors to the bank as in said agreement provided, on the maturity date specified in the respective work certificates, in official gold coin of or equal to the standard of weight and fineness as it existed on December 30, 1926, and to pay to the bank interest on the principal amounts represented by the work certificates on the 30th day of June and the 31st day of December in each year at the rate of 6 per cent per annum from the date or dates on which the principal amounts of the respective work certificates had been paid by the bank to the contractors named therein; that, in conformity with the decree of the national executive No. 497, dated the 13th day of April, 1928, and published in the Gaceta Oficial on the 17th day of April, 1928, said agreement of February 19, 1927, was amended by a public document executed before the notary, Dr. Regino Truffin y Perez de Abreu, on the 31st day of May, 1928, under No. 99 of order, so as to provide for the division and application of

the $10,000,000 credit equally as between the central highway and the congressional palace, and the agreement of February 19, 1927, as so amended, is hereinafter referred to as the existing agreement.

Third. That in order to expedite the completion of the public works already contracted for under the general plan of the public works law, and the execution of other public works of the greatest importance or necessity authorized by said law, and in order to provide for the immediate payment to the construction contractors for work completed before the collection of the revenues dedicated by said law to such payment, the Republic, by invitation, dated April 28, 1928, of the Secretary of the Treasury, duly authorized by resolution of the cabinet, invited banking institutions doing their business in this capital, or their principal offices abroad, to submit proposals to the Republic for financing such payments to the contractors in ammounts aggregating not less than $40,000,000, nor more than $50,000,000, on the terms and conditions which they might consider applicable.

Fourth. That the bank, in response to said invitation and complying with the conditions thereof, submitted its proposal dated the 12th day of May, 1928, to the Secretary of the Treasury and the Secretary of Public Works, to convert the above-mentioned limited credit of $10,000,000 as established by the existing agreement into a revolving credit, so as to make available to the Republic from time to time, prior to July 1, 1930, as it might require, the total sum of $60,000,000, including said existing credit of $10,000,000, for the purpose of financing the payments to contractors for work completed before the collection of the revenues, through the acquisition by the bank of work certificates issued to the contractors from time to time, without limitation as to any particular public works authorized by the public works law or as to any particular contractor, and the conversion of such work certificates into an equal principal amount of public works 5½ per cent serial certificates of the Republic (hereinafter described and hereinafter called serial certificates) of the character described in said proposal.

Fifth. That the national executive, acting in pursuance of the power and authority conferred upon him by the constitution and laws of the Republic, upon the favorable report of the Secretaries of Treasury and Public Works, by executive decree No. 849, dated the 31st day of May, 1928, and published in the Gaceta Oficial on the 1st day of June, 1928, accepted said proposition of the bank, as explained and amended by it, and charged the Secretaries of Treasury and Public Works with the execution thereof.

The parties hereto, in representation of their respective principals, in order to supplement the existing agreement, and more clearly to establish the rights and obligations of the parties, proceed to execute and formalize this supplemental agreement under the terms and conditions hereinafter expressed, in accordance with the terms and conditions of said proposal of the bank as explained and amended by it, and of said decree of the national executive, and state:

Sixth. That the existing credit as established by the existing agreement, which is limited to $10,000,000 principal amount of work certificates issued and to be issued to the contractors for work completed and accepted under their respective contracts for the construction of the central highway and the congressional palace, is hereby converted into a revolving credit so that, including such existing credit of $10,000,000 as part of the total amount, there shall be available to the Republic from time to time prior to July 1, 1930, as it may require, for the purpose of financing immediate payments to the contractors for work completed and accepted before the collection of the revenues, sums amounting in the aggregate to the total amount of $60,000,000, in the manner and upon the terms and conditions set forth in the following articles:

ARTICLE 1. The work certificates, which under the existing agreement are limited to work completed and accepted in the construction of the central highway and the congressional palace, may also be issued on the same basis to contractors for work completed and accepted under contracts for the construction of the central highway, and the congressional palace and any of the other public works authorized by the public-works law, as the Republic may desire, and in such proportionate amounts as between the various public works and contractors as it may determine. All the work certificates shall be issued in the form and have the maturity or maturities stipulated in the existing agreement, and shall be issued, assigned, delivered, and registered in accordance with the terms, conditions, and formalities therein provided, except that, upon this agreement becoming effective as provided in article 23 hereof, the

rate of interest borne by the work certificates, including those already issued and those issued hereafter, shall be reduced from 6 per cent to 5½ per cent per annum. The total amount of work certificates issued, assigned to, and held by the bank shall not at any one time exceed $10,000,000 in the aggregate, and whenever the work certificates assigned to the bank and held by it shall amount to $10,000,000, the Republic shall not be entitled to issue and the bank shall not be obligated to acquire any additional work certificates until by reason of the conversion of work certificates into the public works 5½ per cent serial certificates of the Republic as provided in article 2 hereof, the total amount of work certificates outstanding and held by the bank shall be reduced below $10,000,000. The bank agrees, upon this agreement becoming effective as provided in article 23 hereof, to submit to the Secretary of the Treasury of the Republic the work certificates theretofore issued and assigned to and held by the bank for the purpose of having indorsed thereon by said secretary or by his duly authorized representative a legend in substantially the following form:

The rate of interest payable on the within deferred-payment work certificate has been reduced from 6 per cent per annum to 5½ per cent per annum in accordance with the supplemental agreement between the Republic of Cuba and the Chase National Bank of the City of New York, dated the 22d day of June, 1928.

_____

(For the Secretary of the Treasury).

ART. 2. The Republic shall have the right at any time and from time to time prior to July 1, 1930, by written notice signed by the Secretary of the Treasury and delivered to the bank at its branch office in the city of Habana, whenever the work certificates theretofore assigned to and then held by the bank shall amount to $10,000,000, to require the bank to present, and the bank agrees that within five days after the receipt of such notice it will present, to the Secretary of the Treasury of the Republic work certificates theretofore assigned to and then held by the bank, in even thousand-dollar lots of not less than $2,500,000 principal amount, for conversion into a like principal amount of the serial certificates. The bank shall also have the right at its option at any time and from time to time, without any such requirement on the part of the Republic, to present to the Secretary of the Treasury work certificates aggregating $1,000 or any multiple thereof, for simultaneous conversion into a like principal amount of the serial certificates. When work certificates shall thus be presented to the Secretary of the Treasury for conversion, said secretary shall issue and deliver to the bank in exchange therefor and upon surrender thereof, an equal principal amount of the serial certificates, and the work certificates so presented and surrendered shall be canceled. The total principal amount of work certificates, however, which the Government may require the bank to present for conversion, plus the total principal amount thereof previously converted by the bank at its own option, shall not exceed the aggregate amount of $50,000,000, which represents the total amount of the credit under this agreement that is additional to the existing credit of $10,000,000.

ART. 3. Whenever prior to July 1, 1930, the work certificates assigned to and held by the bank shall be less than the principal amount of $10,000,000, or as the result of conversions into serial certificates they shall be reduced below that principal amount, the Republic may issue to the construction contractors and the bank shall acquire by assignment from them additional work certificates, on the basis now established in the existing agreement, modified as to rate of interest as above provided in article 1, until the amount of work certificates assigned to and held by the bank shall be again brought up to $10,000,000. Thus the credit will revolve until up to July 1, 1930, or until in this manner, prior to that date, there shall be issued and outstanding $60,000,000 aggregate principal amount of work certificates and serial certificates, which is the limit fixed by this agreement, including the existing credit of $10,000,000.

ART. 4. Upon any conversion of work certificates into serial certificates, whether on the requirement of the Republic or at the option of the bank, there shall be an appropriate adjustment of interest as between the interest accrued up to the time of such conversion on the work certificates converted and the interest then accrued on the serial certificates delivered in exchange, so that the serial certificates will thus bear interest from their date. On such interest adjustment the bank shall pay to the Republic the amount, if any, by which the interest accrued on the serial certificates so delivered shall exceed the interest

accrued on the works certificates so converted, and the Republic shall pay to the bank the amount, if any, by which the interest accrued on the works certificates so converted shall exceed the interest accrued on the serial certificates so delivered.

ART. 5. The work certificates, as provided in the existing agreement, shall mature in the fiscal year beginning July 1, 1930, and ending June 30, 1931. The maturities of the serial certificates issued on conversion of work certificates shall always be adjusted on the issuance thereof so that the principal amount of serial certificates and of outstanding unconverted work certificates, falling due in any one year, will not exceed the amount as prescribed in article 6 for such year. The maturities of the serial certificates deliverable on any such conversion, whether on the requirement of the Republic or at the option of the bank, shall be such as in the opinion of the bank market conditions may require, within the limits as to maturities in any one fiscal year specified in said article.

ART. 6. The Secretary of the Treasury of the Republic, in the name and on behalf of the Republic, shall issue serial certificates from time to time as required to effect conversion of work certificates in the manner and upon the terms and conditions of this agreement. The serial certificates shall be known as the public works 5½ per cent serial certificates of the Republic. The aggregate principal amount of the serial certificates which may be issued and outstanding under this agreement shall never at any one time exceed $60,000,000. The serial certificates shall be issued in denominations of $1,000 each and the serial certificates of the same maturity shall be numbered 1 and consecutively upwards. They shall be dated January 1 or July 1 of the year in which they are issued, shall bear interest at the rate of 5½ per cent per annum from their respective dates, payable semiannually on June 30 and December 31 in each year, shall have maturity dates as hereinafter specified, and shall be payable, both as to principal and interest, in gold coin of or equal to the standard of weight and fineness of United States of America gold coin, existing at the dates of the respective certificates, at the principal office of the bank, in the Borough of Manhattan, city and State of New York, United States of America, or at the option of the holder, at its branch office in the city of Habana, from funds provided by the Republic, as hereinafter in this article provided. All such payments shall be made without deduction for and free from every kind of Cuban taxation (whether State, provincial, or municipal) now existing or which may hereafter exist. In order to attend to such payments, as and when due, the Republic will deposit with the bank at its branch office in the city of Habana, in such gold coin, at least five days before such amounts are due and payable, the amounts required respectively for the payment of the semiannual interest and the principal due on the serial certificates then outstanding. The Republic will also pay to the bank the amounts required to reimburse it for the actual and necessary expense of transmitting such amounts or the necessary part thereof to the city of New York, in order to attend to the payment of the principal of and interest on the serial certificates at the principal office of the bank in said city, such reimbursement to be made from time to time on written request of the bank and on delivery to the secretary of the treasury of a statement by the bank of such actual and necessary expenses. The serial certificates shall be issuable with maturities and amounts of each maturity, as follows:

A. Representing the additional credit under this agreement:

Date of maturity:	Amount	Date of maturity:	Amount
Dec. 31, 1931	$6,250,000	June 30, 1934	$6,250,000
June 30, 1932	6,250,000	Dec. 31, 1934	6,250,000
Dec. 31, 1932	6,250,000	June 30, 1935	6,250,000
June 30, 1933	6,250,000		
Dec. 31, 1933	6,250,000	Total	50,000,000

B. Representing the existing credit under the existing agreement:

When $50,000,000 aggregate principal amount of serial certificates with the foregoing maturities have been issued, there will remain the existing credit of $10,000,000 established under the existing agreement. Consequently, at any time after July 1, 1930, or after any date (prior to July 1, 1930) when serial certificates aggregating $50,000,000 with the foregoing maturities have been issued, serial certificates up to but not exceeding $10,000,000 shall be issuable, at the option of the bank, in exchange for and upon conversion of a like principal amount of unconverted work certificates then assigned to and held by the

bank and/or assigned to it thereafter but prior to July 1, 1930, with maturities as follows:

Date of maturity:	Amount
Dec. 31, 1930	$5,000,000
June 30, 1931	5,000,000
Total	10,000,000

ART. 7. The serial certificates shall be in coupon form, shall be payable to bearer and together with the coupons annexed thereto and the bank's countersignature for authentication to be endorsed thereon shall be in the Spanish and in the English language, both texts constituting a single instrument only, the English text controlling in case of any variation. The serial certificates shall indicate by appropriate reference to this agreement that through the issuance thereof in exchange for a like principal amount of work certificates they have been issued to provide for making immediate payments to contractors for work completed under the public works law before the receipt by the Republic in subsequent years of the revenues from the taxes and economic resources created by said law, and they may contain such provisions, specifications, descriptive words and recitals, and may have such legends indorsed thereon, not inconsistent with the provisions of this agreement, as may be required to comply with the rules of any stock exchange, or to conform to usage in respect thereof. The text of the serial certificates to be issued as herein provided and of the coupons to be attached thereto, as well as the bank's countersignature for authentication to be indorsed thereon, shall be substantially as follows, all blanks to be appropriately completed prior to the issue of the serial certificates:

[Form of serial certificate]

No. _____ $1,000.

REPUBLIC OF CUBA

PUBLIC WORKS 5½ PER CENT SERIAL CERTIFICATE

Dated _____ Due _____

The Republic of Cuba (hereinafter called the Republic), for value received in the form hereinafter stated, will pay to the bearer on the ____ day of _____, 193__, the principal sum of $1,000 and interest on such principal sum from the date hereof at the rate of 5½ per cent per annum, semiannually on June 30, and December 31, in each year, until such principal sum shall have been paid, but as to the instalments of interest accruing at or prior to maturity of said principal sum, only upon presentation and surrender of the respective coupons therefor hereto attached. Such principal sum and interest instalments, when respectively due, will be paid, at the option of the bearer, either at the principal office of the Chase National Bank of the City of New York, in the Borough of Manhattan, city of New York, United States of America, or at the branch office of said bank in the city of Havana, Republic of Cuba, in gold coin of or equivalent to the present standard of weight and fineness of United States of America gold coin, without deduction for and free from every kind of Cuba taxation (whether State, Provincial, or municipal) now existing or which may hereafter exist.

This certificate is one of the public works 5½ per cent serial certificates of the Republic of Cuba of varying maturities not later than June 30, 1935, limited to the aggregate principal amount of $60,000,000 at any one time outstanding, all issued or to be issued under and secured by the agreement dated June 22, 1928, made between the Republic of Cuba and the Chase National Bank of the City of New York under the authority of the public works law of July 15, 1925, and duly submitted to and ratified and approved by the Congress of the Republic of Cuba, in exchange for and on conversion of a like principal amount of deferred payment work certificates issued by the Republic to provide for making immediate payments to contractors for construction work completed by them and accepted by the Republic under said public works law, before the receipt by the Republic in subsequent years of the revenues from the taxes established by said law, to which agreement and law reference is hereby made for a further statement of the nature and extent of the security and the rights of the holders of the certificates. This and the other certificates of the several serial

maturities represent and constitute the irrevocable and incontestable contract obligations of the Republic in accordance with said agreement to pay the principal thereof and the interest thereon, when due, without right of reduction or counterclaim, and are not callable for redemption prior to their respective dates of maturity.

This certificate is not valid or negotiable until countersigned for authentication by the Chase National Bank of the City of New York.

This certificate is executed in behalf of the Republic by the manual signature of the Secretary of the Treasury, and the coupons are executed in like behalf by imprinting thereon a facsimile of such manual signature.

The Spanish text and the English text of this certificate are counterparts consituting together a single instrument only, the English text controlling in case of any variation.

Dated----------, 192--.

FOR THE REPUBLIC OF CUBA,

Secretary of the Treasury.

Countersigned for authentication.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,

By ----------

[Form of interest coupon]

No. ——— $ ———

On the ——— day of ————, 19—, the Republic of Cuba, as provided in the below-mentioned certificate, will pay to bearer $ ——— gold coin of or equivalent to the United States of America standard of weight and fineness existing at the date of said certificate, free of all Cuban taxes in the Borough of Manhattan, city and State of New York, United States of America, at the principal office therein of the Chase National Bank, of the city of New York, or, at the option of the bearer, in the city of Habana, Republic of Cuba, at the branch office therein of said bank, being six months' interest then due on its public works 5½ per cent serial certificate No. ——, due ————, 193—.

FOR THE REPUBLIC OF CUBA.

Secretary of the Treasury.

(Here follows Spanish form of certificate and coupon.)

ART. 8. The serial certificates shall be executed on behalf of the Republic by the manual signature of the secretary of the treasury and the coupons shall be executed in like behalf by imprinting thereon a facsimile of such manual signature. The serial certificates shall be countersigned by the bank for authentication, and only such serial certificates as shall be authenticated by such countersignature shall be valid or negotiable or entitled to any of the benefits or security afforded by this agreement, but such authentication by the bank of any such serial certificate shall be conclusive evidence that the holder thereof is entitled to the benefits and security hereby afforded.

ART. 9. The definitive serial certificates, if requested by the bank, shall be prepared at the expense of the Republic in form to meet the requirements of the New York Stock Exchange for listing thereon. Pending the preparation of definitive serial certificates, the secretary of the treasury may issue temporary serial certificates payable to bearer and exchangeable for definitive serial certificates when prepared, of the denomination of $1,000 or any multiple thereof and with or without coupons, substantially in the form set forth in article 7 and executed and authenticated as provided in article 8 of this agreement.

ART. 10. In case any of the serial certificates shall at any time become mutilated or be destroyed or lost, a new serial certificate or certificates of like amount, tenor, and date, and bearing the same number, shall be issued according to law by the secretary of the treasury, and the bank shall authenticate the same by its countersignature, for delivery in exchange for, and upon cancellation of, the serial certificate or serial certificates so mutilated and its or their coupons, or in lieu of the serial certificate or serial certificates so destroyed or lost and its or their coupons, but, in the case of destroyed or lost serial certificates, only upon the receipt by the seuretary of the treasury and the bank of evidence satisfactory to each of them that such serial certificates were destroyed or lost and upon receipt also of guarantees satisfactory to each of them in their discretion.

ART. 11. The serial certificates shall represent and constitute the unconditional and incontestable contract obligations of the Republic to pay to the bearer thereof the principal amounts thereof at the dates of maturity specified therein with interest thereon from their respective dates at the rate of 5½ per cent per annum in accordance with the terms thereof and of this agreement without reduction or counterclaim.

ART. 12. The work certificates issued by the Republic to contractors and assigned by such contractors to and held by the bank, as provided in the existing agreement, until converted into serial certificates as in this agreement provided, and the serial certificates issued on the conversion of the work certificates as provided in this agreement, shall have and be entitled to, and shall be secured by, and the Republic hereby creates and confers, a first preferential right to 90 per cent of the normal estimated revenues to be derived from the taxes and economic resources specified in Articles XII to XIX, both inclusive, of the public-works law, in and during the fiscal year commencing July 1, 1930, and ending June 30, 1931, and the same preferential right in each subsequent fiscal year of the 10-year period specified in the public-works law as the same now exists, until the principal of and interest on all such work certificates and all such serial certificates shall be paid in full, as a special guaranty and security for the payment of such principal and interest as and when the same shall become due and payable in accordance with the terms thereof and of the existing agreement and of this agreement. The Republic also creates and confers a first preferential right to the necessary part of 90 per cent of the normal estimated revenues to be derived in each fiscal year of the intervening period prior to July 1, 1930, as a special guaranty and security for the payment as and when due of the instalments of interest on such work certificates and such serial certificates accruing in such intervening year, and for the payment of the commissions or compensation payable to the bank in each such year under the terms of the existing agreement and of this agreement for its commitment and services thereunder and hereunder. In order to give effect to such guaranty and security the Republic will set aside in a special account in each fiscal year 90 per cent of such revenues or the necessary part thereof as and when collected in such year until the amount so set aside shall equal the amount payable in each year, for principal or, as the case may be, for interest and/or commissions or compensation, and will apply the amount so set aside to the payment of said principal, interest, and/or commissions or compensation when and as the same shall be payable pursuant to the terms of the work certificates and the serial certificates and the provisions of the existing agreement and this agreement.

ART. 13. In order that the amounts becoming due in any fiscal year for principal of and interest on such unconverted work certificates and on such serial certificates shall not exceed an amount equal to 90 per cent of the estimated normal revenues to be received in that year, the Secretary of the Treasury shall deliver to the Bank, at the time of the conversion of any of the work certificates into serial certificates on the requirement of the Republic, as provided in article 2 hereof, and as a condition of such conversion, an official estimate, on the basis of the revenues actually collected for the 12 months period immediately preceding, that 90 per cent of the estimated normal revenues to be received in the fiscal year in which the serial certificates to be issued on such conversion mature, will be sufficient to provide for the payment of the principal of and interest on the serial certificates maturing in that year, including those then to be issued, and the interest payable in that year on all work certificates and serial certificates then outstanding but maturing as to principal in subsequent years.

ART. 14. The Republic irrevocably authorizes the bank to pay out of the funds delivered to it by the Republic for such purpose, as provided in article 6, the interest accruing on the serial certificates from time to time to the bearers of the coupons appertaining thereto upon the presentation and surrender of such coupons, and the principal of the serial certificates when payable under the provisions thereof at maturity to the bearers of the serial certificates on presentation and surrender thereof. Upon the payment of the serial certificates and of the coupons appertaining thereto, as in this agreement provided, the same shall be cancelled by the bank and delivered to the Republic on its written request, and the obligation of the Republic in respect of such serial certificates and such coupons shall be that extent be extinguished, and such serial certificates shall not be reissued.

ART. 15. So long as the existing agreement and this agreement shall be in effect, the Republic covenants and agrees that the taxes and economic resources established by the public works law, the collection of which shall be necessary for compliance with the existing agreement and this agreement, will remain in force and shall be collected as provided in said law. The Republic further covenants and agrees that, so long as any of the work certificates issued under the existing agreement or serial certificates issued under this agreement shall be outstanding, it will not issue any deferred payment work certificates or other obligations secured by the normal revenues to be produced from the taxes and economic resources established by Articles XII to XIX, both inclusive, of the public works law, as such law now exists, except the work certificates and serial certificates issued under the existing agreement and this agreement.

ART. 16. The bank will at all times keep complete and accurate records of its operations under the existing agreement and this agreement, and the secretary of the treasury or any person designated for that purpose by him or by the President of the Republic shall have access thereto at all times during the business hours of the bank.

ART. 17. Upon payment in full when due of the principal of and interest on all the unconverted work certificates and the serial certificates, and of all amounts to be paid to the bank as commissions or compensation for its commitment and services under the existing agreement and this agreement, and upon the performance by each party of their respective obligations thereunder and hereunder, the existing agreement and this agreement shall cease and be at an end, and the Republic and the bank shall be released from any further liability under said agreements, but until so terminated the existing agreement and this agreement shall be binding upon the respective parties hereto, according to their terms, and can be amended or supplemented only by the written consent of both parties.

ART. 18. The Republic will furnish to the bank whenever requested by the bank, full statistical information regarding collections from the taxes mentioned or referred to in article 12 of this agreement, and full information regarding the deposits of such taxes in the special account mentioned therein.

ART. 19. All notarial charges and all taxes payable in connection with or as the result of the execution of this agreement, with a certified copy thereof for the secretary of the treasury, another for the secretary of public works, and another for the bank, shall be for the account of and shall be paid by the Republic.

ART. 20. The parties hereto designate the city of Habana as the place where all notifications, citations, and other judicial and extra judicial notices emanating from this agreement are to be served, and submit themselves to the judges and tribunals of the Republic in said city, the bank hereby expressly waiving its own domicile.

ART. 21. Notices under this agreement from the bank to the Republic shall be addressed to the secretary of the treasury or to the secretary of public works, and shall be sufficiently given if sent by registered mail to the secretary of the treasury or the secretary of public works; notices from the Republic to the bank shall be sufficiently given if signed by the secretary of the treasury or the secretary of public works and sent by registered mail to the bank at its branch office in the city of Habana.

ART. 22. The balance of the compensation payable to the bank for its commitment and services under the existing agreement is not to be disturbed and shall be paid by the Republic in the instalments and on the dates as now provided in the existing agreement. The bank shall receive and the Republic agrees to pay, as compensation for the additional commitment and services of the bank under and in accordance with this agreement—

(*a*) An amount equal to 1 per cent on $50,000,000 principal amount of serial certificates representing the additional credit extended by this agreement, which shall be payable forthwith upon this agreement becoming effective as provided in article 23; and

(*b*) An additional amount equal to 1.80 per cent of the principal amount of work certificates converted into serial certificates up to but not exceeding $50,000,000 principal amount of such certificates, which shall be payable at the time of each such conversion on the principal amount of work certificates then converted.

When $50,000,000 principal amount of work certificates shall have been converted into a like principal amount of serial certificates, as provided in this agreement, no charge shall be made or payable upon the conversion of the

remaining $10,000,000 principal amount of work certificates then held by the bank and/or assigned to it thereafter but prior to July 1, 1930, since such conversion corresponds to the existing credit extended by the existing agreement and is governed by the commisisons or compensation payable to the bank under the terms of the existing agreement.

ART. 23. In consideration of the importance of the transaction, it is the purpose of the national executive to submit this agreement to the congress during its present session, in accordance with the the provisions of Article XXIII of the public works law, inasmuch as it involves the distribution and application of revenues from the taxes and economic resources established by said law, and to request that it be ratified and approved by the congress. Consequently, it is understood that this agreement shall become and be binding and effective between the parties hereto as soon as it shall be ratified and approved by appropriate action of the congress for its full legal effect and that, in the meantime, this agreement shall not modify or change in any respect any of the terms or provisions of the existing agreement. It is expected that the congress will be able to pass upon the matter with due consideration to the interests of the Republic before the end of the present session during the remainder of the present month ending June 30, 1928. If the present session of the congress shall extend beyond, or shall come to an end on or before said date without taking action upon this agreement, it is understood that, in view of the necessity on the part of the bank of completing forthwith its arrangements for carrying out its obligations under this agreement, the bank shall have the right by written notice to the national executive to determine whether and for what period or periods after the end of the present month such time may be extended.

ART. 24. The existing agreement as amended and supplemented by this agreement, upon this agreement becoming effective as provided in article 23 but not otherwise, is hereby ratified and confirmed for its full legal effects.

CONCLUSION

The parties hereto, Dr. Santiago Gutierrez de Celis y de la Cruz and Dr. Carlos Miguel de Cespedes y Ortiz, in the respective characters of Secretary of the Treasury and Secretary of Public Works of the Republic, and Mr. José Emilio Obregón y Blanco, in his character of attorney in fact in representation of the Chase National Bank of the city of New York, state that they accept on behalf of their respective principals, all of the rights and obligations contained in the foregoing provisions and articles. Thus they stated and declared, in my presence and in the presence of the witnesses who state that they are not legally disqualified to act as such, nothing to the contrary being known to me.

I, the notary, gave to the parties appearing, the pertinent legal admonitions, and they stated that they were fully advised of the same.

I, the notary, certify that the appearers have stated all that is contained in this document; that I have informed them and the witness of the right to read it themselves and they renounced such right; that I have read it to them in its entirety at their request; and that, being in accord with the contents thereof, the appearers ratified the same in behalf of their respective principals and signed together with the witnesses.

The witnesses are Messrs. General Gerardo Machado y Morales and Attorney Jesus Maria Barraque y Adue, residents of this city, of legal age, and without disqualification to act as such as they declare.

To all of which as well as to knowing the parties hereto and the witnesses and being informed of their occupations and residences, I certify. [Here follow corrections: Santiago Gutierrez de Celis. C. M. Cespedes. J. E. Obregon. Gerardo Machado. J. M. Barraque. Regino Truffin, Rubricated.]

No. 34

AGREEMENT BETWEEN THE REPUBLIC OF CUBA AND THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, DATED FEBRUARY 26, 1930, IN RESPECT OF THE ISSUE OF PUBLIC WORKS 5½ PER CENT GOLD BONDS OF THE REPUBLIC OF CUBA

In the city of Habana, Republic of Cuba, on the 26th day of February, 1930.

Before me, Dr. Oscar A. Montero y Beldarrain, attorney at law and notary public of the district and college of this capital, of which I am a resident,

and in which I have my office at No. 71 Aguiar Street, appear in the presidential palace where I have been requested to constitute myself:

Dr. Mario Ruiz Mesa, Secretary of the Treasury of the Republic of Cuba, of legal age, married, lawyer, native of the Province of Santa Clara, Cuban citizen, and a resident of this city, at No. 186 H Street, borough of Medina;

Dr. Carlos Miguel de Cespedes y Ortiz, Secretary of Public Works of the Republic of Cuba, of legal age, married, lawyer, native of the Province of Matanzas, Cuban citizen, and a resident of this city, at No. 33 Presidente Zayas (formerly O'Reilly) Street; and

Mr. José Emilio Obregón y Blanco, of legal age, married, banker, Cuban citizen, native and resident of this city, at No. 86 Aguiar Street.

I, the notary, certify to being acquainted with the parties who appear, and to being informed by their declarations of their occupations and residences, nothing to the contrary being known to me.

Dr. Mario Ruiz Mesa and Dr. Carlos Miguel de Cespedes y Ortiz, in their respective capacities of Secretary of the Treasury and Secretary of Public Works, which high offices they at present respectively hold, appear in this act, in the name and in representation of the Republic of Cuba (hereinafter called the Republic), under and in pursuance of power and authority conferred upon them by Executive Decree No. 189 of the National Executive, dated the 10th day of February, 1930, and published in the Official Gazette on the same day, to all of which I, the notary, certify.

Mr. José Emilio Obregón y Blanco appears in this act in the name and on behalf of and in his character of attorney in fact of the bank, called in English "The Chase National Bank of the City of New York," and in Spanish, "El Banco Nacional Chase de la Ciudad de Nueva York" (hereinafter called the bank), a national banking association organized and existing under and in accordance with the laws of the United States of America, with its principal office in the city and State of New York, United States of America, and a branch office in this city, establishing such character by the power of attorney executed by the bank in favor of Mr. William Ignacious Quealy in the city of New York, United States of America, on the 30th day of June, 1927, before Mr. John F. Brosnan, notary public of the city, county, and State of New York, United States of America, the original of which duly legalized by the consul general of the Republic of Cuba in said city of New York and by the Department of State of this Republic, with its translation in Spanish, was protocolized before the notary of this city, Dr. Conrado Ascanio y Suarez, on the 22d day of August of the same year, under No. 572, which power was substituted in its entirety by the said Mr. William Ignacious Quealy in favor of the appearer, Mr. José Emilio Obregón y Blanco, by another deed executed before said notary, Dr. Conrado Ascanio y Suarez, on the 1st day of December, 1927, under No. 700, and Mr. Obregon, the appearer, assures me on his strictest responsibility that said power of attorney and said substitution have not been revoked, suspended, or limited in any manner whatsoever, paragraphs first and second thereof containing powers sufficient for the execution of this instrument, which I literally quote from a certified copy of said power that has been exhibited to me by the appearer and which I return to him, and I, the notary, certify that said clauses read as follows:

"First. To maintain, conduct, and operate the branch bank of said bank, now established in the city of Habana, Republic of Cuba, and to carry on its business; to manage, control, and supervise said branch bank and any other branch banks which may now or hereafter be established by said bank in the Republic of Cuba, and its and their businesses, and all of said bank's properties, real, personal, or mixed, in the Republic of Cuba; and in connection with, or in fulfillment of, any power conferred, to do and perform, or cause to be done and performed, every act and thing necessary, appropriate, or advisable to meet and comply with the requirements and regulations of any public or governmental authority constituted within the Republic of Cuba, for the establishment of said bank's legal status in the Republic of Cuba, and for the obtaining of any and all legal decrees of authorization that may be required by the laws of the Republic of Cuba, or by the regulations or requirements of its Government or of any department or subdivision thereof or by any governmental or public authority constituted therein, including specifically, but without limitation upon the general powers conferred, the power to accept limitations, required by the laws of the Republic of Cuba, upon the exercise in the Republic of Cuba of any rights conferred on said bank by its articles of association or by-laws.

"Second. To negotiate with the Republic of Cuba or with any Province, municipality, or other governmental department or subdivision thereof, and its and their officials and accredited representatives, and to conclude by contract or otherwise any such negotiation, in regard to any matter affecting, or in connection with, said bank's legal status in the Republic of Cuba or its business, or in regard to the loaning of money or granting of credit to, or the obtaining or acceptance of concessions or privileges of any sort from, said Republic, Province, municipality, or other governmental department or subdivision, and to perform any and all contracts or commitments so made."

The parties hereto assure me, the notary, that they are in the full enjoyment and exercise of their respective civil rights, and I, the notary, find them with the legal capacity necessary for the execution of this agreement.

Mr. Obregon further assures me that whereas the power of attorney granted in favor of Mr. William Ignacious Quealy and subsequently substituted in himself was granted and incorporated in the protocol of Dr. Conrado Ascanio y Suarez, as hereinbefore stated, before the new notarial code went into effect, the consular certificate required by article 215 thereof has not been annexed thereto; wherefore, in due compliance with said article 215 of the new notarial code, he swears that the said power of attorney granted in favor of Mr. William Ignacious Quealy on the 30th day of June, 1927, before Mr. John F. Brosnan, a notary public of the city, county, and State of New York, and all the documents annexed thereto, are true, valid, and binding instruments, and that he, Mr. Obregon, will indemnify third parties from any damage or loss that they may sustain if said documents should appear to be false.

EXPOSITION

The exponents, Drs. Ruiz Mesa and Cespedes, state as follows:

First. That, being thereunto duly authorized by the National Executive acting in discharge of the duties imposed upon him by the public works law of the Republic of the 15th day of July, 1925, to endeavor to cause the public works of the greatest importance or necessity authorized by such public works law to be constructed within a period of four years, and in exercise of the powers conferred upon him by such public works law to adopt the system or method of procedure considered by him to be most efficacious for the purpose of constructing said public works within said time, and in pursuance of the authority granted him by the constitution and other laws of the Republic, the Secretary of the Treasury and the Secretary of Public Works, in the name and on behalf of the Republic, have heretofore taken the following steps:

1. By a public document executed on the 19th day of February, 1927, before the notary of Habana, Dr. Conrado Ascanio y Suarez, under serial No. 143, entered into an agreement with the bank which established in favor of the Republic a credit limited to the principal amount of $10,000,000 and conferred upon the Republic the right to issue and deliver to contractors constructing the Central Highway, one of the public works authorized by the public works law, under contracts entered into between them and the Republic, in conformity with such public works law, deferred payment work certificates (hereinafter called work certificates), up to but not exceeding $10,000,000 aggregate principal amount for work completed by such contractors under and in accordance with their respective construction contracts and accepted by the Republic, and obligated the bank, subject to the terms of said agreement, to pay to the contractors named in the respective work certificates issued thereunder, at any time during the period ending the 30th day of June, 1930, and assigned to the bank by such contractors, the principal amount thereof up to but not exceeding in the aggregate $10,000,000, and further obligated the Republic to repay to the bank, as assignee of such work certificates, the principal amount of all work certificates issued to the contractors and assigned by them to the bank as in said agreement provided, on the maturity date specified in the respective work certificates, and to pay to the bank interest on the principal amounts represented by the work certificates, at the rate and on the dates and upon the terms and conditions in said agreement contained.

2. By a public document executed before the notary of Habana, Dr. Regino Truffin y Perez de Abreu on the 31st day of May, 1928, under serial No. 99, amended the said public document No. 143 above referred to, so as to provide for the division and application of the $10,000,000 credit equally between the Central Highway and the Congressional Palace, another of the public works authorized by such public works law.

3. By a public document executed before the notary of Habana, Dr. Regino Truffin y Perez de Abreu, on the 22d day of June, 1928, under serial No. 114, entered into an agreement with the bank which converted the above mentioned limited credit of $10,000,000, established by said public Document No. 143, above referred to, into a revolving credit, so as to make available to the Republic from time to time prior to the 1st day of July, 1930, as it might require, the total sum of $60,000,000, including said limited credit of $10,000,000, for the purpose of financing the payments to contractors for work completed before the collection of the revenues established by such public works law, through the acquisition by the bank of work certificates issued to the contractors from time to time, without limitation as to any particular public works authorized by such public works law or as to any particular contractor, and for the conversion of such work certificates into an equal principal amount of public works 5½ per cent serial certificates of the Republic (hereinafter called serial certificates) of the character described in said agreement, which last-mentioned agreement, pursuant to its terms, was duly approved by a two-thirds vote of each house of the Congress of the Republic by a law sanctioned by the National Executive on the 24th day of July, 1928, and published in the Official Gazette of the Republic on the 25th day of the same month and year.

Second. That there have been issued and are now outstanding under the credit constituted by said public Document No. 143, executed on the 19th day of February, 1927, before the notary of Habana, Dr. Conrado Ascanio y Suarez, as amended and supplemented by said public Documents Nos. 99 and 114, executed respectively on the 31st day of May, 1927, and th 22d day of June, 1928, before the notary of Habana, Dr. Regino Truffin y Perez de Abreu, which documents are hereinafter referred to as "the existing credit agreements," serial certificates in the aggregate principal amount of $50,000,000, of which $20,000,000 principal amount have been sold by the bank to the public, $6,250,000 of which mature December 31, 1931; $6,250,000 on June 30, 1932; $6,250,000 on December 31, 1932; $1,250,000 on June 30, 1933; and the remaining $30,000,000 principal amount thereof are held by the bank in portfolio; that, in addition to such serial certificates, there have been issued and assigned to the bank, up to the close of business on the 26th day of February, 1930, work certificates, issued under the provisions of the existing credit agreements, in the aggregate principal amount of $7,723,348.83, which, according to the terms of said agreements, are convertible into a like principal amount of serial certificates, and that the total amount of the credit established by the existing credit agreements has been utilized, except $2,267,651.17 of the original credit of $10,000,000, which amount is still available at the time of the execution of these presents.

Third. That since the execution of the existing credit agreements, the Congress of the Republic, by an amendment to the said public works law duly adopted and sanctioned by the National Executive on the 24th day of July, 1928, and published in the Official Gazette on the 25th day of the same month and year, has directed the National Executive to endeavor to cause the public works authorized by the public works law to be constructed prior to the 20th day of May, 1935, and has authorized and empowered him, subject to the terms of said amendment, to adopt such systems or procedure as he shall deem most convenient for such purpose, and to enter into any credit operation for the financing of such public works and their rapid execution, either in a form similar to that established in the said agreement entered into between the Republic and the bank, by said above-mentioned agreement executed on the 19th day of February, 1927, before the notary of Habana, Dr. Conrado Ascanio y Suarez, under serial No. 143, or in the form authorized in said above-mentioned agreement executed on the 22d day of June, 1928, before the notary of Habana, Dr. Regino Truffin y Perez de Abreu, under serial No. 114, or in such other form as the National Executive shall consider most convenient or beneficial to the interests of the Republic; and has provided that the taxes specified in Articles XIV, XV, XVI, XVII, XVIII, and XIX, which were declared by such public works law to be of a temporary character, shall be extended and be in force for a period of not more than 20 years from June 15, 1925, or until such time as the public works completed or undertaken are wholly paid for and the contracts made by the National Executive for their financing are entirely liquidated. The original public works law and the said law of 1928 amending the same will be together generally hereinafter referred to as the public works law.

Fourth. That the National Executive, acting in pursuance of the power and authority conferred upon him by the constitution and laws of the Republic,

BEST AVAILABLE COPY

in order to expedite the completion of the public works already contracted for under the general plan of the public works law, and the execution of the works of the greatest importance mentioned in the public works law and those of greatest importance among any others considered by him to be of public convenience, to be completed prior to the 20th day of May, 1932, has made and contemplates making prior to said date, contracts for public works authorized by the public works law, and, in order to provide additional financing for the construction of such public works, invited the bank to submit to the Republic a proposal to that end.

Fifth. That the bank, in response to such invitation, submitted its proposal, embodied in two documents, dated respectively the 30th day of January and the 3d day of February, 1930, to which reference is hereby made for a more particular statement of their provisions, and that, on the 5th day of February, 1930, the Secretary of the Treasury duly accepted such proposal in behalf of the Republic.

Sixth. That the National Executive, acting in pursuance of the power and authority conferred upon him by the constitution and laws of the Republic, upon the favorable report of the Secretary of the Treasury, by said Executive decree No. 189, dated the 10th day of February, 1930, and published in the Official Gazette on the same day, in order to provide for the payment of the construction contractors for work contracted before the collection of all of the revenues dedicated by the public works law to such payment, accepted said proposal of the bank, and thereby adopted the procedure therein and hereinafter set forth as that considered by him most advisable for the financing of the public works and their most rapid execution, duly created and authorized an issue of $80,000,000 principal amount of public works bonds of the Republic and establishment by the bank for the benefit of the Republic of a $20,000,000 credit, both said bond issue and said credit being hereinafter more particularly described, and duly charged the Secretaries of Treasury and Public Works with the execution of said decree and of the agreement giving effect thereto in all of its details.

The parties hereto, in representation of their respective principals, in order more clearly to establish the rights and obligations of the parties arising out of the proposal made by the bank and accepted by the Republic, proceed to execute and formalize this agreement under the terms and conditions hereinafter expressed, in accordance with the terms and conditions of said proposal and of said decree of the National Executive and state:

PART I

THE BONDS

Seventh. Pursuant to the constitution and laws of the Republic, the Republic has created and hereby constitutes, creates, and authorizes an issue of bonds limited to the aggregate principal amount of $80,000,000 outstanding at any one time, to be known as "The Republic of Cuba public works 5½ per cent sinking fund gold bonds," which are hereinafter referred to as the bonds, issuable from time to time as hereinafter provided prior to December 31, 1935. The bonds shall be dated as of the 1st day of January, 1930; shall mature and be payable as to principal on the 30th day of June, 1945; shall bear interest from the 1st day of January, 1930, until paid at the rate of 5½ per cent per annum, payable semiannually on the 30th day of June and the 31st day of December in each year, and shall be retired by maturity through the operation of a sinking fund as hereinafter provided; shall be redeemable in whole at any time at 105 per cent of the principal amount thereof and accrued interest, and shall be redeemable and/or payable through the operation of the sinking fund, in equal installments on each interest payment date beginning December 31, 1935, and ending June 30, 1945, at the principal amount thereof and accrued interest, all as hereinafter more particularly stated. The bonds shall be issuable at any time or from time to time prior to December 31, 1935, but not on or after that date.

Eighth. The bonds shall be payable as to principal and interest in gold coin of or equivalent to the standard of weight and fineness of the United States of America gold coin existing on January 1, 1930, either at the principal office of the bank in the city, county, and State of New York, United States of America, or, at the option of the holders thereof, at the branch office of the bank in the city of Habana, Republic of Cuba, without deduction for and free

BEST AVAILABLE COPY

from all taxes of the Republic (whether State, Provincial, or municipal) present or future.

Ninth. The bonds shall be coupon bonds in the denomination of $1,000 each, payable to bearer, unless registered as to principal; shall be numbered as shall be deemed most appropriate and convenient; and shall be countersigned for authentication by the bank and, together with the coupons annexed thereto and the words thereon referring to the bank's countersignature for authentication shall be in the Spanish and in the English languages, both texts constituting a single instrument only, the English text controlling in case of any variation. Any of the bonds, at the option of the holder thereof, may be registered as to principal only upon books to be kept for that purpose by the registrar, which registration shall also be noted on each bond registered, after which no valid transfer thereof can be made except on said books, until transferred thereon and registered as payable to bearer, whereupon such bond shall again be transferable by delivery; and thereafter from time to time such bond may be registered or made transferable by delivery as before. All appurtenant coupons shall be always payable to bearer and transferable by delivery, whether or not the principal amount of the bond to which they appertain be registered. The bonds may also contain such provisions, specifications, descriptive words and recitals, and may have such legends indorsed thereon, not inconsistent with the provisions of this agreement, as may be required to comply with the rules of the New York Stock Exchange, or to conform to usage in respect thereof. The text of the bonds and of the coupons to be attached thereto, as well as the bank's countersignature for authentication thereon, shall be substantially as follows, all blanks to be appropriately completed prior to the issue of the bonds:

[Form of bond in English]

No._____ $1,000

REPUBLIC OF CUBA

PUBLIC WORKS 5½ PER CENT SINKING FUND GOLD BONDS

Dated January 1, 1930 Due June 30, 1945

The Republic of Cuba (hereinafter called the Republic), for value received, will pay to the bearer hereof, or, if registered as hereinafter provided, to the registered owner hereof, on the 30th day of June, 1945, the principal sum of $1,000, and will pay interest on such principal sum from the date hereof at the rate of 5½ per cent per annum, semiannually on June 30 and December 31 in each year, until such principal sum shall be paid, but, except with respect to any installments of interest that may become payable after the maturity of this bond, such interest installments shall be paid only upon presentation and surrender of the interest coupons hereto annexed as they severally mature. Such principal sum and interest installments, when respectively due, will be paid, at the option of the holder, either at the principal office of the Chase National Bank of the city of New York, in the borough of Manhattan, city and State of New York, United States of America, or at the branch office of said bank in the city of Habana, Republic of Cuba, in gold coin of or equivalent to the present standard of weight and fineness of United States of America gold coin, without deduction for and free from every kind of Cuban taxes (whether imposed by the Republic or any Province or municipality thereof) now in effect or hereafter authorized.

This bond is one of the issue of public works 5½ per cent sinking fund gold bonds of the Republic, limited to the aggregate principal amount of $80,000,000 at any one time outstanding, all issued or to be issued under and equally secured by the agreement dated the 26th day of February, 1930, made by and between the Republic and the Chase National Bank of the city of New York (hereinafter called the bank) under the authority of the constitution and laws of the Republic for financing the construction of public works as authorized by the public works law of July 15, 1925, as amended, to which agreement reference is hereby made for a more complete statement of the nature and extent of the security for the bonds and of the rights of the holders of the bonds and said bank in respect thereof. This and the other bonds of said issue, in accordance with said agreement, represent and constitute the irrevocable and incontestable contract obligations of the Republic to pay the principal thereof and the interest

thereon, when due, without right of reduction or counterclaim, for the payment of which in full the Republic pledges its faith and credit.

The bonds of this issue are subject to redemption as an entirety at any time at 105 per cent of the principal amount thereof and accrued interest on not less than 60 days' prior notice given as provided in said agreement, by publication in a daily newspaper of general circulation printed in English and published in the borough of Manhattan, city of New York, State of New York, United States of America, and in a similar newspaper printed in Spanish and published in the city of Habana, Republic of Cuba. The bonds are also subject to redemption and retirement through the operation of the sinking fund on not less than 30 days' prior notice given by publication in like manner, as is also provided in said agreement.

As a sinking fund for the retirement of the bonds, the Republic will pay to the bank, at the branch office of the bank in the city of Habana, Republic of Cuba, in gold coin of or equivalent to the standard above specified, on December 31, 1935, and on June 30 and December 31 of each year thereafter until and including June 30, 1945, a sum sufficient to redeem on each of said dates, at the principal amount thereof and accrued interest, one-twentieth of all of the bonds issued and outstanding on December 31, 1935, before the redemption and retirement of the bonds to be redeemed and retired on that date. All sinking fund payments so made, except the last, are to be applied by the bank on each sinking fund payment date to the redemption and retirement, at the principal amount thereof and accrued interest, of bonds previously drawn by lot for retirement on said date. The last sinking fund payment will be applied to the payment, at or after their maturity, of the bonds then outstanding and not theretofore called for redemption. The Republic will be entitled to a credit upon the sinking fund payment next due in an amount equal to the aggregate of the principal amount of, and interest to the next interest payment date upon, all bonds delivered to the bank by the Republic for cancellation after the last previous interest payment date and not less than 35 days prior to the next succeeding interest payment date.

The bonds are specially secured by a first preferential right and lien, to the extent required for the payment of principal and interest, upon 90 per cent of the revenues collected from the taxes specified in Articles XII to XIX, both inclusive, of the public works law of the Republic, as amended, subject only to the rights of the holders of the $20,000,000 principal amount of the outstanding public works 5½ per cent serial certificates maturing serially on and prior to June 30, 1933, all as provided in said agreement.

This bond is transferable by delivery unless registered as to principal in the name of the owner upon the books of the Republic at the principal office of the Chase National Bank of the city of New York, in the borough of Manhattan, city and State of New York, United States of America, such registration being noted hereon, in which event no transfer shall be valid unless made on said books by the registered owner in person or by duly authorized attorney and similarly noted hereon; but this bond may be again made transferable by delivery by being in like manner transferred on said books to bearer; and thereafter from time to time this bond may be registered or made transferable by delivery as before. Notwithstanding the registration of this bond as to principal, the coupons appurtenant thereto shall always be payable to bearer and transferable by delivery.

This bond is not valid or negotiable until countersigned for authentication by the Chase National Bank of the city of New York.

This bond is executed in behalf of the Republic by the manual signature of its Secretary of the Treasury or by the facsimile of his signature and the manual signature of his authorized representative, and the coupons are executed in like behalf by imprinting thereon a facsimile of the manual signature of its Secretary of the Treasury.

The Spanish text and the English text of this bond are counter parts constituting together a single instrument only, the English text controlling in case of any variation.

For the Republic of Cuba:

———— ————,
Secretary of the Treasury.
By ———— ————,
Authorized Representative.

Countersigned for authentication:

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,
By ———— ————, *Assistant Cashier.*

[Form of coupon in English]

$27.50

On the ——— day of ———, 19—, unless the bond herein mentioned shall have been called for previous redemption and payment therefor duly provided, the Republic of Cuba will pay to the bearer, without deduction for Cuban taxes, $27.50 gold coin of or equivalent to the United States of America standard of weight and fineness existing January 1, 1930, in the borough of Manhattan, city and State of New York, United States of America, at the principal office therein of the Chase National Bank, of the city of New York, or, at the option of the bearer, in the city of Habana, Republic of Cuba, at the branch office therein of said bank, being six months' interest then due on its public works 5½ per cent sinking fund gold bond No. ——, due June 30, 1945.

For the Republic of Cuba:

——— ———,

Secretary of the Treasury.

(Here follows form of bond and coupon in Spanish.)

Tenth. The bonds shall be executed on behalf of the Republic by the manual signature of its Secretary of the Treasury, or by a facsimile of his signature and the manual signature of his authorized representative; and the coupons appurtenant thereto shall be executed by a facsimile of the signature of the said secretary. The bonds shall be countersigned by the bank for authentication, and only such bonds as shall be authenticated by such signature shall be valid for any purpose or negotiable or entitled to any of the benefits or security afforded by this agreement, but such authentication by the bank of any such bond shall be conclusive evidence that the bond is one of the issue of bonds herein authorized and that the holder thereof is entitled to the benefits and security hereby afforded. Before countersigning any of the bonds, the bank will detach and cancel all appurtenant coupons then matured, and the obligation of the Republic in respect of such coupons shall thereupon be extinguished. Coupons canceled pursuant to the provisions of this clause shall be delivered by the bank to the Republic on its written request.

Eleventh. The bonds shall be prepared at the expense of the Republic and shall be in form to meet the requirements of the New York Stock Exchange for listing thereon. Pending the preparation of definitive bonds, a temporary bond of the denomination of any multiple of $1,000 or temporary bonds of the denomination of $1,000 each, or any multiple thereof, and with or without one or more than one coupon may be issued, substantially in the form set forth in clause 9 hereof but with such changes and/or additions as shall be appropriate, all of which temporary bonds shall be executed and authenticated as provided in clause 10 of this agreement. The definitive bonds will be prepared without delay and will be exchanged for all temporary bonds outstanding without expense to the holders.

Twelfth. In case any bond shall at any time become mutilated or be destroyed or lost, a new bond of like amount, tenor and date, and bearing the same serial number, shall be issued promptly by the Republic, and the bank shall authenticate the same by its countersignature, for delivery in exchange for, and upon cancellation of, the bond so mutilated and its coupons, or in lieu of the bond so destroyed or lost and its coupons, but, in the case of a destroyed or lost bond, only upon receipt by the Republic and the bank of evidence satisfactory to each that such bond has been destroyed or lost, and upon receipt also of an indemnity bond in duplicate satisfactory to each of them in their discretion. The bank shall incur no liability for such action. All bonds so issued shall bear all coupons at the time unmatured; and the Republic will reimburse the bank for all reasonable expenses incurred by it in protecting the interests of the Republic and of the bank in connection with the issues of any such bonds.

Thirteenth. The bonds and all deferred payment work certificates at any time transferred to the bank as the basis for advances by the bank under the new $20,000,000 credit to the Republic hereinbefore mentioned in clause 6 hereof and to which more particular reference is hereinafter made, shall represent and constitute the irrevocable and incontestable contract obligations of the Republic, which pledges its faith and credit for the punctual payment of the principal amounts thereof and the interest thereon, and the instalments of the sinking fund for the retirement of the bonds as and when such

instalments become due as herein and in the bonds provided, without reduction or counterclaim of any character whatsoever.

Fourteenth. The bonds and the deferred payment work certificates last mentioned shall be entitled to and shall have and shall be specially secured and guaranteed by a first preferential right and lien, which is hereby given and established, subject only to the right and lien of the $20,000,000 principal amount of serial certificates issued under the existing credit agreements and now held by the public, to the extent required for the payment of principal (including sinking fund) and interest, upon 90 per cent of the revenues to be derived from the taxes specified in Articles XII to XIX, both inclusive, of the public works law, until the principal thereof and all interest thereon shall be paid in full in accordance with the terms thereof and of this agreement; with the complete understanding, however, that the revenues collected from such taxes in each year, after the payment or provision satisfactory to the bank for payment in full of all sums accruing and payable therefrom in such year on the serial certificates issued under the existing credit agreements and then outstanding, upon the deferred payment work certificates issued under the said new $20,000,000 credit and then outstanding and the interest and sinking fund payments upon all of the outstanding bonds, and after making provision for the deposit of $4,000,000 from the proceeds of the collection of the revenues under the public works law during the fiscal year ending June 30, 1931, as provided in clause 37 hereof, are to be subject to the use and disposition by the Republic for the purposes and in accordance with the provisions of the public works law. In order to give effect to the guaranty and security, the Republic, after setting aside in a special account in each fiscal year such part of 90 per cent of all such revenues as shall be required to pay the principal of and interest on the $20,000,000 serial certificates now outstanding in the hands of the public and/or all commissions or compensations payable to the bank during such year under the existing credit agreements, will set aside in a special account during each fiscal year the necessary part of 90 per cent of all further sums so collected during such year until the amounts so set aside shall equal the aggregate principal amount of all of the bonds to be redeemed and retired or paid during such year through the operation of the sinking fund and the interest payable during such year upon all of the bonds not previously redeemed or retired, or for the retirement of which through the sinking fund provision shall not have been made as herein provided, and all sums unpaid for principal of and/or interest upon any of the deferred payment work certificates, last hereinbefore mentioned, and any and all commissions or compensation payable to the bank during such year, all in accordance with the provisions of this agreement. The Republic will apply all sums so set aside to the payment of the obligations so secured and to be secured thereby as and when such obligations become payable pursuant to the provisions thereof and hereof.

Fifteenth. Upon previous notice given as hereinafter provided, the Republic may, at its election, pay off and redeem all of the bonds issued or to be issued hereunder as an entirety at any time, at 105 per cent of the principal amount thereof and interest accrued thereon.

Notice of the intention of the Republic to pay and redeem such bonds shall be given by the Republic by advertisement published at least 60 days preceding the redemption date in at least one daily newspaper of general circulation printed in English and published in the Borough of Manhattan, city and State of New York, United States of America, and in similar newspaper printed in Spanish and published in the city of Habana, Republic of Cuba. Such advertisement shall be published as often as the rules of the New York Stock Exchange shall require, or, in default of any such requirement, at least once in each period of seven days, or part thereof, intervening between the date of the first publication and the redemption date. Such notice shall state that the Republic has elected to redeem such bonds in their entirety on a date therein designated, at the principal office of the bank in the Borough of Manhattan, city and State of New York, United States of America, or at its branch office in the city of Habana, Republic of Cuba, at 105 per cent of the principal amount thereof and interest accrued thereon to the date appointed for such redemption.

A similar notice shall be sent by the Republic by mail, postage prepaid, at least 60 days and not more than 90 days, prior to such redemption date, addressed to the holders of all registered bonds so to be redeemed at the addresses that shall appear on the registry thereof, but such notice by mail shall not be a condition precedent to such redemption, and failure so to mail such notice or any defect therein or in the mailing thereof shall not affect the

validity of the proceedings for the redemption of the bonds. Upon the date so specified, the bonds so called for redemption shall be due and payable at the principal office of the bank in the Borough of Manhattan, city and State of New York, United States of America, or at its branch office in the city of Habana, Republic of Cuba.

Not less than five days prior to the redemption date so specified, the Republic shall deposit with the bank, as its fiscal agent, a sum of money sufficient to pay at 105 per cent of the principal amount of bonds called for redemption, and the interest accrued thereon to the date fixed for the redemption thereof, and the bank shall pay out of such deposited moneys the redemption price and interest accrued to such redemption date upon all bonds surrendered for redemption on or after said date with all coupons thereunto appertaining maturing on or after said date. The bank shall in no case be responsible in excess of the moneys deposited with it. From and after the date so fixed for redemption, the notice aforesaid having been published and the said sums of money having been deposited with the bank, all of the bonds shall cease to draw interest, and the coupons for interest subsequent to such date shall be void, and the holders thereof and of the coupons thereto appertaining shall cease to participate in the security or other benefit of this agreement and shall have no right hereunder except to receive, upon surrender of any such bonds with all appurtenant coupons maturing on or after the date fixed for their redemption, the redemption price as above provided. If not so paid upon presentation in accordance with said notice, such bonds shall continue to bear interest at the rate expressed therein until paid.

The obligations of the Republic in respect of all of the bonds and appurtenant coupons redeemed and retired under the provisions of this clause shall be extinguished. Such bonds and coupons shall be immediately canceled by the bank and delivered to the Republic upon its written request, and such bonds shall not be reissued.

Sixteenth. Any moneys deposited with the bank under any of the provisions of this agreement, which shall not be required for the purpose for which such deposit was made, shall be repaid to the Republic upon its written request, and any such moneys remaining unclaimed by the holders of the bonds and coupons for six years after any redemption or retirement date thereof specified in any notice given pursuant to any of the provisions of this agreement shall be paid by the bank to the Republic upon its written request, provided, however, that the bank, before being required to make any such payment, may at the expense of the Republic, cause to be published once a week for four successive weeks in a daily newspaper of general circulation printed in English and published in the Borough of Manhattan, city and State of New York, and in a similar newspaper printed in Spanish and published in the city of Habana, Republic of Cuba, notice that said moneys remain unclaimed, and that after a date stated therein, unless previously claimed by those entitled thereto, said moneys will be returned to the Republic.

Seventeenth. As a sinking fund for the redemption and retirement of all of the bonds not later than their maturity date, so long as any of the bonds are outstanding, the Republic agrees to pay to the bank, as its fiscal agent, as hereinafter provided, in gold coin of or equivalent to the standard of weight and fineness of the United States of America gold coin existing on January 1, 1930, a sum sufficient to redeem and/or pay at the principal amount thereof and accrued interest on the 31st day of December, 1935, and on the 30th day of June and the 31st day of December in each year thereafter to and including the 30th day of June, 1945, one-twentieth of all of the bonds outstanding on the 31st day of December, 1935, before the redemption and retirement of the bonds to be redeemed and retired on that date. The Republic will be entitled to a credit upon the sinking-fund payment next due in an amount equal to the aggregate of the principal amount of, and interest to the next interest-payment date upon, all bonds delivered to the bank by the Republic for cancellation after the last previous interest-payment date and not less than 35 days prior to the next succeeding interest-payment date.

Between the thirty-fifth and the thirtieth days preceding each sinking-fund payment date except the last, the bank, as the fiscal agent of the Republic, shall draw by lot a number of the bonds, the principal amount of which, plus accrued interest to the next succeeding sinking-fund payment date, will equal the sinking-fund payment due on said date. If the Republic so elects, one of its representatives may be present at each such drawing. Notice of the intention to pay and redeem the bonds so drawn for redemption and retirement shall be

given by the Republic by advertisement published not less than 30 days next preceding the day upon which they are to be redeemed in at least one daily newspaper of general circulation printed in English and published in the Borough of Manhattan, city and State of New York, United States of America, and in at least one similar newspaper printed in Spanish and published in the city of Habana, Republic of Cuba. Such advertisement shall be published as often as the rules of the New York Stock Exchange shall require; and, in default of any such requirement, at least once in each period of seven days, or fraction thereof, intervening between the date of the first publication and the redemption date. Such notice shall specify the date of such redemption, the serial numbers of the bonds to be redeemed, and shall state that on said date there will become and be due and payable upon each bond so to be redeemed at the principal office of the bank in the Borough of Manhattan, city and State of New York, United States of America, or at its branch office in the city of Habana, Republic of Cuba, the principal amount thereof together with accrued interest to such redemption date, and that from and after such date interest thereon will cease to accrue. A similar notice shall be sent by the Republic through the mails, postage prepaid, at least 30 days prior to such redemption date, addressed to the holders of all registered bonds so to be redeemed at the addresses that shall appear upon the register thereof; but such mailing shall not be a condition precedent to such redemption, and failure so to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceedings for the redemption of such bonds.

Upon the date stated in each such notice the principal amount of and interest accrued on the bonds so drawn for redemption and retirement by the sinking fund shall be payable at the principal office of the bank in the Borough of Manhattan, city and State of New York, United States of America, or at its branch office in the city of Habana, Republic of Cuba, and upon surrender of any such bonds so drawn, with all coupons thereto appertaining, maturing on or after said date, the bank, as fiscal agent, out of the sinking fund then held by it, shall pay the principal of and accrued interest thereon. Not less than five days prior to each sinking-fund payment date as hereinabove specified the Republic shall deposit with the bank as its fiscal agent a sum of money sufficient to pay the principal amount and interest accrued to such sinking-fund payment date on the bonds then to be redeemed and/or paid. Such deposit having been made and the notice by publication having been given, no interest shall accrue or be payable after any such redemption date upon any of the bonds so designated for redemption on that date, and the holders of said bonds and of the interest coupons appertaining thereto shall cease to participate in the security or other benefit of this agreement and shall have no right hereunder or thereunder except to receive, upon surrender of any of the bonds so called for redemption with all coupons maturing on and after the date fixed for their redemption, the principal amount thereof with interest accrued to such redemption date. If not paid upon presentation in accordance with said notice, such bonds shall continue to bear interest at the rate expressed therein until paid. The obligations of the Republic in respect to all of the bonds and appurtenant coupons redeemed through the operation of the sinking fund shall be extinguished. Such bonds and coupons shall be cancelled by the bank and delivered to the Republic upon its written request, and such bonds shall not be reissued.

The bank will attend, at the request of the Republic, to the preparation of all notices of redemption to be given pursuant to the provisions of this agreement and to the publication and mailing thereof. All expenses in connection with the operation of the sinking fund shall be borne by the Republic and shall not be charged against the sinking fund or the fiscal agent and shall be paid to the fiscal agent as hereinafter provided.

The final sinking fund payment shall be applied, on and after the maturity date of the bonds, to the payment of the bonds then outstanding and not previously called for redemption, and interest accrued thereon to such date; and the holders of such bonds and/or of the last coupon appertaining thereto shall have no further right thereunder or hereunder except to receive, upon presentation and surrender of said bonds and said coupon at the principal office of the bank in the Borough of Manhattan, city and State of New York, United States of America, or at its branch office in the city of Habana, Republic of Cuba, the principal amount of said bonds and the face amount of said coupon; and, all such sinking fund payments having been made, and all expenses, compensation and charges of every kind whatsoever payable hereunder by the Republic having

been paid, this agreement will have been fully executed by the Republic and, thereafter, shall be of no further force and effect.

Eighteenth. The Republic will maintain in the Borough of Manhattan, in the city and State of New York, United States of America, a fiscal agency for and a registry of the bonds which shall also act as the transfer agent for such thereof as shall be registered; and hereby appoints the Chase National Bank, of the city of New York, to be fiscal agent for the bonds and register and transfer agent thereof. Such appointment is not revocable without the written consent of such fiscal agent, but such fiscal agent may at any time give such consent or in writing resign its agency, in either of which events such fiscal agent shall be discharged of all duties as fiscal agent hereunder.

The Republic agrees to make payments to the bank for its services as fiscal agent and other services to be performed hereunder as follows:

An annual maintenance fee of $1,000, which will include keeping the books in which transfers of registered bonds are recorded.

A minimum registration fee of $100, and a fee of 30 cents for the registration of each bond registered in excess of 100.

One-eighth of 1 per cent upon all sums paid for interest.

One-tenth of 1 per cent of the principal amount of all bonds redeemed and retired whether through the operation of the sinking fund or otherwise.

One-thirty-second of 1 per cent of the principal amount of all bonds purchased for account of the Republic.

One-fortieth of 1 per cent of the principal amount of the bonds paid at maturity.

The Republic will also pay the bank for authenticating the bonds by its countersignature 50 cents per bond, which shall include temporary bonds or interim receipts if they shall be used.

The fiscal agent, the registrar and the transfer agent and any of them shall be protected in any action which any of them may take in respect of any bond, coupon or any notice, request or other papers believed by them or either of them to be genuine; and none of them shall be liable otherwise than for lack of good faith and the exercise of reasonable care.

Nineteenth. Until all of the bonds issued or to be issued hereunder shall have been redeemed and retired or paid through the operation of the sinking fund or otherwise the Republic agrees to pay to the bank, as fiscal agent, at its branch office in the city of Habana, Republic of Cuba, in gold coin of or equivalent to the standard of weight and fineness of United States of America gold coin existing on January 1, 1930, at least five days before such amounts are due and payable under the terms of this agreement, the amounts required for each semiannual interest payment on the bonds. The Republic will also pay in like gold coin upon delivery of a statement thereof to the Secretary of the Treasury, from time to time, all sums payable to the bank, whether as fiscal agent or otherwise, pursuant to the provisions of this agreement, including all the expenses incident to the service of the bonds on the basis hereinabove in clause 18 provided, and the actual and necessary expense of transmitting, from the branch office of the bank in the city of Habana to its principal office in the city of New York, all funds required by the terms of this agreement to be paid to the bank by the Republic. The Republic will likewise pay the cost of publishing and mailing the notices required to be given by clauses 15 and 17 hereof and will make any and all other payments required to be made by the Republic pursuant to the terms of this agreement.

The Republic irrevocably authorizes and directs the fiscal agent, from the funds received from the Republic for such purposes, respectively, pursuant to the provisions of this agreement, to pay the coupons appertaining to the bonds upon presentation and surrender thereof at or after the dates when such coupons, are, respectively, payable according to the terms thereof and hereof and to pay the principal of any of the bonds when payable to those entitled thereto under the provisions hereof or thereof; and to make such payment without further formality except as the fiscal agent may be advised to be necessary or advisable to comply with some law of the Republic or of the United States of America.

Twentieth. So long as any of the bonds issued or to be issued in accordance with the provisions hereof shall be outstanding the Republic covenants and agrees that the taxes and economic resources established by the public works law, the collection of which shall be necessary for compliance with this agreements, or with the existing credit agreements in respect of the $20,000,000 principal amount of the serial certificates heretofore issued and now held by

the public, shall remain in full force and effect and shall be collected as provided in said law. The Republic further covenants and agrees that, so long as any of the bonds issued or to be issued hereunder shall be outstanding, it will not contract any other obligations secured by the revenues to be produced from the taxes and economic resources established by Articles XII to XIX, both inclusive, of the public works law, except the deferred payment work certificates to be issued in connection with the operation of the $20,000,000 credit to be established as provided in this agreement, unless such other obligations shall by their terms and the terms of the agreement under which they are contracted be subjected and subordinated to the preferential right and lien of the bonds and deferred payment work certificates issued or to be issued under the terms of this agreement.

Twenty-first. The fiscal agent will at all times keep complete and accurate records of its transactions as such, and the Secretary of the Treasury, or any persons designated for that purpose by him or by the President of the Republic, shall have access thereto at any time during the business hours of the fiscal agent.

Twenty-second. The Republic will furnish to the fiscal agent whenever requested by the fiscal agent full statistical information regarding collections from the taxes established under Articles XII to XIX, both inclusive, of the public works law and full information regarding the deposit of such collections in the special accounts mentioned in clause 14 of this agreement.

PART 2

PURCHASE OF BONDS—TWENTY MILLION DOLLAR CREDIT—OPTION ON UNISSUED BONDS

Twenty-third. The bank agrees to purchase from the Republic $40,000,000 principal amount of the bonds at 95 per cent of the principal amount thereof and interest accrued thereon at the coupon rate to the date of delivery thereof. Delivery of the said $40,000,000 principal amount of the bonds shall be made to the bank in temporary form at its principal office in the city of New York as soon as they are ready for delivery but, in any event, not later than March 4, 1930, or any later date to which the bank shall agree, and payment therefor shall be made at the time of delivery. It is understood that the bank has offered all of said bonds on an if, as, and when issued basis and that if it shall be necessary, because of the failure of the Republic so to deliver the bonds, for the bank to issue or to have issued to purchasers thereof interim receipts, the Republic will pay all expenses in connection with the preparation and issue of such receipts, including any loss of interest. The proceeds of the sale of the said $40,000,000 principal amount of the bonds will be applied by the Republic to the purchase by the Republic from the bank for cancellation of the $30,000,000 principal amount of serial certificates and all work certificates issued under the existing credit agreements held by the bonds at the time of payment for such bonds, in each case, at the principal amount of such certificates plus interest accrued and unpaid thereon to the date of purchase. The payment of so much of the purchase price of the bonds as equals the aggregate of the principal amount of the said $30,000,000 of serial certificates and interest thereon to the date of purchase, and the principal amount of all work certificates then held by the bank and interest thereon to said date, is to be effected by the cancellation by the bank and delivery to the Republic or to its representative of all such serial certificates with appurtenant coupons and all such work certificates; and any balance of said purchase price is to be paid by the bank to the Republic in cash. Contemporaneously with such payment by the bank, the Republic will deliver to the bank the said $40,000,000 principal amount of the bonds in temporary form and will pay to the bank in New York funds an amount equal to any sum by which the principal amount of all said certificates of both classes and interest thereon, as aforesaid, shall exceed the purchase price of the said $40,000,000 of bonds.

Twenty-fourth. The bank will make available to the Republic a credit of $20,000,000 for a period of one year from the date upon which the above-mentioned $40,000,000 of the bonds in temporary form are delivered to the bank and paid for by it and the said $30,000,000 principal amount of the said serial certificates, and all work certificates issued under the existing credit agreements and then held by the bank, shall be purchased by the Republic and canceled as aforesaid. All sums advanced under the said credit through the issuance of deferred-payment work certificates as hereinafter provided are

to bear interest at the rate of 5½ per cent per annum from the respective dates of such advances until paid; and in consideration of the availability of the credit, the Republic will pay the bank on the date when the credit becomes available a commission of one-quarter of 1 per cent of $20,000,000, the maximum amount of the credit, and, at the expiration of each period of three months thereafter during the life of the credit, will pay the bank an additional commission of one-quarter of 1 per cent on the aggregate amount theretofore advanced under the credit and then unpaid plus the amount of the credit still available, it being understood that in no event shall more than four such commission payments be made. All commission payments under this clause may be made at the option of the Republic at the principal office of the bank in New York City or at its branch office in the city of Habana, but in the latter event, the bank may transmit such funds to New York City free of taxes and the Republic will pay the bank the amount of any other expenses involved in the transmission of said funds.

Advances under the credit are to be made for payment to contractors for public works constructed and accepted under the authority of the public works law and against the issuance by the Republic to contractors and the assignment by such contractors and delivery to the bank of deferred-payment work certificates in substantially the same manner now obtaining under the existing credit agreements.

Twenty-fifth. Subject to the provisions of this agreement regulating the use of the credit, the payment of advances made thereunder and the reduction of the amount thereof through the sale of additional bonds, the Republic may issue and deliver to contractors with the Republic, for the construction of public works under the public works law, deferred payment work certificates (hereinafter called certificates) up to, but not exceeding $20,000,000 aggregate principal amount, for work completed by such contractors under and in accordance with their respective construction contracts and accepted by the Republic. Such certificates may be issued and delivered to the contractors during the period of one year after the credit becomes available as herein provided, whenever and in such principal amounts, within said limit, as the Republic shall consider necessary or advisable in the execution of such contracts.

Twenty-sixth. The Certificates and the indorsements thereon shall be in substantially the following forms, with all blanks properly completed, to wit:

[*Form of Certificate*]

REPUBLIC OF CUBA

Department of Public Works—Deferred Payment Work Certificate—General Plan of Public Works, Law of July 15, 1925, as Amended

Work_____. Date of contract_____. Contractor_____. Statement of Work No._____. Total of work done covered by this certificate up to the _____ of _____, 193__.

Items	Class of work	Contract price	Amount	
			Dollars	Cents
Total amount				

Amount of ten per cent retained under contract_____

Amount of difference in favor of the contractor_____

Net amount of the work executed covered by this certificate, the form of payment of which is regulated by contract of _____ under Article X of the public works law_____

It is hereby certified that the present liquidation is a true statement of work done according to this certificate, up to the day of measurement ——

day of ———, 193—, and, according to the prices and conditions stipulated in the contract, the net amount of work done is as stated.

Examined and approved this ——— day of ———, 193—.

For the contractor: For the Republic of Cuba:

——— ——— ——— ———,

Chief Engineer.

Issued to ———, contractor, under contract executed between the Republic and such contractor ——— on the ——— day of ———, 193—, for work completed and accepted in the construction of ———.

Due and payable at any time as funds are available in accordance with the provisions of the agreement executed between the Republic and the bank before the notary Oscar A. Montero y Beldarrain on the 26th day of February, 1930, under No. 34, relative to a credit of $20,000,000 established by the bank on behalf of the Republic (hereinafter called the agreement), but not later than March 4, 1931.

The Republic of Cuba (hereinafter called the Republic) certifies that the amount due for work completed by such contractor covered by this certificate under the contract above described, according to determination made on this date and accepted by the Republic, is the principal amount of ——— dollars, the payment of which shall be effected by the Republic on, or as funds are available in accordance with the provisions of the agreement before, March 4, 1931.

The Chase National Bank of the city of New York (hereinafter called the bank) will pay to the contractor above named the principal amount of this certificate, without discount, upon the execution by such contractor of the assignment hereof and the registration of such assignment by the Secretary of the Treasury or his authorized representative, in the forms indorsed hereon, and the delivery hereof to the bank at its branch office in the city of Habana.

The Republic will repay to the bank, as registered assignee and in subrogation to the rights of such contractor, or on its order, the principal amount of this certificate, in gold coin of or equal to the standard of weight and fineness of the gold coin of the United States of America existing on the 1st day of January, 1930, as funds are available for the purpose as provided in the agreement, but not later than March 4, 1931, and will pay interest thereon, in like gold coin, on the 30th day of June, 1930, and the 31st day of December, 1930, and on the date of payment of the principal, at the rate of 5½ per cent per annum from the date of such payment by the bank to said contractor, such payment and the date thereof to be conclusively proved by the assignment receipt executed by said contractor and registered by the Secretary of the Treasury in the form indorsed hereon. Such principal and interest are payable in New York funds at the principal office of the bank, in the borough of Manhattan, city and State of New York, or, at the option of the Republic, at the branch office of the bank in the city of Habana, in which latter event the Republic in each instance will pay, in addition, the amount of any tax then established by or within the Republic, and any other expense, which shall be payable by the bank in connection with the transfer to New York City of the amounts so paid.

This certificate is issued as provided in and is entitled to the benefits of the agreement, to which reference is made for a further statement of the nature of the security and of the terms and conditions upon which this certificate is issued, received, assigned, held and to be paid.

This certificate, when assigned and registered as herein provided, represents and constitutes the irrevocable and incontestable contract obligation of the Republic to pay the principal amount thereof and interest thereon to such registered assignee or on its order, as and when due in accordance with the terms hereof and of the agreement, and in the manner herein and therein provided, without right of reduction or counterclaim for any reason whatsoever, such payments being secured as to principal and interest, by a first preferential right and lien pari passu and on a parity with the preferential right and lien of the bonds, upon the necessary part of 90 per cent of the revenues to be derived from the taxes and economic resources specified in Articles XII to XIX, both inclusive, of the public works law of July 15, 1925, as amended.

This certificate is not assignable or transferable by the contractor above-named, except to the bank for its payment in cash as provided herein and in the agreement, and, if assigned, transferred, pledged or otherwise disposed

of by said contractor to other person or entity, this certificate and all rights under it shall thereby become without value or effect.

This certificate shall not be valid or obligatory for any purpose or entitled to any benefit or security under said agreement until it shall have been signed on behalf of the Republic by its Secretary of Public Works and registered by the Secretary of the Treasury or his duly authorized representative.

In witness whereof and in behalf of the Republic of Cuba, I issue this certificate signed by me as Secretary of Public Works and affix the seal of my Department, this ------ day of ------ 193-------.

------ ------,
Secretary of Public Works.
By ------ ------

[Form of registration]

This certificate issued under agreement of February 26, 1930, between the Republic of Cuba and the Chase National Bank of the City of New York has been registered in the Department of Treasury this ------ day of ------ 193--, at Folio ------ of the corresponding register, registration No. -----.

------ ------,
Secretary of the Treasury.
By ------ ------
Duly Authorized Representative.

[Form of receipt and assignment by contractor]

The undersigned, being the contractor named in the within certificate, in consideration of the principal amount thereof paid without any discount on the date hereof by the Chase National Bank of City of New York, receipt whereof is acknowledged, hereby irrevocably assigns and transfers the within certificate to said bank, but without right of recourse against the undersigned; and by this assignment subrogates said bank to all rights and interests of the undersigned in and under said certificate.

Dated the ------ day of ------ 193--

------ ------, *Contractor.*
By ------ ------

The foregoing assignment is registered in the department of the Treasury this ------ day of ------ 193--, at Folio -- of the corresponding register, registration No. --.

------ ------,
Secretary of the Treasury,
By ------ ------
Duly Authorized Representative.

Twenty-seventh. The certificates shall be numbered one and consecutively upwards and shall be executed in the name and on behalf of the Republic by its Secretary of Public Works, on the basis of work, in accordance with measurements made, completed by the contractors and accepted by the Republic under and in accordance with contracts entered into between the Republic and such contractors in conformity with the public works law, and shall thereupon be delivered to the Secretary of the Treasury for registration. The Secretary of the Treasury, or his duly authorized representative, shall then cause each such certificate to be registered in his department in the name of the contractor specified therein, shall sign a certificate of such registration and shall deliver each certificate to the contractor entitled thereto, for assignment by such contractor to the bank as hereinafter provided. The certificates shall be issued in duplicate and the original, signed and registered as herein provided shall be delivered to the contractor and the duplicate shall be delivered to the Secretary of the Treasury and kept in the records of his department. Only such of the certificates as shall be registered as provided in this agreement shall be valid or obligatory for any purpose, and such registration shall be conclusive evidence that the certificates so registered have been duly issued hereunder and may be assigned to the bank as hereinafter provided.

The Secretary of Public Works and the Secretary of the Treasury, respectively, shall file with the bank, at its branch office in the city of Havana, prior to the issue of any of the certificates, specimens of their signatures and in like manner shall respectively file the names and specimens of the signatures

of any representatives, who are duly authorized to act for them in signing and registering the certificates, and the bank shall be entitled to accept and act upon any certificate signed and registered by any such representatives of the Republic until notified in writing of their resignation or of the revocation of their authority. It shall not be necessary to duplicate any signatures heretofore filed with the bank in connection with operations under the existing credit agreements.

Twenty-eighth. The certificates shall bear as their date of issue the date on which they are signed by the Secretary of Public Works. Each certificate shall mature and be payable not later than March 4, 1931, unless the date of the opening of the credit shall be postponed beyond March 4, 1930, in which event each certificate shall mature and be payable not later than one year after the date when the credit becomes available. The certificates shall bear interest at the rate of 5½ per cent per annum on the principal amounts thereof from the respective dates on which such principal amounts are paid by the bank to the contractors named therein until such principal amounts shall be repaid to the bank by the Republic. The date of payment by the bank of the principal amount of each certificate shall be conclusively proved by the date of the assignment of such certificate executed by the contractor named therein in the form indorsed thereon and registered by the Secretary of the Treasury or his authorized representative.

Twenty-ninth. All the certificates must be assigned to the bank and delivered at its branch office in the city of Habana, by the contractors to whom they are respectively issued, but without any right of recourse by the bank or any other person or entity against the contractors for the payment of the principal or interest of such certificates. Such assignment of each certificate shall be effected by the contractor named therein executing the assignment thereof in the form indorsed thereon and delivering such certificate to the bank, and the bank shall thereupon become and be subrogated to all the rights and interest of the contractor under such certificate. The certificates shall not be assignable or transferable by the contractors to whom they are issued, except to the bank, as herein and therein provided, and if any certificate shall be assigned, transferred, pledged, or otherwise disposed of by the contractor named therein to other person or entity, then such certificate shall thereby become void and of no effect.

Thirtieth. The bank agrees with the Republic that, subject to compliance by the Republic with the conditions of this agreement, it will pay to the contractors named in the respective certificates issued under and in accordance with this agreement, upon the delivery thereof to the bank as hereinbefore provided at any time in business hours during the life of the credit, duly assigned by such contractor and registered by the Secretary of the Treasury or his authorized representative, the principal amounts of such certificates without any discount up to but not exceeding in the aggregate $20,000,000 or such less sum as shall equal the amount of the credit in the event of its reduction as hereinafter provided; any certificate may, however, be paid at any time as hereinafter more particularly provided, and the Republic agrees that it will not issue to contractors any certificates to be assigned to the bank as herein provided in excess of the amount of the credit at that time available. The bank shall be fully protected in relying upon the assignment of the certificates when registered by the Secretary of the Treasury or his authorized representative as herein provided.

In so far as shall be practicable, the certificates will be issued to the contractors and will be assigned and delivered by them to the bank on the first day of each month during the life of the credit, in principal amounts of $100,000 or multiples thereof, for convenience in keeping the accounts and computing the interest, and the Secretary of Public Works will arrange to advise the bank from time to time of the certificates about to be issued and the principal amounts thereof, at least five days prior to the issue of such certificates, in order that the bank may arrange for the transfer of any necessary funds from its principal office in New York City to its branch office in Habana for the purpose of facilitating prompt payment of the principal amounts of such certificates to the contractors.

In order to facilitate the registration of the certificates in the names of the contractors and the registration of the assignment thereof in the name of the bank, the Secretary of the Treasury will keep suitable registration books and will arrange to have a representative at the branch office of the bank in the city of Habana, duly authorized to register the certificates and the assign-

ments thereof as and when presented for that purpose. The bank agrees to provide suitable office facilities for such representative at its branch office without charge to the Republic.

Thirty-first. The Republic agrees that it will repay to the bank as registered assignee and in subrogation to the right of the contractors, or on its order, the principal amounts of all certificates issued to contractors and assigned by such contractors as herein provided not later than one year from the date when the credit becomes available, in gold coin of or equal to the standard of weight and fineness of United States gold coin existing on January 1, 1930, and that it will pay to the bank interest on such principal amounts on the 30th day of June and the 31st day of December, 1930, and/or to the date of payment of the principal, at the rate of 5½ per cent per annum from the dates on which the principal amounts of the respective certificates shall have been paid by the bank to the contractors named therein, which dates shall be conclusively proved by the assignments and receipts executed by the contractors and registered by or on behalf of the Secretary of the Treasury in the form indorsed on the certificates, until the principal amounts thereof shall be paid in full. Such principal and interest shall be paid by the Republic at the principal office of the bank, in the Borough of Manhattan, City and State of New York, or, at the option of the Republic, at the branch office of the bank in the city of Habana, in which latter event the Republic shall also pay in each instance the amount of any tax then established by or within the Republic, and any other expenses which shall be payable by the bank, in connection with the transfer of the amounts so paid to the city of New York.

Thirty-second. The Republic agrees that the certificates to be issued by it to the contractors and assigned by such contractors to the bank as herein provided shall represent and constitute the irrevocable and incontestable contract obligations of the Republic to repay the amounts paid by the bank to the contractors as evidenced thereby with interest, as and when due in accordance with the terms thereof and of this agreement and in the manner therein and there shall be no further or additional advances thereunder.

Thirty-third. The certificates issued by the Republic to contractors and assigned by such contractors to the bank, as herein provided, shall be specially secured and guaranteed *pari passu* and on a parity with the bonds by a first preferential right and lien, to the extent required for the payment of principal and interest, upon 90 per cent of the revenues collected from the taxes specified in Articles XII and XIX, both inclusive, of the public works law, subject only to the rights of the holders of $20,000,000 principal amount of serial certificates issued under the existing credit agreements and now held by the public.

Thirty-fourth. As a guaranty of the payment of the $20,000,000 credit and interest, the Republic agrees to hold in portfolio the $40,000,000 of the bonds which the bank does not agree herein to purchase, and agrees to apply the necessary part of the proceeds of the sale of such bonds, as and when they are sold, to the payment of all sums advanced under the credit and/or to the reduction of the credit until all such sums shall be paid with interest and the credit shall be terminated. Whenever the proceeds of the sale of the said additional bonds and/or the amounts advanced under the credit shall have aggregated $20,000,000, or the period during which the credit is to be available as above provided shall have expired, such credit shall be closed and there shall be no further or additional advances thereunder.

Thirty-fifth. The bank shall have and is hereby given the right or option to purchase, at 95 per cent of their principal amount and accrued interest, the $40,000,000 of the bonds to be held in portfolio by the Republic, or to purchase a part thereof from time to time in lots of not less than $5,000,000 principal amount, which right or option shall continue for five months after payment by the bank as herein provided for the first $40,000,000 of the bonds purchased by it. If the bank sells any of the bonds acquired through the exercise of the said right or option at a price or prices better than 98 per cent of the principal amount of such bonds, the bank will pay the Republic a sum equal to one-half of the difference between 98 per cent of the principal amount of the said bonds and the price or prices at which they are sold by it exclusive of any interest.

Thirty-sixth. At any time, or from time to time, after five months from the date of payment for the first $40,000,000 of the bonds purchased by the bank pursuant to the provisions hereof, the Republic may advise the bank that it desires to sell a stated principal amount, not less than $5,000,000, of

the bonds held by it in portfolio, whereupon, unless within a period of 10 working days (excluding from said 10 days Sundays and holidays), following each such advice, the Republic and the bank shall reach an agreement with respect to the sale and purchase of the bonds which the Republic then desires to sell, the Republic shall be at liberty to sell said bonds to any responsible banking or securities house or firm (other than such or house controlled or sponsored by a contractor or contractors), upon terms not less favorable to the Republic than those offered by the bank. After the termination of the $20,000,000 credit in any manner herein provided, and the payment to the bank of all sums advanced thereunder, the proceeds of any sale of the bonds shall be applied to the payment for public works in accordance with the public works law, as amended; and also, if desired by the Republic, to the purchase or payment and retirement of all or any part of the $20,000,000 principal amount of serial certificates issued under the existing credit agreements and now held by the public.

Until required for such purpose or purposes, the proceeds of any additional bonds sold to the bank, shall remain on deposit with the bank at its branch office in the city of Habana, at rates of interest to be agreed upon from time to time between the Republic and the bank. As any of such proceeds are to be used to make payment for public works, they shall be released by the bank and paid to construction contractors against the delivery to it of requisitions or orders in writing signed or approved by the Secretary of Public Works and the Secretary of the Treasury of the Republic, designating the construction contractor to receive such payment, specifying the amount to be paid and certifying that it is for public works completed by such contractor and accepted by the Republic in accordance with a construction contract or contracts made under the authority of the public works law. The bank shall be entitled to accept such orders or requisitions and shall be fully protected for payments made by it in accordance therewith and on the faith thereof.

If, as, and when any of the bonds may be sold to another than the bank, upon presentation to the bank of the number of bonds so sold with a request, signed by the Secretary of the Treasury, that they be authenticated by its countersignature, the bank will, within five days following their receipt, so countersign such bonds and deliver them to or upon the order of the Secretary of the Treasury.

Thirty-seventh. Out of the proceeds of the collections of the revenues under the public works law during the fiscal year ending June 30, 1931, the Republic shall deposit with the bank, at its branch office in Habana, not later than November 1, 1930, the sum of $1,000,000; not later than February 1, 1931, the sum of $1,000,000; not later than May 1, 1931, the sum of $1,000,000; and not later than August 1, 1931, the sum of $1,000,000. All sums so deposited shall be applied to the payment of public works 5½ per cent serial certificates now outstanding in the hands of the public and maturing December 31, 1931; and, whenever moneys are in its hands available for that purpose, the bank will use its best efforts to acquire such certificates for the Republic in advance of their maturity at prices not in excess of the principal amount thereof and interest plus customary commissions, which shall in no event exceed one-quarter of 1 per cent of the said principal amounts, and, as any such certificates are so acquired, the bank shall cancel and deliver them to the Republic. Until applied to the purchase or payment of said certificates, the bank will allow interest upon moneys so deposited at the rate of 4 per cent per annum. The Republic shall be entitled to a credit against the $4,000,000 to be deposited as aforesaid in an amount equal to the aggregate of the principal amount and interest thereon to date of delivery, of all said serial certificates maturing December 31, 1931, delivered to the bank for cancellation prior to August 1, 1931, such delivery to be made at its principal office in the city of New York or at its branch office in the city of Habana.

Thirty-eighth. The $20,000,000 of serial certificates now outstanding under the existing credit agreements and held by the public, with maturities as hereinabove stated, are to remain outstanding and be paid, principal and interest, in accordance with their terms and the terms of the existing credit agreements, which, together with the security for the certificates thereby afforded, are to be and remain in full legal force and effect until such payment, and the commission of $100,000 payable under said agreements to the bank on July 1, 1930,

shall be paid on that date. Except as in this clause otherwise provided, the existing credit agreements are, and each of them is, to become and be inoperative and of no effect on and after the date when the new $20,000,000 credit becomes available to the Republic as herein provided.

Thirty-ninth. The bank will at all times keep complete and accurate records of its operations under this agreement and the Secretary of the Treasury or any person designated by him or by the President of the Republic shall have access thereto at all times during the business hours of the bank.

Fortieth. Whenever pursuant to the terms of this agreement the Government pays to or deposits any sums of money with the branch office of the bank in the city of Habana it is agreed by the Republic that the bank may transmit said moneys to its principal office in the city of New York free of any Cuban taxes, present or future. The Republic will also pay to the bank all expenses involved in transmitting the said sums of money to New York City.

Forty-first. All notarial charges and all taxes payable in connection with or as a result of the execution of this agreement, with a certified copy thereof for the Secretary of the Treasury, another for the Secretary of Public Works, and another for the bank, shall be for the account of and shall be paid by the Republic.

Forty-second. The parties hereto designate the city of Habana as the place where all notifications, citations, and other judicial and extrajudicial notices emanating from this agreement are to be served, and submit themselves to the judges and tribunals of the Republic in said city, the bank hereby expressly waiving its own domicile.

Forty-third. Notices under this agreement from the bank to the Republic shall be addressed to the Secretary of the Treasury or to the Secretary of Public Works and shall be sufficiently given if sent by registered mail addressed to the Secretary of the Treasury or the Secretary of Public Works, at Habana, Cuba. Notices from the Republic to the bank shall be sufficiently given if signed by the Secretary of the Treasury or the Secretary of Public Works and delivered to the bank at its branch office in the city of Habana.

CONCLUSION

The appearers, Dr. Mario Ruiz Mesa and Dr. Carlos Miguel de Cespedes, in their respective characters of Secretary of the Treasury and Secretary of Public Works of the Republic de Cuba, and Mr. José Emilio Obregón y Blanco, in his character of attorney in fact and in representation of the Chase National Bank of the city of New York, state that they accept on behalf of their respective principals all of the rights and obligations contained in the foregoing clauses.

The witnesses are Drs. Antonio Sanchez de Bustamente y Sirven, y Enrique Hernandez Cartaya.

Thus they stated and declared in my presence and in the presence of the witnesses above mentioned, who state that they are not legally disqualified to act as such, nothing to the contrary being known to me.

I, the notary, certify that I made to the parties appearing the pertinent legal admonitions and they stated that they were fully advised of the same.

I, the notary, also certify that I know the appearers, and that I am acquainted with their occupations and residences; that they have stated all that is contained in this document; that I have informed them and the witnesses of their right to read it themselves and that they have renounced such right; that I have read it to them in its entirety at their request; and that being in accord with the contents thereof the appearers ratified the same in behalf of their respective principals and signed together with the witnesses, adopting the following approved corrections. [Here follow corrections.]

ADDITION. In the act of signing it is made known that although, as has been said before, article 10 of the public works law fully empowers the Executive to contract any kind of credit operation, the secretaries signing this agreement desire to state that the Government, although it does not think it necessary, will immediately report to Congress as one of the conditions of this agreement the proposition of the bankers and the decree of the National Executive accepting the same, for the information and approval of Congress in the same manner in which the law of July 24, 1928, was passed; and I, the notary, make known that in formalizing the present agreement at the presidential palace in the presence of the honorable President of the Republic, General Gerardo Machado

y Morales, he also subscribes it together with the principals and witnesses. I certify.

GERARDO MACHADO.
MARIO RUIZ MESA.
C. M. CESPEDES.
E. OBREGON,
ANTONIO S. DE BUSTAMANTE.
ENRIQUE HERNANDEZ CARTAYA,
DR. OSCAR A. MONTERO.

REPUBLIC OF CUBA

SENATE

I, Celso Cuellar Del Rio, Secretary of the Senate of the Republic of Cuba, certify: That this colegislative body in session held the 16th day of July, 1928, approved a project of law proceeding from the House of Representatives, a literal copy of which is as follows:

"PROJECT OF LAW

"ARTICLE 1. The law of the 15th day of July, 1925, published in the special edition of the Official Gazette of the 16th day of the same month and year, is modified and added to by the present law, in the following manner: Article 10 shall be drawn to read as follows:

"'Time for executing the works; manner of performance and priority:

"'ARTICLE 10. The foregoing works or any other which the national executive may consider of public convenience shall be effected subject, whenever the law so provides, to the requirement of competitive bidding, and at the times that said executive may consider advisable, effort being made to have those of greatest importance executed prior to May 20, 1925, the executive being considered as authorized, for that purpose, to make within that period all the contracts which he may deem advisable, although such contracts may have to be completed after the expiration of the said period, but in any case within a period of not more than 20 years, that is, prior to July 15, 1945. For this purpose, the executive shall adopt the systems or procedure which he may consider most advisable, being authorized by this law and invested with such powers as may be necessary, without any limitation whatsoever, to execute any credit operation for the financing of the works and their most rapid performance, either in a form analogous to that established in the contract with the Chase National Bank of the city of New York, entered into on February 19, 1927, before the notary of Habana, Dr. Conrado Ascanio y Suarez, or in the form authorized in the contract entered into with the same entity, according to the notarial document of June 22, 1928, before the notary of Habana, Dr. Regino Truffin y Pérez de Abreu, or in any other form the executive may deem most advisable or advantageous to the interests of the nation, he being likewise empowered, in consequence, to apply said revenues to any other necessities of the nation, distinct from those of public works.'

"In the same manner and with like scope the executive is authorized to make use of the resources established in articles 21 and 22 of the law for the more complete and rapid performance of the works comprehended in the said articles, as well as the financing of the work of improvement and construction of the Habana Aqueduct, for that purpose utilizing principally the resources derived from the said aqueduct which was taken over by the nation by virtue of the decree dated September 11, 1925, which decree is approved and ratified in all its parts by this law. In the execution of the works effort shall be made in each year to make proportionate distribution thereof for each Province, taking into account the population and requirements of each and care being taken to see that the order established by the law is followed, said priority being adjusted in all cases to the greater importance or necessity of the works and to the most equitable distribution of the available funds, the completion of the central highway being considered as imperative together with the Santiago Aqueduct, the capitol, the sea wall at the entrance of Habana Harbor, and as preferential the sewerage systems, paving, and schoolhouses. The executive shall endeavor to subordinate the volume of work to the requirements of the sugar industry during the crop season, adopting for such purpose whatever measures may be necessary. In the contracts which are executed with the

Government, the contractors shall agree to submit themselves to the Cuban judges and tribunals, and in no case may they allege their status as foreigners or bring any claims against the Cuban Government except before the national tribunals.

"Article 13 shall be drawn to read as follows:

"'Consumption tax on gasoline, petroleum, and other products.

"'ART. 13. The proceeds of a tax of 10 cents per gallon on the consumption of gasoline or any other product imported from abroad which is used in substitution therefor in all the national territory, the customs duties on the said products being reduced to the amount of 1 cent for each gallon. The national executive is authorized to establish, if he shall deem it in order, and in such amount as he may deem advisable, a consumption tax on petroleum and its derivatives, and in an equal manner, on the coal consumed in the national territory, the customs duties now in force being reduced to such minimum as the executive may fix. The proceeds of the taxes which may be established in accordance with the foregoing paragraph shall be applied, first, to cover the decrease in the general budget of the nation resulting from the reduction of the customs duties previously mentioned, and the balance to create a special fund which shall be called "National irrigation and agricultural development fund," which shall be applied solely and exclusively to preparing and carrying out a plan of irrigation and agricultural development in the national territory, the executive being authorized to adopt such regulations as he may deem advisable for the better and more efficient accomplishment of this purpose, especially to establish the manner of reimbursement to the said fund, by the parties benefited, of a part or all of the cost of the work. There shall be constructed in the city of Habana, on land reclaimed from the sea along the water front of the bay, and charged to this fund, a building adequate for the purpose of holding therein periodical national exhibitions, preferably agricultural and industrial, or great conventions.'

"Article 18 shall have the following paragraph added thereto: 'When in notarial documents of creation of property rights, the parties agree that no interest shall be charged, or agree upon a rate of interest so low as obviously to demonstrate an intention of evading the tax, the nation shall have the right to collect the tax, calculating in such cases as the rate of interest for assessment and collection, that of 7 per cent per annum.' Article 20 shall be drawn to read as follows: 'Period of the taxes. ART. 20. The taxes specified in articles 14, 15, 16, 17, 18, and 19 are established with a temporary character and shall be in force for a period of not more than 20 years from July 15, 1925, or until such time as the works to be performed shall be wholly paid for and the contracts entered into by the executive for the financing thereof shall be entirely liquidated, at which time the collection of the taxes shall cease.' The taxes specified in articles 12 and 13 shall be of permanent character and shall be especially applied to the following purposes: (a) The taxes specified in article 12 and in the first paragraph of article 13 shall be applied to preserve and improve the works constructed, especially the roads. (b) The taxes which may be established in accordance with the provisions of the second paragraph of article 13 shall be applied principally to preserve and improve the works accomplished in accordance with the third and fourth paragraphs of said article. Article 22 shall have the following paragraph added thereto: 'The system of reimbursement for the city of Habana, established by article 21 of this law, and the systems of other reimbursements and assessments established in article 22 shall be applicable also to the other works included in the public-works plan, especially the highway and irrigation works, for which purpose the national executive is authorized to issue such regulations and orders as may be advisable for the better and more efficacious reimbursement by private parties to the nation of the cost of the works, as compensation for the benefits or improvements which private property may receive by reason of said works, including the amplification to the extent he may deem necessary of the zones subject to expropriation. The national executive is authorized to establish "National monuments," issuing such regulations and orders as he may deem advisable for the best and most efficacious protection of the said monuments, whether they be of historic, artistic, or patriotic character, as well as for the conservation of the natural wealth and beauty of the country.'

"ART. 2. All other provisions and dispositions of the said law of July 15, 1925, are ratified by the present law, in all particulars which are not contrary to the modifications or additions aforesaid.

"ART. 3. This law shall become effective from the date of its publication in the Official Gazette of the Republic."

I also certify that the said project of law was approved by the favorable vote of the 16 senators present, Messrs. Daniel Compte, Augustín Cruz, Horacio Díaz Pardo, Ricardo Dolz, Alfonzo Duque de Heredia, Lorenzo Fernandez Hermo, Wilfredo Fernandez, Carlos Gonzalez Clavell, Faustino Guerra, Modesto Maidique, Manuel Martinez-Moles, Manuel Vera, José R. Villalón, Rosendo Collazo, Celso Cuellar and Clemente Vasquez Bello, the three last named being secretaries and president, respectively, of this body, said number of votes constituting those of two-thirds of the total number of the members of this colegislative body at the date of approval of said project of law. And for the purpose of remission to the secretary of the treasury who has requested these presents to give effect to the deed for the financing of the general plan of public works, and in accordance with the order of the president, I issue these presents in Habana, the 21st day of February, 1930.

CELSO CUELLAR DEL RIO,
Secretary of the Senate.

Approved.

CLEMENTE VASQUEZ BELLO,
President of the Senate.

(Here follows the seal of the presidency of the Senate.)

I, Dr. Oscar A. Montero y Beldarrain, lawyer and notary of this city and district, with residence in the same, certify to the authenticity of the signatures of Messrs. Clemente Vasquez Bello and Celso Cuellar del Rio, who in their respective capacities as president and secretary of the senate of the Republic, authorize the foregoing certification, because of the likeness which said signatures bear to those which they customarily use in all their acts, hereby making known that this certification has been delivered to me by Messrs. Drs. Mario Ruiz Mesa and Carlos Miguel de Céspedes, in their capacities as secretaries of the treasury and public works of the Republic, to be annexed to the foregoing document and form a part thereof.

Habana, February 26, 1930.

DR. OSCAR A. MONTERO.

[Here follows the seal of said notary.]

REPUBLIC OF CUBA, HOUSE OF REPRESENTATIVES. PRESIDENCY

(Here follows a rubber stamp which says:) "House of Representatives, 21 February, 1930. 028832."

I, the undersigned, secretary of the House of Representatives, certify: That as appears in the minutes corresponding to the session held by this colegislative body the 25th day of June, 1928, registered at folio 147 of the minute book of the third legislature of the thirteenth congressional period, there was adopted among other things the following, a literal copy of which reads as follows: "On a vote by name ordered by the Presidency and by 84 votes in favor to 4 4 against, there was adopted the resolution to approve the petition for suspension of the rules presented by Messrs. C. Machado and others, in order to take up immediately the proposition of law presented by the same gentlemen modifying articles 10 and others of the law of the 15th of July, 1925. There voted in favor: Messrs. Aguiar, Aguilar, Albuerne, R. Alfonso, J. M. Alfonso, Elio Alvarez, Alvera, Alliegro, Aragonés, Ariza, A. Barrero, O. Barrero, Beltrán, Bosch, Bover, Bravo Acosta, Calás, R. Campos, F. Campos, Candia, Carrillo, Castillo, Cisneros, Cruells, Cuesta, Cueto, Echeverría, Espinosa, Finalés, Fundora, G. Montes, George, Gil, L. Grau, B. Grau, Haedo, Hernandez Dou, Hirzel, Infante, C. Machado, E. Machado, Madrid, Martinez Quiroga, Martinez Rivera, Menció, Mendoza, Meso, Milanés, Mola, Navarrete, Nuñez, Rafael Padierne, Ricardo Padierne, Parodi, Perez, Piedra, G. Pino, Ponce, Prado, Ramirez, Recio, Remedios, Rey, Reyes, Rio, Rivero, R. Barahona, R. Cremé, R. Ramirez, Rubio, San Pedro, Sardiñas, Sierra, Soto Izquierdo, Tomé, Torre, Trujillo, Urbino, Urquiago, Villalón, Villaverde, Alberni, la Guardia y Guás Inclá. There voted against Messrs. Castellanos, Cruz Ugarte, Wolter del Rio, and Zaydin. (Mr. George occupied the presidency.) Without discussion the whole of said proposition of law was approved by vote by name, by 86 votes in favor and 4 against, there having voted consequently in favor two-thirds of the voting representatives. There voted in favor: Messrs. Aguiar, Aguilar, Albuerne, R. Alfonso, J. M. Alfonso, Elio Alvarez, Alvera, Alliegro, Aragonés, Ariza, A. Barrero, O. Barrero, Beltrán, Bosch, Bravo Acosta, Calás, R. Campos, F. Campos, Candia, Carrillo,

Castillo, Cisneros, Cruells, Cuesta, Cueto, Diaz Valdes, Echeverría, Espinosa, Finalés, Fundora, García Montes, Gil, George, L. Grau, B. Grau, Haedo, G. Hernandez, Hirzel, Infante, C. Machado, E. Machado, Madrid, Martinez Quiroga, Martinez, Rivera, Mestre, Menció, Mendoza, Meso, Milanés, Mola, Mora digo Navarrete, Nuñez, Rafael Padierne, Ricardo Padierne, Parodi, Pérez, Piedra, G. Pino, Ponce, Prado, Ramirez, Recio, Remedios, Rey, Reyes, Rio, Rivero, R. Barahona, R. Cremé, R. Ramirez, Rubio, San Pedro, Sardiñas, Sierra, Soto Izquierdo, Tomé, Torre, Trujillo, Urbino, Urquiaga, Villalón, Villaverde, Alberni, la Guardia and Guás Inclán. There voted against Messrs. Castellanos, Cruz Ugarte, Wolter del Rio and Zaydin.

Article 1 of the project of law was approved by vote by name by 86 votes in favor and 5 against. Article 2 was approved by vote by name by 86 votes, all in favor, and also by vote by name article 3 was approved by 86 votes, all in favor, approving the proposal of Representative Carlos Machado Morales that it be sent directly to the Senate. Said 86 votes constitute two-thirds of the total number of the members of this colegislative body on the date of the approval of said project. And on the petition of Representative Octavio Barrero Velazco, I issue these presents, upon the authorization of the President, in accordance with the provisions in paragraph 8 of article 35 of the rules, in Habana, on the 21st day of February, 1930.

Dr. JOSE ALBERNI.

Approved.

RAFAEL GUAS INCLAN, *President.*

(Here follows the seal of the House of Representatives.)

I, Dr. Oscar A. Montero y Beldarrain, lawyer and notary of this city and district, with residence in the same, certify to the authenticity of the signatures of Messrs. Rafael Guás Inclán and José Alberni, who in their respective capacities as president and secretary of the House of Representatives of the Republic authorize the foregoing certification, because of the similarity which said signatures bear to those which they customarily use in all their acts, hereby making known that this certification has been delivered to me by Messrs. Drs. Mario Ruiz Mesa y Carlos Miguel de Céspedes, in their capacities as Secretaries of the Treasury and of Public Works of the Republic, to be annexed to the foregoing document and form a part thereof.

Habana, February 26, 1930.

Dr. OSCAR A. MONTERO.

(Here follows the seal of said notary.)

NO. 55. EXTENSION

In the city of Habana, on the 5th day of March, 1931, before me, Dr. Carlos Alberto Saladrigas y Heredia, a lawyer and notary public of the notarial college and district of this capital, a resident thereof, as accidental substitute for my colleague, Dr. Regino Truffin y Perez de Abreu, and in his office of records, appear Mr. Mario Ruiz Mesa, Secretary of the Treasury of the Republic of Cuba, a native of the Province of Santa Clara, a Cuban citizen, of legal age, married, a lawyer, and a resident of this city; Mr. Manuel Lombillo y Clark, Secretary of Public Works of the Republic of Cuba, a native of Matanzas, a Cuban citizen, of legal age, married, an engineer, and a resident of this city; and Mr. Louis Samuel Rosenthal, a native of the United States of America, an American citizen, of legal age, a banker, and a resident of this city.

CAPACITIES

Messrs. Mario Ruiz Mesa and Manuel Lombillo y Clark appear in this act in the name and in behalf of the Republic of Cuba, hereinafter called "the Republic," and in their respective capacities of Secretary of the Treasury and Secretary of Public Works, which high offices they now hold and by virtue of and in accordance with the power and authorization to them conferred by presidential decree dated March 2, 1931, by which they were designated for the execution of this deed, a certified copy of said decree being at the end hereof, to all of which I, the notary, attest.

And Mr. Louis Samuel Rosenthal does so in the name and behalf of and in his capacity as attorney for the Chase National Bank, of the city of New

York, hereinafter called "the bank," a banking association organized and existing in accordance with the laws of the United States of North America, with its principal office in the city and State of New York and doing business in this Republic; under the power of attorney which said banking institution conferred in favor of Mr. William Ignayius Quealy, before the notary of the city of New York, Mr. John F. Brosnan, on the 30th of July, 1927, the original whereof, properly authenticated and with its translation into Spanish was protocolized before the notary of this city, Mr. Conrado Ascanio y Suarez, on August 22 of the same year, under No. 572, which power was delegated in its integrity by the said Mr. William Ignatius Quealy in favor of the appearer, Mr. Rosenthal, by another deed executed before the notary of this city, Mr. Francisco Garcia Montes, on the 14th of May, 1930, under No. 130, such power containing among others, the following faculties:

"Second. To do business with the Republic of Cuba or with any Province, municipality, or other governmental department or subdivision thereof, and with its officials and accredited representatives, and to make by contract or otherwise any like negotiation with respect to any matter which affects or relates to the legal status of said bank in the Republic of Cuba, or its business, or with respect to the loaning of money or the granting of credits, or the obtaining or acceptance of concessions or privileges of any kind from said Republic, Province, or municipality or other governmental department or subdivision and to execute any and all contracts or engagements which may thus be made."

I, the notary, certify that the extract agrees exactly with the Spanish translation of the aforesaid protocolized power, a certified copy of which I have before me in this act, without its containing any other clause or particular which amends, alters, or restricts the tenor of what is copied; Mr. Rosenthal declaring, under oath, for the purposes of what is provided in article 215 of the existing notarial code of Cuba, that the power protocolized by the aforesaid deed No. 572, as also the documents attached thereto, are authentic and the acts they contain true; that he is responsible to third parties for whatever damages might arise from said documents should they prove false; also that the power which he uses has not been revoked, suspended, or limited in any way.

The appearers assure me that they are in the full enjoyment and exercise of their civil rights, and I, the notary, find them to have the necessary legal capacity for the execution of this instrument.

STATEMENT

All the parties appearing in their capacities aforesaid state:

First. That the congress of the Republic, by means of an amendment introduced in the public-works law of July 15, 1925, which amendment was duly adopted and sanctioned by the national executive on July 24, 1928, and published in the Official Gazette on the 25th of July of the same year, directed the national executive to endeavor to have the public works authorized by the public-works law constructed before May 20, 1935, and authorized and empowered it, within the terms of the aforesaid amendment, to adopt the systems and procedures deemed most convenient for that purpose, and to enter into any credit transaction for financing such public works and their speedy completion, whether in a form similar to that adopted in the agreements made between the Republic and the bank by deed executed before the notary of this city, Mr. Conrado Ascanio y Suarez, on February 19, 1927, under No. 143, or in the form determined by the agreement entered into by deed executed on June 22, 1928, before the notary of this city, Mr. Regino Truffin y Pérez de Abreu, under No. 114, or in such other form as the national executive should consider most convenient or beneficial to the interests of the Republic; the said amendment likewise providing that the taxes to which articles 14 to 19, both inclusive, refer, which were declared by the public-works law to be of a temporary character, be extended and continue in force for a period not longer than 20 years, from the 15th of July, 1925, until the date on which the public works undertaken shall have been totally paid for and the contracts made by the national executive for financing the same are entirely liquidated.

Second. That the national executive, in conformity with the powers and faculties conferred upon him by the constitution and the laws of the Republic, and in order to accelerate the completion of the public works already contracted for, pursuant to the general plan of the public-works law and the execu-

tion of the public works of greatest importance mentioned in such law, and such others of major importance mentioned in such law, as were between them considered by the national executive of public convenience, in order to have such works completed before the 20th of May, 1935, has granted, prior to that date, contracts for public works authorized by the said public-works law, and for the purpose of providing additional financing for the carrying out of said public works, invited the bank to make a proposal to that effect to the Republic which the bank formulated in two documents dated the 30th of January and the 3d of February, 1930, respectively, and the 8th of the same month of February the secretary of the treasury duly accepted such proposal in behalf of the Republic.

Third. That the national executive, acting in accordance with the powers conferred on him by the constitution and laws of the Republic, in view of the favorable report of the Secretary of the Treasury, by executive decree No. 189 of February 10, 1930, published in the Official Gazette of the same day, and in order to provide for payment to the contractors for work completed prior to the collection of the income appropriated for such payments by the public-works law, accepted the aforesaid proposal indicated therein as the most beneficial one for the financing and rapid execution of the public works, created and authorized in proper form an issue of $80,000,000 principal of public-works bonds of the Republic and the opening of a $20,000,000 credit by the bank in favor of the Republic and in due form also intrusted to the secretaries of the treasury and of public works with the compliance with said decree and the execution of an agreement to carry it into effect, in all its details.

Fourth, That the congress of the Republic, with the quorum required by article 59—No. 3 of the constitution—ratified and approved the aforesaid financial operation in its integrity and as it was accepted by presidential decree No. 189 of February 10, 1930, referred to in clause 3 preceding, and the law containing such approval, duly sanctioned by the President, was published and bore the date of March 5, 1930, in the Gazette of the same date.

Fifth. That pursuant to the terms and conditions of the aforementioned proposal of the bank and those of the national Executive's decree cited, and in compliance therewith, the secretaries of the treasury and of public works, in behalf of the Republic, entered into an agreement with the bank by deed No. 34 of the 26th of February, 1930, before the notary of this city, Mr. Oscar A. Montero y Beldarrain, by virtue whereof the bank, amongst other things, placed at the disposal of the Republic a credit of $20,000,000 for a period of one year, as specified in said deed, against which credit and subject to the provision which regulated its use, pursuant to the same deed, the Republic could issue and deliver to contractors for the construction of public works, under the public works law deferred payment work certificates up to said amount of $20,000,000 for work done by said contractors under and by virtue of their respective construction contracts and accepted by the Republic, which certificates were to be numbered consecutively from 1 upwards; would be authorized in the name and behalf of the Republic by its secretary of public works; would be recorded in the treasury department; would bear as their date of issue the day on which they would be signed by said secretary of public works and would mature the 4th of March, 1931; would be assigned by the respective contractors to the bank which would pay their amount to said contractors; would bear interest at the rate of 5½ per cent per annum on the fact value thereof, from the respective dates on which said amounts of principal were refunded to the bank by the Republic guaranteeing their payment in the same degree and on the same conditions as the bonds referred to in said deed No. 34 with a preferential title and lien on 90 per cent of the income collected from the taxes specified in articles 12 to 19, both inclusive, of the public works law, subject solely to the rights of the holders of the $20,000,000 principal amount of serial certificates issued under the existing credit agreements and sold to the public by the bank, pursuant to the deed executed on June 22, 1928, before the notary, Dr. Regino Truffin y Perez de Abreu, under No. 114 and by said deed No. 34 by which the Republic as additional security for payment of the aforesaid deferred payment certificates and interest thereon, likewise agreed to retain in its portfolio the $40,000,000 in bonds which the bank did not undertake to purchase, out of the $80,000,000 in bonds issued under the aforesaid deed No. 34 and apply the proceeds from the said retained bonds when and as sold, preferentially and in the necessary portion, to the payment of all sums advanced by reason of the credit and/or to the reduction of said credit and until all such sums should be paid and the credit be closed,

the remaining covenants and conditions whereunder the said bonds were issued and those under which the said deferred payment work certificates were issued, being set forth at length in the aforesaid deed No. 34.

Sixth. That by virtue of the agreement contained in the aforementioned deed No. 34, executed before the notary of this city, Mr. Oscar A. Montero y Beldarraín, on February 26, 1930, the bank has now in its possession deferred payment work certificates signed by the secretary of public works and recorded in the treasury department, properly assigned in favor of the bank, of which assignment the treasury department has taken note, to the amount of $20,000,000 official gold currency, which certificates are detailed and described hereunder:

Liquidacion de intereses sobre certificados de obra con pago diferido, pagados por the Chase National Bank of the City of De Acuerdo Con La Escritura No. 34 de Fecha Febrero 26 de 1930, ante el Notario Oscar A. Montero y Beldarrain

Certificado No.	Fecha del pago	Pagado al contratista	Clase de obra	Importe del certificado
	1930			
1	Marzo 11	Compañía Cubana de Contratistas	Carretera Central	994,124.17
2	...fd	...fd	...fd	859,065.14
3	...fd	Warren Bros. Co	...fd	371,222.95
4	...fd	...fd	...fd	484,317.90
5	...fd	...fd	...fd	405,689.07
6	...fd	...fd	...fd	1,536,933.41
7	...fd	...fd	...fd	9,662.77
8	...fd	...fd	...fd	1,494,836.25
9	...fd	...fd	...fd	89,504.72
18	Marzo 17	...fd	...fd	342,616.23
21	...fd	...fd	...fd	440,881.33
11	Marzo 18	Compañía Cubana de Contratistas	...fd	149,000.00
12	...fd	...fd	...fd	110,000.00
14	...fd	...fd	...fd	54,000.00
15	...fd	...fd	...fd	12,000.00
10	...fd	...fd	...fd	591,293.91
13	...fd	...fd	...fd	485,490.56
16	...fd	Warren Brothers Co	...fd	389.84
17	...fd	...fd	...fd	289,812.38
19	...fd	...fd	...fd	402,710.61
20	...fd	...fd	...fd	178,399.91
46	Marzo 22	Buenaventura Blanco	Carretera Yaguajay á Meneses	1,660.50
4	Marzo 28	J. F. Hernandez y E. Rodriguez	Acueducto Trinidad	8,165.45
2	Marzo 31	Juan Puig Snarl	Hosp. Ceral Machado	6,834.09
47	Abril 1	Juan Rebozo	Carretera Baracoa á Sabanilla	3,512.07
5	...fd	Primitivo del Portal	Alc. en Santa Clara	27,410.23
22	April 2	Warren Brothers Co	Carretera Central	18,328.39
23	...fd	...fd	...fd	46,586.23
24	Abril 10	...fd	...fd	230,000.00
25	...fd	...fd	...fd	28,000.00
1	...fd	Ottis Elevator Co	Rep. Edificio Barraqué	854.40
1	Abril 12	Oscar Fernandez	Hosp. Gral Calixto Garcia	2,295.84
1	...fd	José O'Reilly	Adap. Colegio de Belén	13,510.69
26	Abril 16	Compañía Cubana de Contratistas	Carretera Central	767,361.13
28	...fd	...fd	...fd	85,000.00
27	...fd	Warren Brothers Co	...fd	773,572.85
6	Abril 17	Primitivo del Portal	Alc. de Santa Clara	31,544.86
30	Abril 23	Warren Brothers Co	Carretera Central	367,856.99
33	...fd	Compañía Cubana de Contratistas	...fd	480,915.80
34	Abril 24	...fd	...fd	53,000.00
29	...fd	Warren Brothers Co	...fd	104.92
31	...fd	...fd	...fd	2,518.74
32	...fd	...fd	...fd	13,648.70
35	Abril 25	...fd	...fd	936,791.30
1	Abril 26	Enrique Garcia	Edificio Dec. Agricultura	30,248.00
3	...fd	...fd	...fd	524.13
45	Abril 30	Juan Rebozo	Rep. casa en Baracoa	362.01
5	Mayo. 1	Mestre Machado y Cía	Acueducto en P. del Rio	1,481.66
6	...fd	...fd	...fd	180,694.57
s/n	...fd	...fd	Instituto del Cancel	28,504.56
48	Mayo 3	Buenaventura Blanco	Carr. Yaguajay á Meneses	3,120.24
4	Mayo 6	Maritnez y Rojas	Inst. en Santa Clara	202.93
5	Mayo 7	J. F. Hernandez y E. Rodriguez	Ac. en Trinidad	9,526.59
1	Mayo 8	Thos. Leveau	Emb. de la Habana	3,000.00
49	...fd	Juan Rebozo	Carr. Baracoa á Sabanilla	875.54
36	Mayo 9	Warren Brothers Co	Carretera Central	295,811.16
37	...fd	...fd	...fd	16,488.84
7	Mayo 19	Primitivo del Portal	Alc. en Santa Clara	20,693.73

Liquidacion de intereses sobre certificados de obra con pago diferido, pagados por the Chase National Bank of the City of De Acuerdo Con La Esoritura No. 34 de Fecha Febrero 26 de 1930, ante el Notario Oscar A. Montero y Beldarrain—Continued.

Certificado No.	Fecha del pago	Pagado al contratista	Clase de obra	Importe del certificado
1	Mayo 21	Martinez y Rojas	Inst. en Santa Clara	9,394.92
9	...fd	...fd	Palacio Justicia Sta. Clara	2,195.80
1	...fd	Joaquin Casaliz	Hosp. en Gral Machado	1,200.00
5	Mayo 22	Juan Puig Suari	...fd	7,826.22
2	Mayo 23	Alvesú y Gutierrez	Sanatorio La Esperanza	464.66
3	Mayo 24	...fd	...fd	1,166.61
39	...fd	Compañia Cubana de Contratistas	Carretera Central	687,811.97
44	...fd	...fd	...fd	367,547.83
40	Mayo 26	...fd	...fd	76,000.00
45	...fd	...fd	...fd	41,000.00
42	Mayo 27	Warren Brothers Co	...fd	72.40
43	...fd	...fd	...fd	285,339.97
41	...fd	...fd	...fd	51,646.92
38	...fd	...fd	...fd	375,491.08
46	...fd	...fd	...fd	879,715.61
2	Mayo 28	Oscar Fernandez	Hospital C. Garcia	4,410.05
1	Junio 7	Arturo Beltrán	Acd. Santiago de Cuba	122,983.38
51	Junio 11	Juan Rebozo	Carrt. Baracoa á Sabanilla	1,969.03
3	...fd	Martinez y Rojas	Inst. Santa Clara	1,013.88
5	...fd	...fd	...fd	1,941.62
2	...fd	Theo. Leveau	Emb. Habana	750.00
6	Junio 13	J. F. Hernandez y E. Rodriguez	Acto. en Trinidad	14,441.77
1	Junio 14	Walter y Cendoya Co	Hosp. en Gral. Machado	3,490.00
1	Junio 18	Ottis Elevator Co	Rep. Edificio Barraquê	256.00
57	Junio 20	Cía. Urbana de Contratación	Ave. de los Presidentes	223,314.84
51	...fd	Compañia Cubana de Contratistas	Carretera Central	50,000.00
57	...fd	...fd	...fd	52,000.00
47	...fd	Warren Brothers Co	...fd	27,972.37
48	...fd	...fd	...fd	320,461.57
49	...fd	...fd	...fd	10,009.80
52	...fd	...fd	...fd	514,682.26
50	...fd	Compañia Cubana de Contratistas	...fd	470,408.10
56	...fd	...fd	...fd	483,519.32
1	...fd	Mestre Machado y Cía	Acdto. en Camaguey	120,403.29
1	...fd	...fd	Carretera P. del Rio á S. J. Martines.	59,305.91
53	Junio 21	Warren Brothers Co	Carretera Central	186,006.01
54	...fd	...fd	...fd	37,394.21
55	...fd	...fd	...fd	304,599.78
50	...fd	Buenaventura Blanco	Carretera Yaguajay pá Meneses.	3,135.60
2	...fd	Francisco Garcia	Sec. de la Presidencia	957.88
8	Junio 27	Primitivo del Portal	Alct. en Sta. Clara	33,618.99
3	Junio 30	Fuan Puig Suari	Hosp. en Gral. Machado	6,507.80
2	Julio 1	Arturo Beltrán	Acdto. Santiago de Cuba	27,016.62
7	Julio 10	Mestre Machado y Cía.	Acdto. P. del Rio	69,617.61
3	Julio 14	Theo. Leveau	Emb. Habana	750.00
2	...fd	Oscar Fernandez	Hospital C. Garcia	492.21
7	Julio 18	J. F. Hernandez y E. Rodriguez	Acdto. en Trinidad	5,594.09
2	...fd	Mestre Machado y Cía	Alc. en Camaguey	21,823.25
1	Julio 21	J. F. Hernandez y E. Rodriguez	Parque en Gral. Machado	1,247.02
1	...fd	Federico G. Fabre	Const. Escuela Tecnica	28,980.00
4	Julio 22	Arvesú y Gutierrez	Sanatorio La Esperanza	129.62
1	Julio 25	Mestre Machado y Cía	Carr. Guines á Nueva Paz	5,033.70
17	...fd	Purdy & Henderson Co	Capitolio	50,787.49
2	Agosto 7	Mestre Machado y Cía	O. P. del Rio á S. J. y Martinez	9,000.72
8	...fd	...fd	Acdto. en P. del Rio	28,777.68
4	Agosto 12	Juan Puig y Suari	Hosp. en Gral Machado	4,790.60
18	Agosto 21	Purdy & Henderson Co	Capitolio (666)	14,147.65
				20,000,000.00

Seventh. That in fulfillment of what has been agreed between the Republic and the bank, the maturity of said credit as regards all or any portion of its principal is extended for 90 days, which shall begin to run and be counted from to-day, the 5th of March, 1931, exclusive, and shall expire on the 3d of June of the present year, notwithstanding which it may later be extended in like manner for a period or periods of 90 days each, or less, at the request of the Republic through its Secretary of the Treasury, who is hereby designated for that purpose, at least 15 days prior to the expiration of the extension

period then current and granted by the bank. The bank may give or refuse such consent at its will, notwithstanding which the total number of extension periods shall not exceed in the aggregate a maximum period of two years. Unless further extended upon request and consent as herein provided, said credit and deferred payment work certificates shall be due and payable as to principal and accrued interest from December 31 ultimo, at the expiration of every extension period that may be running.

Eighth. It is likewise agreed that the deferred payment work certificates in question are to be considered as extended to correspond to the present or any future extensions of the maturity of said credit and shall continue to draw the same interest as agreed in the aforementioned deed No. 34 until they are paid, without their security nor any of the conditions established in the said deed being changed, which security and conditions are hereby ratified and reproduced to all legal effects, this agreement being only a simple extension of the date of maturity of the aforesaid $20,000,000 credit opened for the acquisition of such deferred payment work certificates that are by such fact likewise extended.

Ninth. That the Government of the Republic shall pay and deliver to the bank within 24 hours of the execution of this deed, as commission, one-quarter of 1 per cent on the total amount of the aforesaid $20,000,000 credit, in addition to the interest fixed in the original agreement, and will, besides, pay in advance for each one of the successive 90-day extensions that may be granted it, the same one-quarter of 1 per cent on the principal amount of said credit then unpaid upon agreeing to each one of the said extensions, such commission being reduced in the corresponding amount if any of the agreed extensions should be under 90 days.

Tenth. That the extension referred to in the immediately preceding clause shall be considered as subject to the compliance, and understood as without any force or effect if within the period of 30 days counting from to-day, or within such further periods as the bank may consent to, the Republic does not comply with the following requirements:

(*a*) That the holders of the treasury gold notes of the Republic of Cuba referred to in deed No. 156, executed before the notary of this city, Mr. Oscar A. Montero y Beldarraín, on October 30, 1930, shall accept in legal form the present or any further extensions of the period of the $20,000,000 credit and the deferred payment work certificates in the same form as appears in deed No. 34 of the 26th of February, 1930, before said notary, and on the same conditions stated in clauses 14 and 24 of the above-referred-to deed No. 156 of October 13, 1930, before Doctor Montero.

B. That on said provisional and on the final notes referred to in the letter (*a*) there shall be affixed a rubber stamp which shall be signed by the Secretary of the treasury, or the person he may designate, and by the fiscal agent, which shall be worded, more or less, as follows: "This note is likewise subject to the additional deed executed on ——— of ———, 1931, before the notary of this city, Dr. Carlos Alberto Saladrigas y Horedia as substitute of Dr. Regino Truffin y Pérez Abreu, under number ——— Habana ——— of ———, 1931.

———,
Secretary of the Treasury.

———,
Fiscal Agent.

(*c*) That a law be passed with the quorum required by article 59—No. 3 of the constitution and sanctioned in legal form containing substantially the following articles:

"Article 1. The President of the Republic is hereby authorized to extend up to a maximum period of two years the maturities of the credit of $20,000,000 and deferred payment work certificates acquired with said credit, in accordance with the financing operation agreed with the Chase National Bank of the City of New York accepted by presidential decree No. 189 of February 10, 1930, with all the necessary forms and details for its realization to which the national executive has agreed or may agree, in the exercise of the powers granted to him as contained in the law of March 5, 1930."

"Article 2. The agreement entered into between the Chase National Bank, of the city of New York, and the Republic of Cuba on the 26th of February, 1930, under No. 34, before the notary of this city, Mr. Oscar A. Montero, is conse-

quently hereby totally ratified for the additional period or periods of time up to the maximum limit of two years which the executive has agreed or may agree to with the aforesaid banking institution according to the stipulations contained in the deed executed and in the files of the notary, Mr. Regino Truffin y Pérez de Abreu, under No. 55, on the 5th of March, of the present year.

"Article 3. The deeds executed on October 30 and November 21, 1930, under Nos. 156 and 166, before the notary of Habana, Dr. Oscar A. Montero, between the Republic of Cuba, Warren Brothers Co., the Cia. Cubana de Contratistas and the First National Bank of Boston, as also the additional deed which will be executed between the same contracting parties and other holders of notes, are likewise hereby ratified and approved in all their parts.

"Article 4. This law shall be in force from the day of its publication in the Official Gazette of the Republic."

Eleventh. For the corresponding effects the appearers request the acting notary to record on the deferred payment work certificates related in clause 5 of this instrument the extension of the maturity date herein agreed, and for such purpose Mr. Rosenthal, in behalf of the bank, shall exhibit said certificates whereon I, the notary, shall record said extension by affixing to each one of them, upon compliance with all the conditions stipulated in the preceding clause, a rubber stamp which will read as follows: "The date of maturity of this certificate has been extended without any change of its interest, security or any other of its conditions, in accordance with the deed executed before me under date of March 5, 1931, under No. 55. Habana, ——— of ———, 1931.

———— ————,
Notary Public."

ACCEPTANCE

All the appearers, in their capacities aforesaid, add:

Twelfth. That in so far as they are respectively concerned they accept the present deed for all its legal effects.

WAIVERS AND OBLIGATIONS

Thirteenth. That all expenses and fees to which this deed may give rise, with a certified copy for the Republic and another for the bank shall be for the account and charge of the Republic who will also reimburse the bank any other reasonable expense or disbursement which it may have incurred by virtue of the present agreement or any future extension, or which it may incur on account of the same.

Fourteenth. That they designate this city as the place in which all notifications, summonses and other judicial and extra-judicial processes shall take place and submit themselves to the judges thereof with express waiver of the jurisdiction of their own domicile, should it be different.

NOTARIAL ADVICES

I, the notary gave to the executing parties orally, the legal reservations and admonitions as to pertinent regulations.

READING AND RATIFICATION

Executed by the appearers, in their respective capacities, in my presence.

I, the notary, certify that the appearers have stated what the present document contains; to having informed them of their right to read it for themselves; to my having read it, upon their waiver, in its integrity and in a single act, and that in accordance with its tenor it is ratified and signed by them.

To all of which, as well as to a knowledge of the appearers, and other circumstances relating to their nationality, citizenship, age, civil status, profession and residence, I, the notary, attest, and likewise that with the approval of all the following corrections are made: (A list of corrections follows).

MARIO RUIZ MESA.
M. LOMBILLO CLARK.
L. S. ROSENTHAL.
DR. CARLOS A. SALADRIGAS,

REPUBLIC OF CUBA, PRESIDENTIAL PALACE,
DEPARTMENT OF THE TREASURY.

EXECUTIVE POWER—DECREE NO. 328

Whereas pursuant to the contract entered into by the Republic of Cuba and the Chase National Bank of the City of New York as set forth in deed No. 34 of February 26, 1930, executed before the notary of this capital, Mr. Oscar A. Montero y Beldarrain, the said bank placed at the disposal of the Republic a credit of $20,000,000 for the acquisition of deferred payment work certificates, for a period of one year which is about to expire, secured by forty millions of the public works gold bonds, then issued and which the Government has not considered it convenient to sell, due to the state of the security market;

Whereas the said banking institution has presented to this Executive a proposal for the extension of said $20,000.000 credit and the deferred payment work certificates acquired therewith, for a period of 90 days, which period may likewise be extended, on request of the Republic and at the will of the bank, for successive periods of a like number of days, or less, the total number of such extensions not to exceed a maximum term of two years, on the same conditions stipulated in the aforesaid deed whereby the credit was granted to the Republic, and such credit and deferred payment work certificates, issued by the Department of Public Works and acquired by the bank with said credit to retain the preference which they now have over the treasury notes issued by deed No. 156 of October 30, 1930, before the Notary Oscar Montero y Beldarrain, for the termination of the central highway;

Whereas this Executive considers the proposal formulated by the Chase National Bank of the city of New York acceptable and convenient for the Republic;

Now, therefore, in the use of the faculties conferred upon me by the constitution and the existing laws, upon the proposal of the Secretary of the Treasury, *I resolve*

First. To accept the offer of extension of the term of the aforementioned $20,000,000 credit formulated by the Chase National Bank of the city of New York.

Second. To authorize the Secretaries of the Treasury and of Public Works, in the name and behalf of the Republic, to appear at the execution of the pertinent deeds, relating to the extension of the term of the credit and the acceptance of same by the parties interested in the treasury note issue, on the conditions agreed with this Executive.

Third. That the aforesaid contracts be submitted to the approval of the honorable Congress of the Republic.

The Secretaries of the Treasury and of Public Works are intrusted with the fulfillment of the disposition of this decree.

Given in the presidential palace in Habana, on the 2d of March, 1921.

GERARDO MACHADO, *President.*

MARIO RUIZ MESA,
Secretary of the Treasury.

I certify: That this is a true copy of its original, which is sent on this date to the Official Gazette of the Republic for publication. Habana, 2d of March 1931.

MARIO RUIZ MESA,
Secretary of the Treasury.

It agrees with the original to which I refer, which, under the heading of serial No. 55, remains in the general current files of the notarial office in charge of Dr. Regino Truffin y Perez de Abreu, now in mine, as accidental substitute of the latter. And I issue this first copy for "the Chase National Bank of the city of New York" on twenty-five sheets of paper, without affixing tax stamps thereon, the expenses of the account being the charge of the Cuban Government, and pursuant to the resolution of the Secretary of the Treasury communicated to this notarial office in the 16th of July, 1928, tax stamps are not affixed in this case, a notation being made of the dispatch of this copy on the margin of the original. Habana, the 7th of March, 1931.

Senator JOHNSON. Are there any other agreements in writing that you have with the Cuban Government?

Mr. SCHMIDLAPP. No, sir.

Mr. WILLIAMS. I may have a copy of it here.

Senator JOHNSON. Well, is there any other?

Mr. ANDERSON. There is one other agreement.

Senator JOHNSON. State what it is in terms, please.

Mr. SCHMIDLAPP. It is in connection with this $20,000,000 credit.

Senator JOHNSON. Relating to its application, and the like?

Mr. WILLIAMS. Merely extending the time for the payment of it.

Senator JOHNSON. If you have a copy of it, will you be good enough to produce it?

Mr. WILLIAMS. Yes.

Senator JOHNSON. Now is there any other agreement that you have with the Cuban Government?

The CHAIRMAN. Senator Johnson, if we are going to have that agreement which was just referred to put into the record we will have it put in at the same place where the others were put in the record.

Senator JOHNSON. Yes. It is understood that they will all be placed in the record at the same point. Have you any other agreement with the Cuban Government?

Mr. SCHMIDLAPP. No, sir; not that I know of.

Senator JOHNSON. Any other agreement, either verbal or written?

Mr. SCHMIDLAPP. No, sir; not that I know of.

Senator JOHNSON. Any agreement with anybody who represents the Cuban Governmen in any way, shape, form, or manner.

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. How was it that you happened to employ Mr. Obregon?

Mr. SCHMIDLAPP. We thought he was a man that had banking experience with his previous position. He had a good position in the Island. We thought he would be a good contact man. And he was first employed as a new business man.

Senator JOHNSON. That is, as a new business man, contact man, generally, I assume?

Mr. SCHMIDLAPP. Right.

Senator JOHNSON. Did he hold any other official position in the Island?

Mr. SCHMIDLAPP. Not when he was employed by us.

Senator JOHNSON. Did he subsequently?

Mr. SCHMIDLAPP. I do not know.

Senator JOHNSON. Do you know whether or not he had anything to do with the household of the President?

Mr. SCHMIDLAPP. No, I do not know; no, sir.

Senator JOHNSON. Was there any position that he held in conjunction with the household of the President?

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. You are not aware of any?

Mr. SCHMIDLAPP. No, sir; I am not aware of any.

Senator JOHNSON. Does he make his home in Habana?

Mr. SCHMIDLAPP. Well, he did at that time. I do not know whether he has remained there since his resignation or not.

Senator JOHNSON. Did he receive during the time that he was in your employment any other sum, remuneration of any kind, directly or indirectly, from the bank or from anyone that you are familiar with that did business with the bank?

Mr. SCHMIDLAPP. Nothing other than his salary. The bonus was a part of the salary.

Senator JOHNSON. That is what I am getting at. Did he receive a bonus?

Mr. SCHMIDLAPP. It has been the custom in the Chase for a good many years to pay the officers and employees a bonus not exceeding 10 per cent of the annual salary.

Senator JOHNSON. Well, did he receive his 10 per cent of his annual salary?

Mr. SCHMIDLAPP. When it was paid?

Senator JOHNSON. When it was paid.

The CHAIRMAN. Did all the other employees receive it?

Mr. SCHMIDLAPP. And all the other employees received it.

Senator JOHNSON. That is, he received $12,000 a year in the beginning. He received in conjunction with the other employees of your establishment the 10 per cent bonus?

Mr. SCHMIDLAPP. Well, up to 10 per cent. It varies in different amounts. I do not know whether he received the full amount.

Senator JOHNSON. When was it you began paying him the $19,000 a year?

Mr. SCHMIDLAPP. Have you got the date?

Mr. ANDERSON. I have not got the date.

Senator JOHNSON. Well, approximately. I am not particular about the date.

Mr. ANDERSON. I think probably about a year before he left. That would be in April, 1930, about. That is just a guess. I am not sure.

Senator JOHNSON. The last year of his employment probably you were paying him $19,000 a year?

Mr. ANDERSON. Yes.

Mr. SCHMIDLAPP. Yes; at the time of his retirement he was receiving compensation at the rate of $19,000 per year.

Senator JOHNSON. At the time of his retirement he was receiving compensation at the rate of $19,000 per year. Do you know whether or not he had any other employment during that period?

Mr. SCHMIDLAPP. Not to my knowledge.

Senator JOHNSON. Do you know whether or not he received any remuneration from anyone in the employment of the Cuban Government?

Mr. SCHMIDLAPP. Not to my knowledge.

Senator JOHNSON. Do you know whether or not from any contractor that was dealing with the Cuban Government he received any sum whatsoever?

Mr. SCHMIDLAPP. I do not.

Senator JOHNSON. We may take it as final, so far as you are concerned, then, that neither directly nor indirectly from you or from anyone with whom you are familiar at all did he receive anything, except his regular salary and possibly the bonus that was paid to all of your employees?

Mr. SCHMIDLAPP. That is correct, to the best of my knowledge.

Senator JOHNSON. Has there been any occasion when any knowledge has been brought to you as to any sum that he may have received from any other source?

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. Do you know whether he had any private business beside that which he transacted in conjunction with his employment?

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. He had none?

Mr. SCHMIDLAPP. So far as I know, he had none.

Senator JOHNSON. Do you know whether or not the President of the Republic had any private business?

The CHAIRMAN. You are speaking of Machado now, Senator?

Senator JOHNSON. I am, sir; yes, sir.

Mr. SCHMIDLAPP. Well, he was a man of affairs. I assume that he did have.

Senator JOHNSON. Do you know whether he was in the contracting business at all?

Mr. SCHMIDLAPP. I do not.

Senator JOHNSON. Or the sale of materials which would be used by contractors who were dealing with Cuba?

Mr. SCHMIDLAPP. I do not; no.

Senator JOHNSON. Did you personally know the gentleman in question, Mr. Obregon?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. Did you ever talk to him about his connections, official or otherwise?

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. Just in what particular was he contact man or personnel man, as you have described?

Mr. SCHMIDLAPP. Just what the words imply. I do not know that I can elaborate it any more than that, sir.

Senator JOHNSON. You can not elaborate it any more than that. Well, I ask you the direct question in fairness to you and that the record may show it. Was he employed because of his relationship with the President of the Republic?

Mr. SCHMIDLAPP. No, sir; I think that he was employed because of his general contacts through Habana and through the island in general, and he had previous banking experience.

Senator JOHNSON. Was there any particular reason for severing his connection with your banking institution?

Mr. SCHMIDLAPP. Well, reorganization of the management.

Senator JOHNSON. Reorganization of the management?

Mr. SCHMIDLAPP. Of the particular branch.

Senator JOHNSON. And when you reorganized the management of that particular branch he severed his connection with your institution?

Mr. SCHMIDLAPP. Well, prior to that time we had done it on the basis of a joint managership. And we came to the conclusion that we preferred one manager, and employed a man by the name of Rosenthal, who took the position as active head of the branch.

Senator JOHNSON. Well, did you still have a contact man or a personnel man?

Mr. SCHMIDLAPP. Not in the same sense, no.

Senator JOHNSON. Not in the same sense? You dispensed with that particular official of your institution, then?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. And at the time that you employed Machado's son-in-law had you a personnel man or a contact man, the business-getting man? I am endeavoring to reach the synonyms—all of those terms which might be used in the employment of the gentleman?

Mr. SCHMIDLAPP. Perhaps not specifically, although in the conduct of any of the branches the officers' duties comprise making contacts and bringing in business as they are able to.

Senator JOHNSON. But a specific employment of that sort had not been had in your institution prior to the employment of Obregon?

Mr. SCHMIDLAPP. No, sir.

Senator JOHNSON. No. Then he continued in his employment until what specific date, did you say?

Mr. SCHMIDLAPP. April, 1931.

Mr. ANDERSON. April 15, 1931.

Senator JOHNSON. April 15, 1931. At that time you contemplated no further loans to Cuba, did you?

Mr. SCHMIDLAPP. Excepting that the existing credit is still outstanding.

Senator JOHNSON. Well, that was one that had already been made and by contract existed?

Mr. SCHMIDLAPP. By contract existed; that is correct.

Senator JOHNSON. You contemplated no further additional loans to Cuba, did you?

Mr. SCHMIDLAPP. Well, other than the fact that the $40,000,000 unsold long-term bonds would be used to retire that credit, so while there is no contract on it, or nothing specifically implied——

Senator JOHNSON. Well, that existed by virtue of an agreement at that time, did it not?

Mr. SCHMIDLAPP. In the sale of those $40,000,000 remaining bonds.

Senator JOHNSON. Well, do you mean to say that since the retirement of Obregon there has been an agreement in relation to the $40,000,000?

Mr. SCHMIDLAPP. There has been no agreement.

Senator JOHNSON. Exactly. So that whatever existed in relation to the $40,000,000 bonds existed at the time of his retirement, did it not?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. And you contemplated no other or further loans since that time?

Mr. SCHMIDLAPP. That is correct.

Senator JOHNSON. Yes. Do you know where Mr. Obregon resided during the time that he was in your employment?

Mr. SCHMIDLAPP. He resided in Habana. I do not know where; what street.

Senator JOHNSON. Do you know whether he resided at the Presidential Palace?

Mr. SCHMIDLAPP. I do not know.

Mr. WILLIAMS. I know as a matter of fact he did.

Senator JOHNSON. Thank you, sir. Well, if you will search your memory don't you recall that you knew that fact, too, sir?

Mr. SCHMIDLAPP. No; I do not, sir.

Senator JOHNSON. You do not. All right. But the fact is that he did.

Mr. WILLIAMS. Senator, Mr. Schmidlapp did not go to Habana on any of these transactions, sir, and would not be as familiar with these details as I would.

Senator JOHNSON. But he told me that he knew the gentleman in question, and he had met him here a number of times.

Mr. SCHMIDLAPP. I met him in New York.

Mr. WILLIAMS. Yes.

Senator JOHNSON. He told me that he had met him a number of times, and I thought that because of that fact it would be likely that he would know his residence.

There was an account that was rendered the other day by Seligman, the house that made its loan to Peru.

Mr. ANDERSON. J. & W. Seligman.

Senator JOHNSON. J. & W. Seligman; yes. The account that was rendered was particularized as to Juan Leguia. One of the items that I find there is April 17, 1929, Chase National Bank, $2,000. Do you know anything about that?

Mr. SCHMIDLAPP. No, sir: I do not. I could look into the records and very easily get an explanation of it.

Senator JOHNSON. Do you recall any financial transaction of any sort that the Chase Bank had with Juan Leguia?

Mr. SCHMIDLAPP. No, sir; I do not.

Senator JOHNSON. Another item that appears in the particular account that was rendered by that patricular firm is April 25, 1929, Chase National Bank, $8,000. Do you recall that?

Mr. SCHMIDLAPP. No, sir; I do not.

Senator JOHNSON. And I assume you, of course, have no knowledge about it?

Mr. WILLIAMS. No, sir.

Senator JOHNSON. Would you do the committee the kindness to look up those two items—I will give you the dates and the amounts—and send a communication to the committee stating what they were?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. You do not know what they were. I want to state to the chairman of the committee that on Sunday morning I wrote Mr. Breck asking him to advise me on it. I have received no reply from him as yet. April 17, 1929, Chase National Bank, $2,000. April 25, 1929, that is eight days afterwards, Chase National Bank, $8,000.

Mr. SCHMIDLAPP. And this is in connection with Peru?

Senator JOHNSON. I have not the slightest idea. All I know about it is this. This is the account of Juan Leguia with J. & W. Seligman & Co., and in the credit amounts of that account occur those two items.

Mr. SCHMIDLAPP. Leguia?

Senator JOHNSON. Yes; Leguia.

Mr. WILLIAMS. Were the amounts paid Senator, to the Chase Bank or by the Chase Bank?

Senator JOHNSON. No; to the Chase Bank. I will not even say that they were paid to the Chase Bank. They merely appear in the account as credits to the account of Juan Leguia.

Mr. SCHMIDLAPP. Yes. We will write you a letter about that, sir.

Senator JOHNSON. If you please.

The CHAIRMAN. Write it to the committee so it will be printed.

Senator JOHNSON. If you will send it to Senator Smoot, if you please, as the chairman of the committee.

Mr. SCHMIDLAPP. Yes.

(The following letter was subsequently received by the chairman:)

CHASE NATIONAL BANK,
New York, January 29, 1932.

Hon. REED SMOOT,
Chairman Finance Committee, United States Senate,
Washington, D. C.

MY DEAR SENATOR SMOOT: In accordance with Senator's Johnson's request at the hearing of the committee, held on January 27, 1932, I beg to advise you that the transactions in April, 1929, concerning payments to J. & W. Seligman & Co., were as follows:

We received cable instructions from our correspondent, Danco del Peru y Londres, Lima, Peru, to pay, on April 17, $2,000 and on April 25 to pay $8,000 to J. & W. Seligman & Co., New York, for account of Juan Legula.

These transactions concern confidential relations with our foreign correspondent and we trust will not be made a part of the public record of your committee's hearing. The information is given to you in confidence.

Respectfully yours,

C. J. SCHMIDLAPP,
Vice President.

(Following is copy of a telegram by the chairman to Mr. Schmidlapp and the reply thereto:)

JANUARY, 30, 1932.

CARL J. SCHMIDLAPP,
Vice President Chase National Bank,
New York City, N. Y.

Senator Johnson insists that your letter 29th instant ragarding Legula account be made public. Kindly wire authority to print same in hearings. Otherwise I am of the opinion you be be requested to appear before the committee to give testimony with reference thereto

REED SMOOT,
Chairman Finance Committee.

NEW YORK, N. Y., *January 30, 1932.*

Hon. REED SMOOT,
Chairman Senate Finance Committee, Washington, D. C.:

Telegram received. If committee insists upon making my letter 29th instant public, we have no objections.

C. J. SCHMIDLAPP,
Vice President Chase National Bank.

Senator JOHNSON. Mr. Wiggin is the president, is he not, of the Chase Bank?

Mr. SCHMIDLAPP. No, sir; he is chairman of the governing board.

Senator JOHNSON. He is chairman of the governing board?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. Well, what is the distinction, if you please?

Mr. SCHMIDLAPP. Well, Mr. Aldrich is president.

Senator JOHNSON. Yes. Well, what is the authority of the governing board?

Mr. SCHMIDLAPP. He has the same authority as the president.

Mr. WILLIAMS. He is the chief officer of the bank.

Senator JOHNSON. That was my understanding. So that when I called him president of the bank I was using it as interchangeable

with the chief officer of the bank. I have observed an interview with him that has come across the water from Berlin, January 24, in which he holds responsible for the present situation Messrs. Mellon and Stimson and says if there is any criticism of the new standstill agreement with Germany he is prepared to contend, and he will, that it should probably be levelled at Messrs. Mellon and Stimson. Do you know anything about it?

Mr. SCHMIDLAPP. I just heard the rumor, that is all.

Senator JOHNSON. Did you read the interview?

Mr. SCHMIDLAPP. No, I have not read it in detail, Senator.

Senator JOHNSON. And can you give me any information respecting it at all?

Mr. SCHMIDLAPP. No. I have no opinion on it.

Senator JOHNSON. Well, I am not asking you for an opinion. I am asking for information. Are you familiar with Mr. Wiggin's activities abroad?

Mr. SCHMIDLAPP. Yes, sir; somewhat. Not in detail.

Senator JOHNSON. Well, you do recall the London conference, do you not?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. You recall the fact that Messrs. Mellon and Stimson were present at that London conference? Either one or both?

Mr. SCHMIDLAPP. I recall that Mr. Stimson was. I do not remember that Mr. Mellon was.

Senator JOHNSON. Well, you have read, because it appeared in all papers of the date that I have given you, the interview that was purported to have been given by Mr. Wiggin in respect to the matter, have you not?

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. Well now, with your knowledge of what Mr. Wiggin's activities have been abroad can you state to me the basis for his statement with reference to the present standstill agreement and the present situation generally, that if criticism is to be directed at anybody it is to be directed at Messrs. Mellon and Stimson?

Mr. SCHMIDLAPP. Not with my knowledge that he has made it.

Senator JOHNSON. Not with your knowledge?

Mr. SCHMIDLAPP. No.

Senator JOHNSON. And when you read the interview did you have any interest in it?

Mr. SCHMIDLAPP. Well, casual.

Senator JOHNSON. Naturally. A little more than casual, would it not be?

Mr. SCHMIDLAPP. I do not think it is fair for me to state Mr. Wiggin's position on it anyhow.

Senator JOHNSON. I do not want you to state it unless you know it.

Mr. SCHMIDLAPP. I don't know it.

Senator JOHNSON. If you know the attitude that he has or the attitude that the Chase National Bank has you are perfectly competent to state it. And if you do know it I would like you to state it.

Mr. SCHMIDLAPP. I prefer not to state Mr. Wiggin's statement.

Senator JOHNSON. What is the view of the Chase National Bank?

Mr. WILLIAMS. I do not think the board of directors of the bank has functioned on it, Senator, so it has no position.

Senator JOHNSON. This gentleman comes, you know, to speak with authority for the bank.

Mr. WILLIAMS. I know, but——

Senator JOHNSON. Well, it may be that the board of directors has not functioned. Let me have your view, then. We will put it that way.

Mr. SCHMIDLAPP. I prefer not to express it.

Senator JOHNSON. You prefer not to express it. Have you a view? I am not asking you to express it. I say, have you one?

Mr. SCHMIDLAPP. I will answer "no."

Senator JOHNSON. Doubtful about it?

Mr. SCHMIDLAPP. My answer is "no."

Senator JOHNSON. I know, but your hesitation was so long that I asked you if you were doubtful about it.

Mr. SCHMIDLAPP. My answer remains "no."

Senator JOHNSON. Still no. All right, sir. I do not want to press you into opposition to Mr. Wiggin.

Mr. WILLIAMS. I think the witness is embarrassed at expressing an opinion in any particular way or form on what purports to be a newspaper interview with Mr. Wiggin. He does not know——

Senator JOHNSON. Oh, yes. I am not asking him to verify any newspaper interview with Mr. Wiggin unless he knows the fact.

Mr. WILLIAMS. I doubt if he knows Mr. Wiggin's views.

Mr. SCHMIDLAPP. He does not know the fact.

Senator JOHNSON. Oh, yes, pardon me, there was sufficient developed here to show that he had some knowledge with respect to the matter. I was pressing him with respect to that matter. If he says now that he has no knowledge, and he does not wish to speak concerning it, I will let it go with that.

Mr. WILLIAMS. Of course, Senator, we all have knowledge in reading the press reports——

Senator JOHNSON. I am the last man in the world to take a press report and insist upon its verity.

Mr. WILLIAMS. But to ask Mr. Schmidlapp to comment on Mr. Wiggin's——

Senator JOHNSON. I am not asking him to do any such thing. I am asking him if he has a view on this subject, and if the bank has a view on this subject, and if he has, what it is. That is the point. Could you answer me, please?

Mr. SCHMIDLAPP. It is already in the record, Senator.

Senator JOHNSON. It may be.

Mr. WILLIAMS. If you have any views, or if the bank has taken any official view on it? If it has not——

Mr. SCHMIDLAPP. It has not.

Senator JOHNSON. Well, I am not asking you for a resolution of the board of directors.

Mr. SCHMIDLAPP. They have taken no official view.

Senator JOHNSON. I realize that. No official view.

Mr. SCHMIDLAPP. I do not know whether they have taken an unofficial view or not.

Senator JOHNSON. And you do not know whether they have a view or not?

Mr. SCHMIDLAPP. I do not.

Senator JOHNSON. And you do not know whether you have a view or not?

Mr. SCHMIDLAPP. No. I do not.

Senator JOHNSON. All right. Mr. Wiggin will expres it himself, I assume, when he returns.

Do you know how much short-term credits of Germany was paid between the 15th day of June and the 15th day of December?

Mr. SCHMIDLAPP. In total?

Senator JOHNSON. Yes.

Mr. SCHMIDLAPP. No, I do not, offhand. About 18 per cent is my guess.

Senator JOHNSON. Do you know what sums in short-term credits were paid to your banking institution or to the Chase Securities Co. between the 15th day of June and the 15th day of December?

Mr. SCHMIDLAPP. I would rather let it come from the records themselves.

Senator JOHNSON. Can you state to me approximately?

Mr. SCHMIDLAPP. I would hesitate to put in a figure.

Senator JOHNSON. Was there a considerable sum of short-term credits paid betwen those dates by Germany to the Chase Bank?

Mr. SCHMIDLAPP. I would say yes.

Senator JOHNSON. Yes. Now up to the time of the payment of those short-term credits by Germany what was the amount of short-term credits held by the Chase Bank?

Mr. SCHMIDLAPP. Again I would prefer taking it right from the records so as to have it accurate. I did not know that I was to testify on this subject.

Senator JOHNSON. Do you know?

Mr. SCHMIDLAPP. The question?

Senator JOHNSON. I was waiting. I thought possibly you had some answer to obtain from ——

Mr. SCHMIDLAPP. Mr. Anderson said that it was paid to all the banks which held the German credits, which of course is true.

Senator JOHNSON. Yes. Can you not give me—I do not care to ask you to send down here a statement of the matter unless it is absolutely essential—can you give me approximately the amounts of short-term credits that were paid between those dates to the Chase National Bank?

Mr. SCHMIDLAPP. When you say "approximately," Senator, how much leeway do I have?

Senator JOHNSON. Why, whatever leeway you want to take, because it would be considered an approximation and a matter of recollection by me.

Mr. SCHMIDLAPP. I would say approximately $20,000,000.

Senator JOHNSON. Approximately $20,000,000. You think no more than that?

Mr. SCHMIDLAPP. I think no more.

Senator JOHNSON. Do you know what amount of short-term credits on the 15th day of December or prior thereto—in the month of December, say—were held by the Chase National Bank? German short-term credits?

Mr. SCHMIDLAPP. Well, again, on approximate basis, $71,000,000.

Senator JOHNSON. Well, the $71,000,000 were testified to by Mr. Aldrich the other day.

Mr. SCHMIDLAPP. Yes, sir.

Senator JOHNSON. You are aware of that, are you not?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. And those $71,000,000 then existed?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. That was at that time?

Mr. SCHMIDLAPP. Yes.

Senator JOHNSON. I am asking between the 1st and the 15th of December what amount existed.

Mr. SCHMIDLAPP. I do not know. I would say approximately the same, but I do not know the specific figure. I do not know just what payments came in in those two weeks' time.

Senator JOHNSON. Well, then, I will ask you, if you please, to make a note of the fact that you send the amount of short-term credits that were paid to the Chase National Bank, or in the payment of which it participated, between the 15th day of June and the 15th day of December, 1931.

Mr. SCHMIDLAPP. Yes, sir.

(Letter of January 29, 1932, received by the chairman:)

THE CHASE NATIONAL BANK,
New York, January 29, 1932.

Hon. REED SMOOT,
Chairman Finance Committee, United States Senate,
Washington, D. C.

MY DEAR SENATOR SMOOT: In accordance with the request made to our vice president, Mr. Carl J. Schmidlapp, by Senator Johnson, at the hearing of the committee held on January 27, 1932, I take pleasure in informing you that the total amounts of the German short-term credits and long-term holdings of the Chase National Bank and the branches, the Chase Bank Paris, Chase Securities Corporation, and Chase-Harris-Forbes Corporation, as of June 15, 1931, and December 15, 1931, were as follows:

	June 15, 1931	Dec. 15, 1931
The Chase National Bank, New York (short term)	$81,029,366	$66,560,309
The Chase National Bank, New York (long term)	1,751,641	1,812,510
Total	82,781,007	68,381,819
The Chase National Bank, London:		
Short term	3,937,000	1,772,000
Long term	101,860	72,160
	86,819,867	70,225,979
Long and short term holdings of the Chase Bank, Paris, Chase Securities Corporation, and Chase-Harris-Forbes Corporation	4,289,080	4,352,181
Grand total	91,108,947	74,578,160

The long-term holdings above referred to are taken at book value as of December 15, 1931. In my testimony before your committee at the hearing held January 4, 1932, I used the market value as of December 31, 1931, which was the value of these holdings shown on our books as of that date.

The reduction in amount of the short-term commitments between June 15, 1931, and December 15, 1931, results from payments received from the German debtors during that period.

Between December 15, 1931, and December 31, 1931, the short-term credits of the Chase National Bank were further diminished by payments from the German debtors but on December 19, 1931, the short term credits and long term holdings of the Chase National Bank were increased by the short-term credits and long term holdings of the American Express Bank & Trust Co.

which was merged with the Chase National Bank on that date. Their short term credits and long term holdings which were thus added to the Chase National Bank were:

June 15, 1931:	
Short-term credits	$3,684,277
Long-term credits	221,191
Dec. 15, 1931:	
Short-term credits	2,707,652
Long-term credits	180,806

Trusting that this is the information you desire, I am.

Respectfully,

WINTHROP W. ALDRICH, *President.*

Senator JOHNSON. Was any transfer made during that period of short-term credits to any individual or to any corporation or to any banking institution by your bank?

Mr. SCHMIDLAPP. There was none.

Mr. WILLIAMS. Senator, here is that other agreement extending the time of payment of the $20,000,000 credit.

Senator JOHNSON. Thank you, sir. If I may put it in the record, and then it may be returned to you if you desire. Is that an original?

Mr. WILLIAMS. No. It is a part of my file. If you would return it to me as soon as you can I will appreciate it.

The CHAIRMAN. That will be printed following the others offered this morning, so we will have them altogether at one point in the record.

Senator JOHNSON. Yes. I ask to have it inserted as a part of the record, if you please.

Senator JOHNSON. Have you a prospectus of the loans that you sent out or that was issued by you in respect to these Cuban loans?

Mr. SCHMIDLAPP. Yes. Here are three.

Senator JOHNSON. I ask that these be inserted in the record.

The CHAIRMAN. Senator Johnson, are they all the same?

Mr. ANDERSON. No. One is long-term bonds, and two are serial certificates, of different dates.

The CHAIRMAN. Of different dates?

Mr. ANDERSON. Yes.

The CHAIRMAN. They can all be printed in the record at this point.

Senator JOHNSON. Those are all in the nature of a prospectus? Those are all of the documents that you sent out?

Mr. ANDERSON. Yes.

(The three papers, being prospectus of $10,000,000 Republic of Cuba Public Works 5½ per cent serial certificates, dated October, 1929, prospectus of $10,000,000 Republic of Cuba Public Works 5½ per cent serial certificates, January, 1929, and prospectus $40,000,000 Republic of Cuba Public Works 5½ per cent sinking fund gold bonds, February, 1930, are here printed in the record in full, as follows:)

$10,000,000 REPUBLIC OF CUBA PUBLIC WORKS 5½ PER CENT SERIAL CERTIFICATES

Dated July 1, 1928. Due, $6,250,000 December 31, 1931; $3,750,000 June 30, 1932.

Total authorized amount $60,000,000, issuable in series in the following amounts and maturities: $5,000,000 due December 31, 1930; $5,000,000 due June 30, 1931; and $6,250,000 due December 31 and June 30 each year from December 31, 1931, to June 30, 1935, both inclusive. To be presently outstanding $10,000,000 (this issue).

The serial certificates are not redeemable prior to their respective maturities. Coupon certificates in denomination of $1,000. Principal and semiannual interest (June 30 and December 31) payable in gold coin of or equivalent to the present standard of weight and fineness of the United States of America gold coin at the Chase National Bank of the city of New York in New York City or Habana, at the holder's option, without deduction for any Cuban taxes present or future.

The following information regarding these certificates is from information furnished by His Excellency Santiago Gutierrez de Celis, Secretary of the Treasury of the Republic of Cuba, and other official sources:

Security.—The public works 5½ per cent serial certificates constitute direct obligations of the Republic of Cuba, under agreement ratified and approved by the Cuban Congress by law published in the Official Gazette on June 29, 1928. They are expressly secured by a first preferential lien and charge to the extent required for payment of principal and interest in each fiscal year, on 90 per cent of the normal revenues collected from certain taxes as provided by the Cuban public works law of July 15, 1925. The Republic agrees to set aside in a special account in each such fiscal year 90 per cent of the collections from the pledged revenues until the amount so set aside shall equal the amount required in each year for the payment of principal and interest of these serial certificates.

Pledged revenues.—The revenues pledged as security for these certificates include the tax imposed on automobiles and other vehicles, importation of gasoline, one-half per cent tax on sales and gross receipts, the surcharge on customs duties, the tax on the export of money or its equivalent, the tax on the rent and income of real property or property rights and 50 per cent of the excess Territorial tax. Also provision is made in the public works law of July 15, 1925, for including annually in the general budget of the nation an amount as a contribution to the special fund for public works which, in accordance with the provisions of said law, may aggregate $5,000,000.

The amounts collected from the taxes under the public works law in the first three fiscal years, and the official estimates of the normal revenues to be derived from such taxes for each fiscal year of the 10-year period ending June 30, 1935, are as follows:

Year ending June 30—	Net amount collected	Official estimates
1926	$12,097,749.40	$10,000,000.00
1927	18,776,770.06	16,000,000.00
1928	[1] 16,900,000.00	16,000,000.00
1929-1935, inclusive		18,000,000.00

[1] Approximate after estimating certain deductions.

Purpose of issue.—The public works law of 1925 contemplates a comprehensive program of improvements national in character and of great economic importance to Cuba. The program includes the construction of the great Central Highway of over 700 miles in length, traversing the island and connecting the various Provinces with Habana; the construction of waterworks, bridges, sewer and drainage systems, public schools and public buildings. The public works serial certificates are issued to refund indebtedness of the Republic incurred for work completed and accepted in accordance with the provisions of the public works law.

General.—The present population of the Republic of Cuba is estimated in excess of 3,500,000. The total funded debt of the Republic as of the end of the fiscal year, June 30, 1928, was $93,443,600, of which $83,379,300 was external. Floating indebtedness as of the same date amounted to approximately $4,500,000. During the five fiscal years ended June 30, 1927, the ordinary revenues of the Government exceeded the ordinary expenditures by over $22,500,000. Preliminary figures for the year ending June 30, 1928, indicate that the ordinary revenues of the Government will exceed the ordinary expenditures. The currency in general circulation, in banks and in the Treasury of the Republic as of June 30, 1928, was estimated to be more than $240,000,000.

All offerings are made subject to prior sale. Legal details in connection with these certificates have been passed upon by Messrs. Rushmore, Bisbee & Stern, of New York, and on questions arising under Cuban laws by Dr. Antonio Sanchez de Bustamante and Dr. Enrique Hernandez Y Cartaya, of Habana.

Price 99¾ and interest to yield over 5½ per cent.

$10,000,000 Republic of Cuba Public Works 5½ Per Cent Serial Certificates

Dated January 1, 1929. Due: $2,500,000, June 30, 1932; $6,250,000, December 31, 1932; $1,250,000, June 30, 1933.

Total authorized amount $6,000,000, issuable in series in the following amounts and maturities: $5,000,000 due December 31, 1930; $5,000,000 due June 30, 1931; and $6,250,000 due December 31 and June 30 each year from December 31, 1931, to June 30, 1935, both inclusive. To be presently outstanding, $20,000,000 (including this issue).

The serial certificates are not redeemable prior to their respective maturities.

Coupon certificates in denomination of $1,000. Principal and semiannual interest (June 30 and December 31) payable in gold coin of or equivalent to the present standard of weight and fineness of the United States of America gold coin at the Chase National Bank of the City of New York in New York City or Habana, at the holder's option, without deduction for any Cuban taxes present or future.

The following information regarding these certificates is from information furnished by his excellency Santiago Gutierrez de Celis, Secretary of the Treasury of the Republic of Cuba, and other official sources.

Security.—The public works 5½ per cent serial certificates constitute direct obligations of the Republic of Cuba, under agreement ratified and approved by the Cuban Congress by law published in the Official Gazette on June 29, 1928. They are expressly secured by a first preferential lien and charge to the extent required for payment of principal and interest in each fiscal year, on 90 per cent of the normal revenues collected from certain taxes as provided by the Cuban public works law of July 15, 1925. The Republic agrees to set aside in a special account in each such fiscal year 90 per cent of the collections from the pledged revenues until the amount so set aside shall equal the amount required in each year for the payment of principal and interest of these serial certificates.

Pledged revenues.—The revenues pledged as security for these certificates include the tax imposed on automobiles and other vehicles, importation of gasoline, ½ per cent tax on sales and gross receipts, the surcharge on customs duties, the tax on the export of money or its equivalent, the tax on the rent and income of real property or property rights and 50 per cent of the excess territorial tax. Also provisions is made in the public works law of July 15, 1925, for including annually in the general budget of the nation an amount as a contribution to the special fund for public works which, in accordance with the provisions of said law, may aggregate $5,000,000.

The amounts collected from the taxes under the public works law in the first three fiscal years, and the official estimates of the normal revenues to be derived from such taxes for each fiscal year of the 10-year period ending June 30, 1935, are as follows:

Year ending June 30	Net amount collected	Official estimates
1926	$12,097,749.45	$10,000,000.00
1927	18,776,770.06	16,000,000.00
1928	17,147,921.96	16,000,000.00
1929-1935 inclusive		18,000,000.00

Purpose of issue.—The public works law of 1925 contemplates a comprehensive program of improvements national in character and of great economic importance to Cuba. The program includes the construction of the great Central Highway of over 700 miles in length, traversing the island and connecting the various Provinces with Habana; the construction of water works, bridges, sewer and drainage sytems, public schools and public buildings. The public works serial certificates are issued to refund indebtedness of the Republic incurred for work completed and accepted in accordance with the provisions of the public works law.

General.—The present population of the Republic of Cuba is estimated in excess of 3,500,000. The total funded debt of the Republic as of the end of the fiscal year, June 30, 1928, was $93,443,600, of which $83,379,300 was external. Floating indebtedness as of the same date amounted to approximately $4,500,000. During the six fiscal years ended June 30, 1928, the ordinary revenues of the Government exceeded the ordinary expenditures by over $23,000,000. The cur-

rency in general circulation, in banks and in the treasury of the Republic as of June 30, 1928, was estimated to be more than $240,000,000.

All offerings are made subject to prior sale. Legal details in connection with these certificates have been passed upon by Messrs. Rushmore, Bisbee & Stern, of New York, and on questions arising under Cuban laws by Dr. Antonio Sanchez de Bustamante and Dr. Enrique Hernandez Y Cartaya, of Habana.

It is expected that interim receipts or definitive certificates will be delivered in the first instance.

Price 100 and interest to yield 5½ per cent.

$40,000,000 Republic of Cuba Public Works 5½ Per Cent Sinking Fund Gold Bonds

Dated January 1, 1930. Due June 30, 1945.

Total authorized issue, $80,000,000. To be presently outstanding, $40,000,000. Principal and semiannual interest (June 30 and December 31) payable in gold coin of or equivalent to the present standard of weight and fineness of the United States of America gold coin at The Chase National Bank of the city of New York in New York City or Habana, at the holder's option, without deduction for any Cuban taxes present or future. Redeemable as an entirety at any time at 105 per cent of the principal amount thereof and accrued interest on 60 days' notice. Callable for the sinking fund at 100 and accrued interest on 30 days' notice. Coupon bonds in the denomination of $1,000 registerable as to principal only.

The bonds will be entitled to the benefit of a sinking fund, payable in equal installments in cash and/or bonds previously purchased, semiannually on December 31, 1935, and on June 30 and December 31 in each year thereafter to and including June 30, 1945, sufficient to retire the bonds by maturity.

The following information regarding these bonds is from information furnished by his excellency Mario Ruiz Mesa, Secretary of the Treasury of the Republic of Cuba.

Security.—The Public Works 5½ per cent Sinking Fund Gold Bonds are direct obligations of the Republic of Cuba. These bonds are specifically secured, as provided in an agreement with the Republic of Cuba, by a first preferential lien and charge to the extent required for payment of principal and interest on 90 per cent of the revenues collected from certain taxes specified in the Cuban public works law of July 15, 1925, as amended, subject to outstanding public works 5½ per cent serial certificates limited to $20,000,000 maturing serially on and prior to June 30, 1933. The agreement establishes an intermediate credit for a period of one year under which 5½ per cent deferred payment work certificates ranking pari passu in lien with these bonds and maturing at the expiration of the credit may be issued to an amount not exceeding $20,000,000, subject to the requirement that, as additional bonds of this issue are sold, the proceeds shall be applied to the payment of advances under the credit and/or the amount of the credit shall be correspondingly reduced.

Pledged revenues.—The revenues pledged as security for these bonds include the tax imposed on automobiles and other vehicles, importation and consumption of gasoline, ½ per cent tax on sales and gross receipts, the surcharge on customs duties, the tax on the export of money or its equivalent, the tax on the rent and income of real property or property rights and 50 per cent of the excess territorial tax.

The amounts collected from the taxes under the public works law in the first four fiscal years, after settlement for adjustments and refunds, and the official estimates of the revenues to be derived from such taxes for each fiscal year of the 20-year period ending June 30, 1945, are as follows:

Year ending June 30—	Amounts collected	Official estimates
1926	$12,162,628.25	$10,000,000.00
1927 [1]	15,901,075.20	16,000,000.00
1928	16,680,448.46	16,000,000.00
1929	18,034,340.41	18,000,000.00
1930-1945, inclusive		18,000,000.00

[1] Does not include $2,958,574.34 transferred to the special fund for public works constituted by the public works law.

Purpose of Issue.—The public works law of 1925 contemplates a comprehensive program of improvements, national in character, and of great economic importance to Cuba. The program includes the construction of the great Central Highway of over 700 miles in length, traversing the island and connecting the various Provinces with Habana; the construction of water works, bridges, sewer and drainage systems, public schools and public buildings. Over 62 per cent of the Central Highway is substantially completed, and 341 miles are now in use. It is expected that the Central Highway will be completely finished and in use by March, 1931. The public works 5½ per cent sinking fund gold bonds and said $20,000,000 credit are for the purpose of refunding or paying indebtedness of the Republic incurred for work completed and accepted in accordance with the provisions of the public works law.

General.—The present population of the Republic of Cuba is estimated in excess of 3,500,000. The total funded debt of the Republic as of the end of the fiscal year, June 30, 1929, was $87,174,200, exclusive of $20,000,000 public works 5½ per cent serial certificates outstanding, of which $77,660,000 was external. Floating indebtedness as of the same date amounted to approximately $5,000,000. Between 1904, the year during which the oldest of the external issues now outstanding was made, and January 31, 1930, the Republic of Cuba has retired, through payment of serial maturities or sinking fund operations, a total of $47,800,500 of external bonds.

It is expected that application will be made in due course to list these bonds on the New York Stock Exchange.

All offerings are made when, as and if issued and received by us and subject to the approval of all legal proceedings by Messrs. Rushmore, Bisbee & Stern, of New York, and on questions arising under Cuban laws by Dr. Antonio Sanchez de Bustamante and Dr. Enrique Hernandez Y Cartaya, of Havana. It is expected that interim receipts or temporary bonds will be delivered in the first instance.

Price 98 and interest, to yield about 5.7 per cent.

Senator JOHNSON. I think that is all, gentlemen.

The CHAIRMAN. Any further witness?

Senator JOHNSON. There is no other witness here.

The CHAIRMAN. This concludes the hearings, then.

Senator JOHNSON. No; I am ready to go forward with an immense amount of documentary evidence here. I will do it this afternoon or to-morrow morning, or any other time.

The CHAIRMAN. I guess we had better do it this afternoon, Senator, because to-morrow morning and the next day the committee has meetings scheduled on other matters.

Senator JOHNSON. Mr. Chairman, if it can be done conveniently I would like to have placed in the record at this point the original letter that I sent to the chairman under date of January 19, 1932, and then the response of the Chilean Government, and then this second response, because I will follow now with matters in relation to Chile, and I would like to have them all together, if it can be done.

The CHAIRMAN. They ought to be printed in the record all together at this point.

Senator JOHNSON. Yes. I would like them to appear here instead of in the beginning of the record.

The CHAIRMAN. Yes.

Senator JOHNSON. In order that the record may be consecutive, may I insert the letter written January 19, 1932, to the chairman of the committee by me propounding the questions, and then that will follow.

The CHAIRMAN. You can put that in now, Senator.

Senator JOHNSON. Put in first my letter, and then the answer thereto will follow.

The CHAIRMAN. Yes.

(The letter from Senator Johnson to Senator Smoot, dated January 19, 1932, is as follows:)

JANUARY 19, 1932.

Hon. REED SMOOT,
Chairman Senate Finance Committee, United States Senate,
Washington, D. C.

DEAR SENATOR: On the 14th of January you inserted in the record of the proceedings of the Finance Committee conducting its investigation under Senate Resolution No. 19 a letter transmitted to you by the Secretary of State from the Chilean ambassador, which contained the formal request of the Chilean Government substantially for an investigation of the manner in which the Chilean loans had been negotiated and subsequently floated in this country. This request for an investigation of the facts does honor to the nation making it, and in my opinion, it should not be ignored.

It is, of course, pertinent to our inquiry to ascertain whether or not the debtor nations, or the individual creditors holding the securities, have not been made the unwitting victims of financial operations promoted by those who sought to make direct profits on the sale of loan issues to the public, and indirect profits in the form of concessions and favors of a different nature to be secured from the borrowing governments.

The record of Chile has been one of scrupulous international good faith, and of compliance with international obligations. Because of these facts, and because of our high esteem for the Chilean people and the Chilean Government, and in pursuance of the request made by that Government, and the wishes of its administration, I request that through our State Department the Chilean ambassador be asked to furnish additional information on the following points:

1. What loans have been contracted for by Chile in the last decade, conditions under which they have been floated, and the American banking houses which have participated therein.

2. Did the nitrate combine known as Cosach come into being with standing liabilities of £60,000,000 and who were creditors of such debt?

3. If such liabilities existed, how have they been paid, whether by bond issues, loans, or other means, and who were the individuals or institutions which collected the said £60,000,000?

4. Does the Chilean Government feel that the turning over to the Cosach of the public nitrate-bearing lands in any way jeopardized or impaired its capacity to pay the holders of bonds of its foreign debt?

5. What have been the consequences of the cession made by the Chilean Government to the Cosach combine of the export tax on nitrate and certain import taxes, and what, if any, is the existing relation between the scarcity of foreign-currency drafts and the said cession, and the suspension by Chile of payments on her external obligations?

6. After the Chilean Government renounced its right to collect the export duty on nitrate in favor of the Cosach combine, was the said tax partially or at all restored, and if so, was the restoration for the benefit of the national treasury of Chile or in favor of certain creditors of Cosach? If the latter, who are those creditors thus benefited, and in what amounts?

7. Were large sums paid in connection with the organization of Cosach, and if so, who were the Chilean and foreign representatives or organizers who received such sums, and in what amounts?

Because of limitations of time, may I ask that at the very earliest possible moment this letter be transmitted to our Secretary of State, and that action be had concerning the request herein made.

Sincerely yours,

HIRAM W. JOHNSON.

The CHAIRMAN. This is the letter from Assistant Secretary White.

DEPARTMENT OF STATE,
Washington, January 23, 1932.

MY DEAR SENATOR SMOOT: At the request of the Chilean Ambassador, I inclose herewith a copy of a note which he addressed to me on the 22d instant in answer to certain questions asker by Senator Johnson.

Sincerely yours,

FRANCIS WHITE,
Assistant Secretary
(For the Secretary of State).

The CHAIRMAN. Senator, do you desire this read now, or shall I just have it printed in the record?

Senator JOHNSON. Well, so far as I am concerned, it may be printed in the record.

The CHAIRMAN. Then I will ask that this communication from the Chilean Ambassador be placed in the record at this point.

(The letter from the Chilean Ambassador is as follows:)

JANUARY 22, 1932.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's communication of January 20, and to request that Your Excellency be good enough to communicate to the Senate Finance Committee the replies of my Government to the queries formulated by Senator Hiram Johnson I am also instructed to request that you be good enough to convey to Senator Johnson the thanks of my Government for his kind expressions of esteem for the Chilean people and Government.

The questions and answers are as follows:

1. What loans have been contracted for by Chile in the last decade, conditions under which they have been floated, and the American banking houses which have participated therein?

During the last 10 years 5 loans have been placed directly with the National City Bank under varying terms: Original banking group paid 87.50 to 91.50 for bonds; interest, 6 and 7 per cent; sinking fund, 2 and 1 per cent; commission, one-fourth of 1 per cent and three-eighths of 1 per cent. Two with the Kissel, Kinnicutt & Co. and Hallgarter & Co. consortium at 89.13 and 91.13; interest, 6 per cent; sinking fund, 1 per cent; commission, one-fourth of 1 per cent. Total of these seven loans, $184,912,000. In the same period the Mortgage Bank of Chile (Caja de Credito Hipotecaria de Chile) has contracted with Kuhn, Loeb & Co. and the Guaranty Trust Co. 5 loans totalling $90,000,000. Prices paid by original banking groups varies between 89.50 and 95⅝; interest, 6½, 6¾, and 6 per cent. Varying sinking fund provisions. Commission, one-half of 1 per cent. Municipality of Santiago, two loans, totalling $6,200,000, with Kissel, Kinnicutt & Co. and associates at 96.3 and 92 per cent; interest, 7 per cent. Varying sinking fund provisions. Commission, 1 per cent. Consolidated municipal loan with consortium of the Grade National Bank, for $15,000,000 at 89.50 per cent; interest, 7 per cent; sinking fund, 1 per cent; commission, one-half of 1 per cent. Grand total, $296,112,000.

2. Did the nitrate combine known as Cosach come into being with standing liabilities of £60,000,000, and who were the creditors of such debt?

Cosach was organized on March 20, 1931, with the following liabilities indicated in the first prospectus: Outstanding bonds issued by the companies merged into Cosach, $77,205,193.49; issues of the company (Cosach), $118,487,500; other term obligations, $11,047,972.10; demand obligations contracted in the ordinary course of current business, $58,855,935.89. Total, $205,596,601.48. The shares of the company were subscribed for by the National City Co. and by European bankers, especially for the amount of the quotas which has to be delivered to the Government for payments due to it in the years 1930 and 1931 and for the expenses of organization. Guggenheim & Co. received bonds totaling $28,790,850 for advances to the Anglo-Chilean Consolidated Nitrate Corporation, now a subsidiary of Cosach. The other bonds were delivered to the Government for payments due in the years 1932 and 1933; and to various companies for their contributions of agency rights and credits due.

3. If such liabilities existed, how have they been paid, whether by bond issues, loans, or other means, and who were the individuals or institutions which collected the said £60,000,000?

The $265,596,601 of obligations were paid by guaranteeing bonds issued by the participating companies and through the issuance of bonds by Cosach.

4. Does the Chilean Government feel that the turning over to the Cosach of the public nitrate bearing lands in any way jeopardized or impaired its capacity to pay the holders of bonds of its foreign debt?

The Government of Chile obligated itself to turn over to Cosach nitrate fields which the company might select over a period of 60 years, to the extent of 150,000,000 tons of nitrate content, Cosach also being entitled to purchase

the remainder of the public nitrate fields. Up to the present moment no fields have been turned over to Cosach, and the obligations of the Chilean Government to do so has had no practical effect on its capacity to pay the bondholders of its foreign obligations.

5. What have the consequences of the cession made by the Chilean Government to the Cosach combine of the export tax on nitrate, and certain import taxes, and what, if any, is the existing relation between the scarcity of foreign currency drafts and the said cession, and the suspension by Chile of payments on her external obligations?

The elimination of the export duty on nitrate has not affected the supply of bank drafts nor the suspension by Chile of payments on its foreign debt. Cosach furnishes the market with such drafts as it finds necessary to sell in order to maintain operations and pay its employees and workers in Chile.

6. After the Chilean Government renounced its right to collect the export duty on nitrate in favor of the Cosach combine, was the said tax partially or at all restored, and if so, was the restoration for the benefit of the national treasury of Chile, or in favor of certain creditors of Cosach? If the latter, who are those creditors thus benefited, and in what amounts?

The export duty on nitrate has been abolished in so far as Cosach is concerned, but remains in force with respect to independent companies. These independent concerns are very small, and only three of them have been in operation with a production close to 8,000 tons per month. The query probably intends to bring out whether the payment of the duty of 60 Chilean pesos per ton of nitrate exported is for the benefit of the Chilean Treasury or for that of the creditors of the company. It is made in favor of the latter, who are the holders of the bonds mentioned in No. 3.

7. Were large sums paid in connection with the organization of Cosach, and if so, who were the Chilean and foreign representatives or organizers who received such sums, and in what amounts?

The organization expenses of the company, according to the report of the investigating commission, amounted in Chilean money to 57,709.523 pesos; and are divided into three categories:

First. Expenses incurred by the participating companies and reimbursed by Cosach, 11,254,680 Chilean pesos.

Second. Indemnization to representatives of participating companies, 22,000,000 Chilean pesos.

Third. Direct expenses of Cosach, 24,454,843 Chilean pesos. In this last are included the fees of New York counsel, Messrs. Root, Clark & Buckner, 7,320,387 Chilean pesos; and of London counsel, Messrs. Sherman and Sterling, 1,416,229 Chilean pesos; Chilean lawyers were paid 805,000 Chilean pesos. Reimbursement to the State for expenditures on account of traveling expenses and fees of officials, 1,654,194 Chilean pesos.

I avail myself of this opportunity to reiterate to Your Excellency the assurances of my highest consideration.

MIGUEL CRUCHAGA.

HIS EXCELLENCY HENRY L. STIMSON,
The Secretary of State, Washington, D. C.

The CHAIRMAN. Then follows the letter of January 27, 1932, from the Secretary of State, inclosing a copy of an additional note from the Chilean Government, which will be placed in the record at this point:

(The letters are as follows:)

DEPARTMENT OF STATE,
Washington, January 27, 1932.

MY DEAR SENATOR SMOOT: Referring to the department's letter of January 23, 1932, with which was inclosed, at the request of the ambassador of Chile, a copy of his note of the preceding day, I am inclosing also, at his request, a copy of an additional note dated January 25, 1932, from which, he explains, contains a clarification of certain statements in his former note.

Sincerely yours,

HENRY L. STIMSON.

Inclosure: From Chilean Embassy, No. 7, January 25, 1932.

The Honorable REED SMOOT,
Chairman of the Committee on Finance,
United States Senate.

JANUARY 25, 1932.

No. 7

EXCELLENCY: With reference to my note No. 6 of January 22, 1932, in which were communicated to your excellency the replied of my Government to the queries formulated by Senator Hiram Johnson, through the Finance Committee of the United States Senate, I now have the honor to bring to your excellency's attention, with the request that it be transmitted to the Senate Finance Committee, a clarification of my Government's replies to queries Nos. 4 and 6.

In connection with that part of reply to query No. 4 which reads that: "Up to the present moment no fields have been turned over to Cosach, and the obligation of the Chilean Government to do so has had no practical effect of its capacity to pay the bondholders of its foreign obligations," my Government wishes to state that the obligation of turning over nitrate fields to the extent of 150,000,000 tons of nitrate content is limited, and that the certainly considerable public nitrate beds remaining will be purchased by Cosach and, therefore, the value of these fields will not be impaired.

In connection with the reply to query No. 6 my Government wishes to state that the difference between the previous export duty and the present assessment of 60 Chilean pesos per ton of exported nitrate, is that the previous export duty was collected by the customs service as a State tax, and the present assessment is received by the bankers representing the bondholders.

I avail myself of this opportunity of reiterating to your excellency the assurances of my highest consideration.

MIGUEL CRUCHAGA.

His Excellency HENRY L. STIMSON,
THE SECRETARY OF STATE,
Washington, D. C.

Senator JOHNSON. I offer now for evidence the report on the organization of Cosach presented by the subcommittee of the committee investigating the acts of the dictatorship. From the Republic of Chile. This has been translated, and the translation handed to me by the State Department before I began my examination of the members of the State Department.

The CHAIRMAN. It will be so printed.

Senator JOHNSON. Some of these things I want to call to your attention in order that they may follow exactly what it is that I am endeavoring to present here and endeavoring to show.

The point that is made in respect to this, Mr. Chairman, is this. It is only just to you and to the committee that it be demonstrated, if it can be demonstrated, or that the fact, if it is in your opinion, should be made plain.

The Chilean loans, as you know, have been unable to meet their interest and their sinking funds. They have been called technically default. One of the contributing causes to the default rests in the fact of what was done in the Republic of Chile and in the organization of the Cosach combine.

The principal source of wealth of Chile is nitrate. The Cosach combine undertook to have all of the nitrate producing lands come under one organization. The chief revenue of Chile was from its export duties. These export duties by virtue of the combine of Cosach, which was a partnership between the Government of Chile and Cosach, were taken ultimately from the Chilean Government.

One bank floated many of the loans in Chile. One bank—perhaps others too were engaged in the combine of Cosach. When it came to the payment of the amounts, as I understand it, that were due for export duties, the Chilean Government was to receive certain sums from the Cosach. Instead of receiving those sums for 1932 and 1933, by a decision or a decree that was made by the then existing Government of Chile they received bonds of Cosach, and part

of those export duties were received by those who were interested in Cosach by virtue of the agreement and its various ramifications, with the result that instead of having the revenues to apply upon the amounts due upon their external obligations, bonds which had been sold to our people, those revenues were taken in great degree or in a marked degree from Chile, so that those external obligations could not be met, and in some instances those bonds were made to take precedence over other obligations of Chile, so that what came from the one source of revenue of Chile was devoted practically, or in some degree at least, to the payment of the bonds of the Cosach, rather than to the bonds that were held by the American people, that were sold by the bankers who made these very sales.

I now read from this report [reading]:

In effect, it is a fact, the beneficent consequences of which the country has enjoyed for almost half a century, that in addition to the characteristics common to all industries the nitrate industry has had always the character of providing and sustaining our national economy.

* * * * * * *

The foreign industrialist, entirely removed from these considerations and who views the nitrate problem exclusively in its mechanical and commercial aspects, it is perfectly explicable that he has seen and continues to see the only solution to the problem in the maximum rationalization and mechanization in the production of nitrate of soda.

But the Chilean statesman could not nor can he proceed on this simple theory. Our governor, our legislator has to consider the rationalization of the nitrate industry in its relations to the economic-social aspect of the question.

And thus it is explained that when 10 years ago the same Mr. Cappelen-Smith, who to-day figures as the promoter and organizer of the Compania de Salitre de Chile, proposed, through the intermediary of his consulting lawyer, Mr. Manuel Foster Recabarren, the idea which later took form in the Cosach, before a group of the most eminent statesmen of the country, these with an eloquent unanimity flatly rejected it without admitting it even to discussion.

The rationalization of the nitrate industry, that is, the production of all the exportable nitrate by three or four monstrous plants with a productive capacity of 500,000 to 1,000,000 tons annually for each one and with almost total mechanization of the processes of extraction and manufacture, had necessarily to cause the following results:

First. The depopulation of workmen in the nitrate fields;

Second. The ruination of commerce in the regions of Tarapaca and Antofagasta;

Third. The devalorization of private property in those provinces;

Fourth. The ruination of the railroads of that district;

Fifth. The depression in agriculture through loss or a considerable decrease in the northern market: almost complete falling off in the shipment of animals, vegetables, cereals, wine, canned goods, and fruits;

Sixth. An industrial crisis because of the almost total elimination of one of its principal consuming centers;

Seventh. The adverse effect on the national merchant marine because of decreased shipping from the central and southern districts to the northern zone; and

Eighth. The enormous decrease in government revenues such as land taxes, commercial taxes, and income tax, and not only in the provinces directly affected but in all the supplying centers of that zone.

* * * * * * *

The national interest did not predominate.

The magic of words coming from the largest manufacturing districts of the world—or perhaps reasons more powerful and less innocent—influenced the governors and legislators and high public officials toward the rationalization, standardization, and mechanization of the nitrate industry.

* * * * * * *

In September, 1930, 32 plants with 52,000 workmen were still operating in the nitrate fields; to-day only three are operating, namely:

The Chacbuco plant of Messrs. Guggenheim; the Pedro de Valdivia plant of Messrs. Guggenheim, and the Maria Elena plant of Messrs. Guggenheim.

(In August last the three plants mentioned produced 100,000 tons. Three other plants, the Condor, the Santa Luisa, and the Pena Chica, produced among the three 14,000 tons—that is, less than 13 per cent of the total. For this reason we do not take them into account.)

* * * * * * *

And in order to reduce the costs, they concluded, there is only one means—the adoption and the adaptation to all the industry of the Guggenheim process.

The CHAIRMAN. Senator Johnson, did I understand you to say that this was a report from the State Department?

Senator JOHNSON. No, sir; this is a report of the governmental committee appointed by the Chilean Government. It was furnished to me by the State Department. That is what I meant. [Continuing reading:]

It would seem elemental in view of this first form of the proposition to set forth the terms with absolute clarity.

This signified the renunciation for 60 years of a tax which for many years had not given less than 200,000,000 pesos per annum and which even reducing it to one-half of this figure represented 6,000,000,000 pesos, which sum had to be replaced by the proceeds of the participation of the state in the profits of the business.

* * * * * * *

We have said before that the state, in becoming a part of the new body, had to sacrifice the export tax on nitrate. But that was not its only contribution, nor its only share. Further than renouncing all taxation except 6 per cent on income, which it might have been able to impose on the new organization, it had to contribute 150,000,000 tons of nitrate and not affecting specified nitrate fields, which would have permitted it to dispose of the others, but all of the nitrate lands belonging to the state, from which and during the period of 60 years the company shall have the right to select those which it wants.

That is the absolute tying up of the nitrate reserves of the state, estimated at 460,000,000 tons, for a period of six decades, for three generations of Chileans.

This share of 150,000,000 tons of nitrate represents a value, according to the superintendency of this branch, of 1,500,000,000 of pesos, since it is estimated at 10 pesos per ton; but it amounts to a value of 2,634,000,000 of pesos according to the estimate which Mr. A. E. Cappellen-Smith, of Guggenheim Bros., made in the balance which he presented to his associates of the Lautaro Nitrate Corporation of Delaware (which should not be confused with the Lautaro Nitrate Co.) assigning a value of 17.50 pesos to each ton of nitrate. (Document No. 2.)

* * * * * * *

The originators, promoters, and supporters of Cosach had decided ab ovo that it should assume the character of a corporation between the Government and the industrialists, and that in a corporation of such nature while one of the partners—the national treasury—made concrete contributions easily valued in terms of money, the other partner—the indulstrialists—should contribute their assets and liabilities.

This type of corporation and these contributions of assets and liabilities of the nitrate firms incorporated into Cosach went to make the negotiations as disastrous from the Government point of view as it was bound to be, in any case, from the national point of view.

The introduction of the assets and liabilities of the industrialists immediately gave rise to the difficulties in the exact or even approximate appraisal of the real values of these contributions, and then made the Chilean treasury, as a partner, responsible for all of the debts of the industrial partners up to the amount of the fifteen millions of A stock which would represent the Government's share.

And thus it was that when Mr. Ricardo Ayala, as representative of the Chilean Government, put his signature to the Cosach contract on the 20th of March, 1931, (2) a day which we believe will be sadly memorable, the treasury burdened itself with the debts of the Nitrate Co. of Chile—including the initial loan of $120,000,000—which reached the sum of 2,000,000,000 pesos, or 400,000,000 more than the total external debt contracted by Chile from the time of its independence up to the year 1927, the first of the Ibanez dictatorship. Law No. 4863 sanctioned this enormity.

* * * * * * * *

And in addition to those already considerable objections, it was necessary to authorize a large loan for Cosach under conditions of absolute guarantee of service and payment so effective that they permitted Guggenheim Bros., to retain their great interest in Cosach without preventing them from drawing out everything which they had invested in the nitrate industry.

* * * * * * *

Mr. Castro Ruiz was, in the opinion of this commission, the last Chilean who should have held office as Minister of Hacienda—that is, as principal representative of Chile during the period of the organization of Cosach.

Mr. Castro Ruiz was atually manager of a foreign bank closely associated with the nitrate industry through large credits extended to producing and selling companies. This character of manager of the Anglo-South American Bank was to be inseparable from that of the agent and the Minister of Finance of Chile and the coexistence of both conditions means a moral incompatibility which was so evident that it made unbelievable the designation of Mr. Castro Ruiz as Minister of Hacienda charged with negotiating and deciding upon the formation of Cosach.

* * * * * * *

In reality Guggenheim Bros., did not have a single peso invested in nitrate, in view of the fact that the interest and amortization on their $28,000,000 are guaranteed by the state, with the assurance—accorded in decree with force of law No. 12 of February 24, 1931—that it would not allow 1 ton of nitrate to be exported without charging for it 60 pesos for the service of the respective bonds.

* * * * * * *

In effect, the Anglo Chilean, in accordance with American methods concerning stock companies, had issued 1,756,750 shares without par value and which could only be of value on the day that the assets of the company were estimated by someone to be greater than the liabilities.

That someone was the Chilean Government which, notwithstanding that the official public balance showed the assets of the Anglo Chilean to be less by more than $10,000,000 than its liabilities, assigned to them for these 1,756,750 "without par value" shares, th enormous sum of 490,000,000 pesos in B shares of the Cosach. Then under the title "Bonds substituted for cash payment to the state"—

But it ceased to be true from the time that the decree with force of law No. 12 of February 24, 1931, substituted for cash payment the payment in Cosach bonds of a loan of $120,000,000 which does not effect the Government as a partner of the company; on the service of these bonds the Government will contribute its share, guaranteeing them, during some thirty and odd years, and obligate itself to retain 60 pesos for each ton of nitrate exported.

* * * * * * *

It should be noted, with regard to the debt of $120,000,000 that it was made up of two loans, one having preferred payment over the other (prior secured bonds), and that the bonds delivered to the Government in payment of its credit quotas for 1932 and 1933 were not the prior secured bonds, but consisted of secondary payment bonds. (Document No. 7.)

Senator JOHNSON. I ask that that entire statement be inserted in the record.

The CHAIRMAN. That will be done.

(The report on the organization of Cosach is here printed in the record in full, as follows:)

(Inclosure No. 2, Despatch No. 1021, American Embassy, Santiago, Chile)

EL MERCURIO,
Santiago, Chile, November 8, 1931.

TRANSLATION

[Report on the organization of the Compania de Salitre de Chile (Cosach) presented by the subcommittee of the committee investigating the acts of the dictatorship]

The subcommittee appointed by the committee investigating the acts of the dictatorship to study the organization of the Compania de Salitre de Chile delivered yesterday to the Minister of Finance the following report which contains the results of their investigations:

Mr. MINISTER: This committee which was appointed by supreme decree of August 4 last to investigate governmental acts beginning in 1927, formulated a plan which it must follow in its work and in it, it set forth the study of the organization of the Compania de Salitre de Chile, more commonly known as Cosach, as one of the acts of greatest importance consumated during the dictatorship.

Thus when the program of this committee was announced publicly, the manager of Cosach in a communication dated August 19, and in the name of the company that he is administrating, urged us that we should begin as soon as possible to consider the organization of Cosach since in the opinion of the board of directors of that company there existed a real national expediency in that the investigating committee should render its report in this respect at the earliest possible moment.

The committee answered the manager of Cosach that being of the same opinion it would begin the task immediately and so since the 22d of August, that is for a period of more than two months, it has given several hours daily to the examination of the antecedents of Cosach.

In addition to the numerous documents that it has had at hand the committee has considered the reply of Cosach to the committee's questionnaire; it has heard the statement of Joaquin Irarrazaval in his capacity as representative of the company; it has heard also the superintendent of nitrates; it has followed through the intermediary of several of its members the recent debates of the Institute of Engineers and studied the acts of those important debates; it has asked those officials whom it thought pertinent to report on the different subjects under study concerning Cosach; it has had in hand numerous letters by means of which there were agreed the terms of incorporation into Cosach of the principal nitrate firms; the debates of Congress regarding Law No. 4863 and the great amount of literature which has already appeared relative to the origin, development, and possible consequences of the Compania de Salitre de Chile.

Before setting forth in its report the result of its investigations, the committee considered that it could have had well founded reasons for starting the report with a dicussion of the constitutionality of Law No. 4863 which established Cosach, a law debated and approved by a Congress which, in its majority was appointed and not constitutionally elected, and was imposed by an executive which had in fact assumed all public power; and also for establishing the even more evident unconstitutionality of the so-called decree laws No. 12 and 48, complementary to the Cosach Law, enacted by virtue of special powers which Congress could not grant to the executive since it meant a delegation of the legislative power which is not permitted by our constitution.

However, this committee prefered to base its report on the hypothesis that the legal provisions relative to the establishment of the Compania de Salitre de Chile were valid and therefore obligatory.

Our report comprises the following headings:

First. The double and inseparable character of the nitrate industry. (The Government and commercial aspect and the national aspect.)

Second. The Cosach and the Chilean Government.

Third. Development of events up to the organization of the Compania de Salitre de Chile.

Fourth. Expenses of organizing the Cosach.

Fifth. The capital of Cosach illegally increased.

Sixth. The commercial outlook.

Seventh. Exchange for bonds of cash payments to be made to the state.

1. THE DOUBLE AND INSEPARABLE CHARACTER OF THE NITRATE INDUSTRY

The very idea of organizing the nitrate industry of Chile as a single commercial company meant the voluntary disregard—since we can not admit ignorance—of the obvious nature of that industry.

In effect, it is a fact, the beneficient consequences of which the country has enjoyed for almost half a century, that in addition to the characteristics common to all industries the nitrate industry has had always the character of providing and sustaining our national economy.

The nitrate zone, which was acquired in good part by virtue of the treaties which terminated the war of the Pacific, and as a fruit of the sacrifice of 20,000 Chileans and of the united effort of the country in the defense of its rights and dignity, became, because of the industry of transforming nitrate-bearing ore into nitrate of soda fertilizer, the very reason for the existence

and the progress of the Provinces of Antofagasta and Tarapaca. It became also the great workshop of our most energetic laborers in numbers of tens of thousands, and the assured and privileged market of Chilean agriculture and industry from Coquimbo to Chiloe.

So intimate became the connection of interests between the nitrate provinces and those of the rest of the Republic that always and invariably the prosperity of the central and southern part of the country coincided with the prosperity of nitrate, and each nitrate crisis was followed by a crisis in the agricultural and industrial sections of Chile.

In order to ignore this second character of the nitrate industry—its intimate and inseparable relation with Chilean economy—it was necessary not only to lack the most elemental vision of a statesman but also to be disposed to inflict upon the nation the greatest harm; to be disposed to ruin it.

The foreign industrialist, entirely removed from these considerations and who views the nitrate problem exclusively in its mechanical and commercial aspects, it is perfectly explicable that he has seen and continues to see the only solution to the problem in the maximum rationalization and mechanization in the production of nitrate of soda.

But the Chilean statesman could not nor can he proceed on this simple theory. Our governor, our legislator, has to consider the rationalization of the nitrate industry in its relations to the economic-social aspect of the question.

And thus it is explained that when 10 years ago the same Cappelen-Smith, who to-day figures as the promoter and organizer of the Compenia de Salitre de Chile, proposed, through the intermediary of his consulting lawyer, Mr. Manuel Foster Recabarren, the idea which later took form in the Cosach, before a group of the most eminent statesmen of the country, these with an eloquent unanimity flatly rejected it without admitting it even to discussion.

The rationalization of the nitrate industry—that is, the production of all the exportable nitrate by three or four monstrous plants with a productive capacity of 500,000 to 1,000,000 tons annually for each one and with almost total mechanization of the processes of extraction and manufacture, had necessarily to cause the following results:

First. The depopulation of workmen in the nitrate fields;

Second. The ruination of commerce in the regions of Tarapaca and Antofagasta;

Third. The devalorization of private property in those Provinces;

Fourth. The ruination of the railroads of that district;

Fifth. The depression in agriculture through loss or a considerable decrease in the northern market; almost complete falling off in the shipment of animals, vegetables, cereals, wine, canned goods and fruits;

Sixth. An industrial crisis because of the almost total elimination of one of its principal consuming centers;

Seventh. The adverse effect on the national merchant marine because of decreased shipping from the central and southern districts to the northern zone; and

Eighth. The enormous decrease in government revenues such as land taxes, commercial taxes, and income taxes, and not only in the Provinces directly affected but in all the supplying centers of that zone.

And this aggrigate of disastrous consequences was predicted with sufficient anticipation in the short debate on the Cosach in Congress to make it appear prophetic. The facts, unfortunately for us, have taken it upon themselves to confirm fully these predictions; but it would have been very easy for all those to have forseen the results if they had not closed their eyes to the facts.

The national interest did not predominate.

The magic of words coming from the largest manufacturing districts of the world—or perhaps reasons more powerful and less innocent—influenced the governors and legislators and high public officials toward the rationalization, standardization, and mechanization of the nitrate industry.

It was proposed to the bees that they abandon their laborious procedure and produce industrial honey on a large scale; and there were bees who accepted. In fact, the honey flowed abundantly through glass tubes and stills, but the swarm scattered and the bees died by the thousands.

In September 1930, 32 plants with 52,000 workmen were still operating in the nitrate fields; to-day only three are operating, namely:

The Chacabuco plant of Messrs. Guggenheim; the Pedro de Valdivia of Messrs. Guggenheim; and the Maria Elena plant of Messrs. Guggenheim.

(In August last the three plants mentioned produced 100,000 tons. Three other plants, the Condor, the Santa Luisa, and the Pena Chica, produced among the three 14,000 tons—that is, less than 13 per cent of the total. For this reason we do not take them into account.)

A total of only 20,000 workmen are employed, and which number tends to decrease.

The remaining 32,000 workmen represent more than 120,000 persons who have emigrated to the south, the great majority of which are unemployed,

These laborers, until yesterday, were the highest expression of the strong race of Chilean workmen whose fame has never been exceeded by that of any other country. They were heralds and the sustainers of the national wealth. To-day, with ill-concealed bitterness, they parade their rags through the streets of Santiago and Valparaiso begging alms "for God's sake."

2. Cosach and the Chilean Government

Those who underrated or omitted the national aspect in Cosach, could they give as an explanation, since they can not give it as an excuse and less as a justification of their attitude, the advantages of a well-ordered budget which this negation involved?

Nitrate, they said, has been since 1884 up until the present, the principal revenue of the Chilean Government. The Government has profited, they added, to the sum of 7,391,000,000 pesos in export taxes and 210,000,000 pesos by the sale of nitrate lands. This situation which is unique among the nations of the world could be maintained while Chile had the monopoly or quasi-monopoly of nitrate, but this ceased to be possible once our quota in the world consumption of nitrate fell from 56 to 23 per cent.

Furthermore, to the increased production of synthetic nitrate, the direct cause of our displacement, there was added a constant reduction in the production costs of synthetic fertilizers.

As there does not exist in the world a sufficient market for the possible production of nitrates, it was necessary to dispose of that part of the production which represented the lowest cost.

The dilemma, they added, is unavoidable; either lower production costs or we perish.

And in order to reduce the costs, they concluded, there is only one means—the adoption and the adaptation to all the industry of the Guggenheim process.

The application of the Guggenheim process, to quote the superintendency of nitrate, means an economy in production costs of 40 pesos per ton.

With that saving Chilean nitrate would remain, according to the promoters of the new system, in a position to compete successfully with all its numerous and powerful rivals, the producers of synthetic fertilizers.

Furthermore, it was necessary that the Chilean Government should renounce the collection of the export tax on nitrate—100 pesos of 6 pence per metric ton.

But this renunciation would be only apparent—pro forma—because the profits which the Government would receive from its participation in the industry would exceed by very much the amount of the largest revenues from the export tax.

The calculatons made by the promoters of a future business are generally optimistic; and on many occasions those are the only moments of rejoicing.

Pablo Ramirez, in his capacity of representative with full powers of the dictatorship, prepared the plan of Cosach, together with Mr. A. K. Cappelen-Smith, duly authorized representative and partner of Messrs. Guggenheim Bros. Mr. Ramirez drafted the "statement of reasons" and the "project of law" which, without further amendment, the Dictator Ibanez and his Minister of Finance, Rodolfo Jaremillo, presented shortly thereafter to Congress. In that "statement of reasons" Messrs. Ramirez, Ibanez, and Jaremillo made the following calculations concerning the profits of Cosach:

Sales and profits for dividends

Tons:	Pesos
2,500,000	270,000,000
2,700,000	343,000,000
3,400,000	428,000,000
4,200,000	590,000,000
5,000,000	718,000,000

We shall see very shortly what probabilities there are of realizing those numbers, or better whether the facts show other amounts considerably less promising.

Meanwhile, in order not to lose the logical order of ideas, let us return to the proposition made to the Government to renounce immediately the tributary system imposed until then on the nitrate industry, and to incorporate the Government in a business in which it would have one-half of the profits on the basis of the application of the Guggenheim invention.

It would seem elemental in view of this first form of the proposition to set forth the terms with absolute clarity.

This signified the renunciation for 60 years of a tax which for many years had not given less than 200,000,000 pesos per annum and which even reducing it to one-half of this figure represented 6,000,000,000 pesos, which sum had to be replaced by the proceeds of the participation of the State in the profits of the business.

There is no exaggeration in stating that never had such a large transaction been proposed to the Government of Chile.

The acceptance or the refusal thereof, especially the acceptance, which meant the changing of the existing situation, involved the greatest responsibility.

As the basis of the negotiation was the adoption of the Guggenheim process, it would appear obvious to consider, examine, and prove what results its application have given to date.

The Guggenheim process had been experimented with only at the Maria Elena plant of the company known as the Anglo-Chilean Consolidated Nitrate Corporation.

And in the official balance sheet of June 30, 1930 (document No. 1) which expresses the results of the fifth year of operation of the company, there is established a loss of 10,029,526 United States dollars, more than $2,000,000 Chilean pesos.

Is it admissible, is it even possible that with these facts in hand and on this basis, the Government and the legislators of Chile decided the most important negotiation of the past, present, and perhaps the future of the country?

We have said before that the state, in becoming a part of the new body, had to sacrifice the export tax on nitrate. But that was not its only contribution nor its only share. Futher than renouncing all taxation except 6 per cent on income, which it might have been able to impose on the new organization, it had to contribute 150,000,000 tons of nitrate and not affecting specified nitrate fields, which would have permitted it to dispose of the others, but all of the nitrate lands belonging to the state, from which and during the period of 60 years the company shall have the right to select those which it wants.

That is the absolute tying up of the nitrate reserves of the state, estimated at 460,000,000 tons for a period of six decades, for three generations of Chileans.

This share of 150,000,000 tons of nitrate represents a value, according to the superintendency of this branch, of 1,500,000,000 of pesos, since it is estimated at 10 pesos per ton; but it amounts to a value of 2,634,000,000 of pesos according to the estimate which Mr. A. E. Cappellen-Smith, of Guggenheim Bros., made in the balance which he presented to his associates of the Lautaro Nitrate Corporation of Delaware (which should not be confused with the Lautaro Nitrate Co.) assigning a value of 17.50 pesos to each ton of nitrate. (Document No. 2.)

But not withstanding the magnitude of the Government's contributions, it could have been thought that these would be duly compensated by the state's share of half of the profits of the industry.

It was often said and the country was made to believe that the Government was exchanging the product of a tax, the collection of which was becoming impossible, at least in full, and the present value of 150,000,000 tons of nitrate, for 50 per cent of the profits from the manufacture and sale of nitrate.

What did the country understand by all of this? What did many of the politicians, who attributed to Cosach during the period of its formation, the character of salvation for our principal fountain of resources, really understand?

They understood openly and frankly that from each two pesos resulting from the difference between the cost and sale price of nitrate one peso would be for the State and the other for the industrialists.

And by the cost price they understood that which would result from the total of these factors: Transport of the caliche to the plant; manufacturing

process in the plant, sacking, and freight to the port of embarkation and placing alongside ship. Deducting this cost from the sale value would give the profit.

If this had been the case, Cosach, although it always would have been a disaster from the point of view of national economy, very probably would have resulted as a good piece of business for the Chilean Government. But this was not the case.

It was our misfortune that the conditions under which this great company was organized were necessarily and fatally disastrous for all Chilean interests, national as well as strictly Government.

The originators, promoters, and supporters of Cosach had decided above that it should assume the character of a corporaton between the Government and the industrialists, and that in a corporation of such nature while one of the partners—the national treasury made concrete contributions easily valued in terms of money, the other partner—the industrialists—should contribute their assets and liabilities.

This type of corporation and these contributions of assets and liabilities of the nitrate firms incorporated into Cosach went to make the negotiation as disastrous from the Government point of view as it was bound to be, in any case, from the national point of view.

The introduction of the assets and liabilities of the industrialists immediately gave rise to difficulties in the exact or even approximate appraisal of the real values of these contributions, and then made the Chilean Treasury, as a partner, responsible for all of the debts of he industrial partners up to the amount of the 15,000,000 of A stock which would represent the Government's share.

And thus it was that when Mr. Ricardo Aysla, as representative of the Chilean Government, put his signature to the Cosach contract on the 20th of March, 1931,[1] a day which we believe will be sadly memorable, the treasury burdened itself with the debts of the Nitrate Co. of Chile—including the initial loan of $120,000 000—which reached the sum of 2,000,000,000 pesos, or 400,000,000 more than the total external debt contracted by Chile from the time of its independence up to the year 1927, the first of the Ibanez dictatorship. Law No. 4863 sanctioned this enormity.

The State abdictated its sovereignty in relation to the most valuable source of fiscal income and humbly took part in a corporation in which, even under the best circumstances, it had to accept the common lot of any of the partners. With reference to this point—essential in the Government aspect of Cosach—patriotic voices were raised to call attention to the immense error which was about to be committed.

Messrs. Gustavo Rivera, Santiago Wilson, and Alegro Lira, in the Chamber of Deputies, and Mr. Aurelio Nunez Morgado, in the Senate, protested against the character of partner which it was desired to give to the State in the nitrate industry and announced the dangers which were involved.

It was as clear as the light of noon; since forgetting the paramount benefits to the nation it was wished at any cost to combine the interests of the Government and of the nitrate producers, what should have been done in order to save the dignity and welfare of the country was to harmonize those interests in a confederation.

For that, it was sufficient that the State should renounce export duties and should concede under determined conditions the use of its nitrate lands up to an amount of 150,000,000 tons of nitrate.

In exchange for these generosities of the State, the industrialists, without the necessity of associating themselves with the State in the juridical-commercial sense, would have turned over to the treasury 50 per cent of the profits resulting from the difference between the cost of production and transportation alongside ship and the sale price free alongside ship.

---

[1] With reference to what occurred in connection with Cosach on Mar. 20 of this year, we can not refrain from pointing out that the following events are surprising and almost inexplicable. In fact, from the official documents which we have before us, it appears that the following occurred on the 20th of March, 1931: (1) There was a meeting in Valparaiso of stockholders of the Aurrera Nitrate Co. which appointed the lawyer, Eduardo Carvallo Gundelach, as its representative to sign the Cosach contract; (2) this action of the stockholders was made a matter of public record; (3) there was issued and subscribed in Valparaiso the documents of incorporation and the statutes of Cosach, which has 86 pages of typewritten text; (4) a copy of this document was sent to Santiago for the information of the minister of hacienda; (5) this minister, Mr. Carlos Castro Ruiz, studied the contract and signed decree 2100, which approved the statutes of Cosach; (6) decree 2100 is approved and signed by the dictator, Ibanez; and (7) this supreme decree is published in the Diario Oficial of the same day, Mar. 20.

In order to control the correct and exact compliance with this obligation of the industrialists, the Government should have taken the precautions customary in such cases.

If under this simple, honest and practical form of agreement the quota of 50 per cent of the profits for the Treasury had proved excessive, the figure could have been reduced to an equitable one.

The law instead of accepting this clear road chose the tortuous one of the corporation with shares of assets and liabilities on the part of the industrialists.

The Senate wished to decerase the evil consequences of the corporation by providing that the shares of the industrialists "shall not exceed" 1,500,000,000 pesos and that the B stock representing these shares should be issued up to these 1,500,000,000.

But it will be seen that these precautions did not prevent the sad plight of the State in the Nitrate Co. of Chile. The original mistake of organizing the corporation was committed and it was a mistake as great as it was unnecessry for those who were not going to profit from it. The principal objects of Cosach were the following:

First. To unite nitrate producers in order to lower costs and bring about unified control in the business thereby presenting an advantageous united front to the manufacturers of synthetic nitrogen; and,

Second. To obtain the assistance of the Chilean Government in order to suppress taxes and to apportion nitrate lands to the industry.

For the full satisfaction of these desires the Nitrate Co. of Chile was not necessary. The first end had already been attained with the Association of Nitrate Producers, an organization which represented and directed the interests of the industry; and with reference to the assistance from the State it could and should have been obtained without the cosach.

What were the interests so deep and so strong which determined this form for the organization of the nitrate industry? Perhaps the best reply to this question will be a detailed examination of the organization of Cosach.

3. Development of Events up to the Organization of the Compañia de Salitre de Chile (Cosach)

This study should embrace three periods: Negotiation, legislation, fulfillment.

THE NEGOTIATIONS

The period of negotiations—without doubt the most interesting—opens in April and ends in July of 1930. All of the developments took place in Paris and London. The negotiators—at least the principal ones—are Pablo Ramirez, representing the State, and Mr. A. E. Cappellan Smith, representative of Guggenheim Bros. This period includes the following operations:

First. The form of organization of Cosach was proposed and decided upon.

Second. A report on the motives and the corresponding projects of law were drawn up and sent to the Government for presentation to the National Congress.

Third. Nitrate companies were informed as an inevitable fact that Cosach should be organized under the law substantially in accord with the form proposed by Mr. Ramirez.

Fourth. The nitrate producers knowing the dictatorial character of the Chilean Government; the insurmountable influence which Pablo Ramirez exercised in that Government; the growing power which Guggenheim Bros. were assuming in the nitrate industry; the close understanding between Guggenheim Bros. and Mr. Ramirez; and, lastly, the absolute uselessness of any effort which might be made to oppose the suggestions of Mr. Ramirez and Guggenheim Bros., agreed with them upon the terms of their respective incorporation into Cosach. (Document No. 2A.)

During this first period of negotiations 28 of the most important nitrate firms, out of the total of 42 which to date have signed the contract of the Nitrate Co. of Chile, agreed to enter Cosach. The negotiation was completed. It is true that legislative approval was lacking but that was certain to come, and it came.

PERIOD OF LEGISLATION

The project of Cosach was presented to the Chamber of Deputies. The finance committee reported on it during the session of June 21, 1930. Discussions started during this same session. Under the circumstances the deputies had not had time to read the project.

The commission did not present a written report but charged its president, Mr. Jorge Orrego, to give verbal explanations.

The debate was continued in the session of June 23 from 4 to 7 o'clock, and since it was not completed, and in spite of the protests of several deputies, a further session was called for that night. Debate was concluded during the session of June 24 and a general vote was taken on the project. Three days had passed and the project had been discussed in four sessions. Such a brief time and such a small number of sessions were sufficient for the chamber to decide upon the most serious and important project of law which had ever been submitted to it.

In the attack on the project for the formation of Cosach the following gentlemen distinguished themselves: Selim Carrasco, Manuel Munoz Cornejo, Arturo Ruiz de Cambba, Ignacio Urrutia Manzano, Ramon Sepulveda Leal, Gustavo Riveral Baeza, Santiago Wilson, Alejo Lira Infante, Alfredo Guillermo Bravo y Bartolome Sepulveda.

The project was especially supported by Messrs. Jorge Orrego, Luis Cruz Almeyda, Juan Pradenas Munoz, Nolasco Cardenas, Eleazar Lezaeta y Francisco Jorquera.

The result of the vote was 69 in favor of general approval of the project and 21 against it. The following voted in the affirmative:

(Here follows list of names.)

The following voted in the negative:

(Here follows list of names.)

During the session of June 27 the chamber initiated and concluded individual discussion and heard a new report from the finance committee, considered and rejected the counter-project presented by Messrs. Salem Carrasco on the one hand and Manuel Munoz Cornejo and Arturo Ruiz de Camboa on the other.

That day the project for Cosach passed to the Senate. The finance committee of this chamber presented its report during the session of July 7. Discussion was started on the 8th and continued during the sessions of the 9th and 10th. During the last of these sessions consideration of the project was completed.

Three days and four sessions had been sufficient for the Senate also to discuss and decide upon Cosach. The project was especially supported by Pedro P. Dartnell, Guillermo Barros Jara, president of the finance committee, Enrique Zanartu Prieto, Juan Antonio Rios, Fidel Estay, Emilio Rodriguez Mendoza, and Jacinto Leon Lavin.

Messrs. Aurelio Nunez Morgado, Manuel Hidalgo, and Juan Luis Carmona attacked it in almost all of its phases. The Senate approved the project by a large majority.

The third and fourth constitutional readings escaped in the discussions of the chambers between July 12th and 21st, and on the latter date the project was completely approved and ready to be returned to the executive. Cosach was going to be a law of the Republic.

It is only just to point out that if Congress supported the fundamental error of constituting Cosach and the no less serious error of founding the new organization of the nitrate industry on the basis of a corporation between the State and the industrialists, in exchange the numerous modifications introduced into the Government project all tended to lessen the disastrous consequences.

Law No. 4863, which was published in the Diaro Official of July 21, 1930, was promulgated as a law of the Republic which gave life and legal organization to the Nitrate Co. of Chile (Cosach).

Law No. 4863 did not put an end to the legislative process of Cosach.

The months following the promulgation of the law permitted its real negotiators to realize that some of the provisions contained in the project presented by Mr. Pablo Ramirez in April of 1930 were lacking, and that it was necessary to impose others for the complete and perfect fulfillment of the original plan.

Law No. 4863 had not contemplated the existence and authorization of the so-called subsidiary companies, by whose mechanism Guggenheim Bros. had to complete their domination over the future company.

On the other hand, that law of July, 1930, required the Nitrate Co. of Chile to pay in money and within the respective years the Government quotas for 1932 and 1933, a payment the material impossibility of which was already discounted by the negotiators notwithstanding the optimistic accounts of profits with which they had tempted the Chilean Legislator.

An in addition to these already considerable objections, it was necessary to authorize a large loan for Cosach under conditions of absolute guarantee of service and payment so effective that they permitted Guggenheim Bros. to retain their great interest in Cosach without preventing them from drawing out everything which they had invested in the nitrate industry.

Law No. 4863 therefore had imposed upon it, with unavoidable character, modification in these three respects.

The extraordinary powers of Law No. 4945 were used for this purpose—if they were not designed especially for the purpose. Under these extraordinary powers was dictated Decree Law No. 12 of February 24, 1931.

The dictator named Mr. Castro Ruiz, Minister of Hacienda, in order to ask or to impose those extraordinary powers and take advantage of them in the manner which was done under Decree Law No. 12 of February 24, 1931.

Mr. Castro Ruiz was, in the opinion of this commission, the last Chilean who should have held office as Minister of Hacienda—that is, as principal representative of Chile during the period of the organization of Cosach.

Mr. Castro Ruiz was actually manager of a foreign bank closely associated with the nitrate industry through large credits extended to producing and selling companies. This character of manager of the Anglo-South American Bank was to be inseperable from that of the agent and the Minister of Finance of Chile, and the coexistence of both conditions meant a moral incompatibility which was so evident that it made unbelievable the designation of Mr. Castro Ruiz as Minister of Hacienda charged with negotiating and deciding upon the formation of Cosach.

The unbelievable, however, happened. It is true that it was not the only unbelievable act of the dictatorship, but it was without doubt the most serious and the most harmful to public interests.

Carlos Castro Ruiz was named Minister of Hacienda by Dictator Ibanez on January 9 of the present year. On February 6 the law of extraordinary powers was imposed upon the members of Congress who were designated March 30, 1930. This law was resisted by many distinguished and able parliamentarians.

As we have already said, Decree Law No. 12 was dictated on February 24 by virtue of those extraordinary powers.

The manager-minister had accomplished the most important part of his mission, and if as minister he had not made himself exactly a creditor of the national gratitude, as manager he had earned the gratitude of his bank.

With Decree Law No. 12 and with No. 48 the period of Cosach, which we have called the legislative period, came to an end. The last of the three periods arrived, that of fulfillment.

FULFILLMENT PERIOD

The entire country has been deceived into thinking that the 1,500,000,000 pesos in series B shares of the Cosach had obligatorily to be assigned to the nitrate industrialists and that, in any case, they were granted to them after prior valuation of their assets and liabilities evaluated by representatives of the Government.

It has been said and repeated with as much insistence as inexactness that the Chilean Government was totally indifferent as to the manner and proportion in which these 1,500,000,000 pesos should be divided among the different industrial partners and even that it had no interest relative to whether or not the liquid assets of the separate industrialists represented this total amount.

All these statements are merely for the purpose of obscuring the issue.

In the first discussion of Cosach in Congress it was established that if from the capital of 3,000,000,000 pesos, 1,500,000,000 pesos were assigned to the industrialists it was to be with the understanding and on the basis that this value should be duly justified and proved. The president of the finance committee of the Chamber of Deputies, Jorge Orrego, tried to show that the nitrate companies in existence at the time of these discussions, altogether held liquid assets to the value of 1,036,000,000 pesos, as was shown by the balance sheets of these firms and added that the 1,500,000,000 pesos should be considered as including the highest valuation of the nitrate lands and the stocks of nitrate and iodine as well as the value of the processes and patents of said companies.

Later the Senate emphasized in a manner not to be misunderstood the idea of prior justification of the industrial quota, determining that this total should not exceed 1,500,000,000 pesos and that the series B shares could only reach

that amount. If the value of the industrial quotas could not exceed 1,500,000,000 pesos it was because they must be less than that sum and, in consequence, the incorporation of each company should correspond in its number of B shares to the valuation previously approved by the Government.

Thus it is that the public believes these matters have been handled in this manner but it is laboring under a delusion. The quotas of all of the companies incorporated in Cosach to-day were agreed on directly between them and Guggenheim Bros., absolutely ignoring the valuation of assessment made much later by order of the Chilean Government and by officials in their service.

Thus the series B shares which these companies have received, or are to receive, have absolutely no relation with the values assigned to their liquid assets in the Government valuation, but with the values which Guggenheim Bros. had decided beforehand to give them.

The logical consequence of the foregoing and an incontrovertible fact is that the Government valuation has had no practical application for nitrate industrialists with the exception of Guggenheim Bros., and it is an operation a posteriori for the purpose of justifying the theory of delivery of 1,500,000,000 as the industrial quota.

An example will even more clearly emphasize this statement:

Let us suppose that when the dictatorship had the strange idea of the civic center, one of the property owners in that district should have known that the Government was disposed to pay 100,000,000 pesos for the total of the real estate comprising that district and that, in possession of such valuable information, he should have eagerly gone to obtain an option on each and all of these plots of real estate, acquiring the entire section for 20,000,000 pesos.

Once the option had been secured this fortunate purchaser would present himself to the Government and ask for the payment of 100,000,000 pesos. And the Government, knowing the total price of the operation was 20,000,000, instead of rejecting this proposal should name a commission which, for various reasons, showed that the property was worth 100,000,000 pesos, in view of which report the Government paid the 100,000,000 pesos.

This has been the case but very much worse.

Guggenheim Bros. from April to July, 1930, entered into a number of ad-referendum operations through which there were agreed the terms of incorporation into Cosach of 28 of the principal nitrate companies, and later this number was increased to 33, only 14 nitrate firms remaining outside of the combination.

To these 33 were granted 418,184,956 pesos in series B shares of the Cosach, Guggenheim Bros. reserving for themselves and their cooperators 1,050,000,000 pesos (document 2-B).

After distribution had been made the Government in its report absolutely avoided making any disclosure of the fact that these companies which through agreements of their directorates and shareholders had turned over their business actually worth 852,000,000 pesos for 418,000,000 pesos.

From this system of governmental valuation, the worth of which we prefer not to dwell upon, the most interesting anomalies have resulted.

The case, for example, of the Cia. Salitrera El Loa which company presented to Guggenheim Bros. official balance sheets which can easily be proved, and according to which there were liquid assets in favor of that company of 69,000,000 pesos and to which Guggenheim Bros. only granted 23,400,000 pesos in shares of the Cosach.

And what did the governmental valuation say with regard to this company?

It said that the liquid assets of the Cia. El Loa amounted to 139,000,000 pesos (document No. 3).

Some of the shareholders of this firm have been right, therefore, in stating to the investigating committee that in the difference between 23,000,000 pesos and 69,000,000 pesos El Loa has been defrauded, but that in the difference between 69,000,000 pesos and 139,000,000 pesos the Government has been defrauded, since the company acknowledges publicly that it was worth but 69,000,000 pesos and the Government commission values it at 139,000,000 pesos (document No. 3-A).

We could repeat innumerable similar examples that would show that the governmental valuation was very much greater than the balances of the companies, in order to have a justification for the payment of the 1,500,000,000 pesos.

We repeat that in the division of this total there were assigned to the companies adhering to the Cosach 418,000,000 pesos and to Guggenheim Bros. and their cooperators 1,050,000,000 pesos, and what did the Guggenheim group

deliver to the Cosach in exchange for this amount of 1,050,000,000 pesos? Not one kilo of nitrate ore, not one piece of iron, not one animal hoof.

They delivered their "good will," their intangible assets, as the governmental report calls it with unintended irony.

And this is an undeniable fact of the most rigorous exactness.

The nitrate interests of Guggenheim Bros. were in the Anglo-Chilean Consolidated Nitrate Corporation and in the Lautaro Nitrate Co.

The property which formed the assets of the first of these companies hardly covered the liabilities, not taking into account the $10,000,000 ($2,000,000 pesos), which represented the loss shown in their official balance sheet of June 30, 1930 (document No. 1).

As to Lautaro, their liquid capital (document No. 4) amounted to 320,000,000 pesos, which was incorporated in the liabilities of the Cosach as a debt in preferred bonds.

Thus the properties of the companies in which Guggenheim Bros. were interested were taken into the Cosach with complete disregard of the 1,050,000,000 pesos delivered to them and their group in the form of shares of the Cosach

These 1,050,000,000 pesos were purely "good-will."

And how has the firm of Guggenheim been able to obtain a position so powerful in the nitrate industry as to permit them to handle the division of B shares as master and owner?

It is an edifying story which merits being placed in this report for perpetual remembrance.

The firm of Guggenheim Bros. first interested themselves in the nitrate industry in 1925, acquiring at a public sale the Soya Norte nitrate field, for the approximate sum of £600,000. After a short time the firm decided that for the development of their business, it would suit them to purchase the railroad to Tocopilla and other properties belonging to an English company called the Anglo Chilean Nitrate Co. So they bought the assets and liabilities for £3,600,000 for which they paid, without spending a cent, in bonds or mortgage debentures.

The firm at once decided to build a plant, the Maria Elena, for the application of the Guggenheim process for extracting and elaborating nitrate.

In ordered to defray the initial cost of this plant, they launched a new issue of debentures for $16,500,000 with which they began to retire the £600,000 paid for the Coya field. Thus they did not have a single dollar invested in the industry.

But soon the construction of the Maria Elene required sums which could not be obtained by new issues of debentures and Guggenheim Bros. began to advance to the Anglo-Chilean Consolidated Nitrate Corporation sums of money which, in March of the present year, according to the books of their own company, amounted to $27,000,000 as capital and $1,500,000 as interest.

In round numbers there were $28,000,000—that is, 230 000,000 of our pesos—invested in a very good, splendid, colossal enterprise but in the five years during which it was in operation and with the advantage of very high prices for nitrate, it lost $10,000,000.

This investment doubtless did not suit Guggenheim Bros. and the Cosach and the enormous loan of $120,000,000 when it was launched offered them a unique opportunity to get out of this great business which showed such losses.

And thus it was that the guaranteed credit which they had against the Anglo-Chilean Consolidated Nitrate Corporation for $28,000,000 was changed for bonds of the Cosach with the specific guarantee of 60 pesos per ton of nitrate exported, and with payment so preferential and privileged that a ton of nitrate can not leave our shores until the service of these bonds has been covered.

Thus the credit of Guggenheim Bros. had predominance over the first mortgages of the incorporated companies and over the 7 per cent interest of the Lautaro Co., this last fact causing great alarm to the holders of these bonds.

In reality Guggenheim Bros. do not have a single peso invested in nitrate, in view of the fact that the interest and amortization on their $28,000,000 are guaranteed by the State, with the assurance—accorded in decree with force law No. 12 of February 24, 1931—that it would not allow 1 ton of nitrate to be exported without charging for it 60 pesos for the service of the respective bonds.

But the fact that the Anglo-Chilean Consolidated Nitrate Corporation's assets were less than their liabilities did not signify that their owners, Guggenheim

Bros., would not receive anything for their incorporation in Cosach. Far from this, so far in fact that they received 490,000,000 pesos for their incorporation.

In effect, the Anglo-Chilean, in accordance with American methods concerning stock companies, had issued 1,756,750 shares without par value and which could only be of value on the day that the assets of the company were estimated by some one to be greater than the liabilities.

That some one was the Chilean Government which, notwithstanding that the official public balance showed the assets of the Anglo-Chilean to be less by more than $10,000,000 than its liabilities, assigned to them for these 1,756,750 "without par value" shares, the enormous sum of 490,000,000 pesos in B shares of the Cosach.

The other nitrate firm in which Guggenheim Bros. has an interest was the Lautaro Nitrate Co.

The story of that interest will cause the minister and the country greater surprise, if possible, than the preceding one.

The Lautaro Nitrate Co. was the most important and most Chilean nitrate company of the pampa.

It had originated by the union of the old, historic, and beloved Cia. Salitrera de Antofagasta with the Lastenia Co. and the English company from which it took its new name.

The Lautaro was very progressive as it had constructed and equipped the Chacabuco plant, the flower of the Shanks system.

Without doubt this spirt of progress shown by the Chilean company induced Guggenheim Brothers to propose in June of 1929 the construction of a new plant, Padro de Valdivia, where the process which they had patented might be installed.

They only asked as a price for their advice and the adoption of their patents a commission of £100,000.

A commission of £100,000 for a company that had a capital of £8,000,000 (1,600,000 share of £5 each) was not a thing to fear.

But the proposers of this plan, Guggenheim Bros., demanded and obtained the payment of this £100,000 commission in 2,000,000 shares of the Lautaro Co. worth a shilling each, each share being entitled to a vote.

By this simple and marvelous system, £100,000 dominated and controlled the £8,000,000 of the original shareholders and owners of the business.

But as Guggenheim Bros. were not alone in this plan to absorb the Lautaro Co. and had to divide the commission among the various cooperators, and as this might deprive them of the control of the business, they conceived the most stupendous mechanism in all this negotiation.

They invented a stock company whose only function and reason for being was the possession and control of these 2,000,000 shares of the Lautaro Co. They assigned to the new company, conceived under the name of the Lautaro Nitrate Co. of Delaware, a capital of 4,000,000 shares without par value, of which at the beginning 2,340,000 belonged to the Guggenheims and was later increased to 2,441,668.

Holding thus the majority of the shares of the Lautaro of Delaware, Guggenheim also controlled the 2,000,000 shares of the Lautaro and, by this means, the Chilean colossus of the nitrate industry humbly yielded up its arms and its goods before another colossus of irresistible power.

We have said that the £100,000 of "Good-will" which the Lautaro Co. paid were converted into 1,000,000 shares of the company and that these were in turn converted to 4,000,000 shares of the Lautaro of Delaware. Guggenheim Bros. then changed their 2,441,668 shares of Lautaro Delaware for 341,833,500 pesos in B shares of the Cosach and, as they already had received 490,000,000 pesos for their participation in the Anglo-Chilean, they possessed 831,833,500 pesos in B shares of the Cosach. (See document No. 2.)

The 281,166,500 pesos lacking to complete the 1,050,000,000 pesos mentioned were given to the cooperators of Guggenheim Bros. excepting only a few crumbs for the original owners of the Lautaro Co.

The Road to Gethsemane of the Lautaro Co. does not end here, since on the formation of Cosach, the true and original capital of £8,000,000 was considered as a simple debt of the Compania de Salitre de Chile and with this the holders of those bonds lost voice and vote in the management of the business. As a culminating point, when the guaranteed credit of the Guggenheim was given preference over all other credits and, therefore, over

the service of the Lautaro bonds, the holders of these were in danger of receiving no interest should nitrate sales decrease a little.

However sad this may be, we must not lose sight of the fact that the directors of the Lautaro Nitrate Co. are in great part responsible for the situation of that company.

The last part of this activity was the unnecessary creation of the Compania Anglo-Chilean to which Guggenheim Bros. transferred the assets and a great part of the liabilities of the Anglo-Chilean Nitrate Corp., for which, serving as a plastice mediator, it was admitted to the Cosach.

As a résumé of this chapter, the Cosach is organized and made operative in which, whether desire or not, the division of the 1,500,000,000 pesos in industrial shares is as follows:

Guggenheim Bros. and their groups for intangible assets or "good will"	$1,050,000,000
Liquid quota of the participating companies, their fields, plants, railways, etc.	418,495,600
Shares not issued to date	31,504,400
Total	1,500,000,000

Guggenheim Bros. do not need the 2,181,665 shares of their cooperators to control the Cosach and all the nitrate commerce of the world. Their 8,831,350 shares of B stock are sufficient to give them 7 out of 12 directors of the company and to make their influence insuperable. The right of veto given to the four directors who represent the Government is not sufficient to overbalance this influence as has been demonstrated in several articles in the press by Ricardo Salas Edwards, ex-agent of the Government and member of the organizing commission of the Cosach.

1. COSACH ORGANIZATION EXPENSES

Even at the risk of prolonging this report beyond the wishes of the commission, we must devote a few lines to the prodigious sums invested in the expenses of organizing Cosach; sums, which in their entirety, exceed by double those authorized by law.

We shall divide in three categories the investments to which we refer:

1. Expenses of the companies participating in Cosach because of their incorporation in the Cia. de Salitre de Chile and reimbursed by that company.

2. Payment to different agents or representatives of companies incorporated in Cosach as a means of indemnifying them for the loss of these agencies or representations.

3. Direct expenses of the Cosach in the process of organization.

The sums invested in the first category of expenses amount, according to the official detail of the superintendency of nitrate, to 281,367 pounds (11,254,680 pesos).

Those of the second category are:

To Messrs. W. R. Grace & Co. for the nitrate agencies to 350,000 pounds (14,000,000 pesos).

To Buchanan, Jones & Cia. for their agencies of the Companias Loa and Tamarugal, 200,000 pounds (8,000,000 pesos).

The amounts spent in the organization of Cosach may be divided into the headings which are given below:

Fees to lawyers	$9,541,616
Commercial fees	5,219,457
Fees to accountants	2,475,000
Payments to officials or representatives of the Government and sums put at their disposal	1,654,196
Cable, telegraph, and telephone expenses	554,776
Various	5,009,798
Total under this category	24,454,843
Grand total of amounts spent by Cosach for organization purposes	57,709,523
Amount authorized for the purpose	22,000,000
Amount spent beyond authorization	35,709,523

We must add that in the official communication of the superintendent of nitrate regarding the organization expenses of Cosach, the following statement was included.

"Apart from the expenses taken into account above, we estimate that we shall have to pay in Chile around $50,000 for the liquidation of participating companies, the greater part of this figure being the charges which we have to pay, according to agreements, for expenses of liquidation of the liquidating committees. In addition, there will be other lesser charges, similar to the attached details, in Chile and also probably in London and New York."

From these words of the superintendent, it will be seen that there are still considerable sums to be spent and that they will be charged to the organization expenses.

The commission does not consider it possible to close this chapter of the report without giving in detail the items of fees and of payments to officials or representatives of the Government, being certain that the Minister of Finance and the entire country will note many of these with an astonishment equal to that experienced by the commission.

Details of the Items of Fees

1. Fees of lawyers:	
(*a*) Fees of 7 firms or groups of Chilean lawyers	₱805,000
(*b*) Root, Clark & Buckner, New York lawyers	7,320,387
(*c*) Sherman and Sterling, London lawyers	1,416,229
2. Payments to public officials and sums placed at their disposal:	
Pablo Ramirez	732,736
Secretary of Pablo Ramirez	42,284
Raul Simon	254,406
Francisco Pena Otaegui	51,350
Edmundo Delcourt	122,000
Carlos Davila	99,000
Disposal of embassy in London	160,000
Ricardo Sales Edwards	177,009
Luis Quiroga	12,000
Total paid	1,654,194

5. CAPITAL OF COSACH HAS BEEN INCREASED ILLEGALLY

Does the fact that B shares of Cosach do not exceed the 15,000,000 which the law authorized mean to say that the maximum quotas assigned to the industry in the operating capital are held within the prescribed maximum of 1,500,000,000 pesos?

In other words, has the operating capital of Cosach been increased?

The Compania de Salitre de Chile in the exposition which it sent to this commission, answering the questionnaire submitted to it by us responded to this question with an emphatic negative.

But examination of the antecedents which this investigating commission has had before it and a real, not an apparent, appreciation of the facts, brings the conviction that the operating capital of the company which the law fixed at a total of 3,000,000,000 pesos and in which the industrial part might reach 1,500,000,000 pesos, has been actually increased by numerous items whose total is more than 423,562,000 pesos, an obvious and flagrant violation of the legal provisions relating to Cosach.

It is a fact beyond any doubt that not only does Law 4863, but that also the decrees with force of law which modify and complement it, provide that the quotas held by the nitrate companies in existence at the date of the promulgation of these legal mandates could in no case nor for any motive or consideration exceed the amount of 1,500,000,000 pesos represented by 15,000,000 shares of 100 pesos each.

This means to say that the incorporation of the capital of the various nitrate companies, representing the difference in their favor between their assets and liabilities, may not exceed by a single peso in the capital of Cosach these 1,500,000,000 pesos.

And this is exactly what has not happened.

In effect the sum of the 1,500,000,000 pesos has been distributed and, in addition, there has been paid or will have to be paid all of the following:

Lautaro Nitrate Corporation, 8,000,000 pounds	₱320,000,000
Nueva Castilla, $214,000, at 8.25	1,765,500
Cia. Comercial y Salitrera de Tarapaca, $1,312,000, at 8.25	10,824,000
Cia. Salitrera Taltal, $535,000, at 8.25	4,413,750
Cia. Salitrera Tocopilla (Sloman), $8,565,000, at 8.25	70,661,250
Cia. Salitrera de Tarapaca y Tocopilla, $1,070,000, at 8.25	8,827,500
Cia. Salitrera La Granja, $857,000, at 8.25	7,070,250
Total (document No. 6)	423,562,250

If these 423,000,000 pesos were not to be considered an increase of the capital of the Cosach, they should not have issued shares of series B for an equivalent value. But if these shares have been disposed of in their entirety and, in addition, part of the liquid capital or liquid quota of some companies are shown among the debts of Cosach, it is undoubtedly because the capital has been increased to a point beyond that authorized by the law and the statutes of the company.

Now this increase of capital breaks at a most important juncture the juridical-commercial structure of Cosach and carries in its essence the defect of nullity which can and should be recognized and punished.

6. COMMERCIAL OUTLOOK

This is the time to make it clear that the rationalizing of nitrate by means of Cosach was effected at a time least suspicious for success.

No one is ignorant of the fact that the ill-advised policy followed by the dictatorship in 1927 and 1928, directed especially by the ex-Minister of Finance, Pablo Ramirez, increased the production of nitrate to limits which bore no proportion to the probabilities of consumption. So the normal stock of nitrate which should not exceed 1,200,000 tons was increased to almost 3,000,000 tons and is to-day 2,500,000 tons.

To aggravate the situation, stocks abroad have been rapidly increased by artificially stimulated exportation to permit delivery of drafts to the Government in payment of duties, in order to produce the appearance of a flattering governmental financial situation.

Greater consignments of nitrate to foreign ports means that the produce becomes more costly and, what is still more dangerous, exhibits to the world an excess production of which the producers of synthetic nitrogen take advantage.

But the point which we desire to consider is more closely related to the time chosen for the creation of Cosach.

If this was formed in an effort to rationalize the industry, why was it created at a time when stocks of finished nitrate were at their peak? This error from which it will be difficult to extricate itself; either it must carefully reduce nitrate stocks by decreasing production, which will automatically increase costs, or in the fact of these stocks it must continue producing on a large scale, which would increase rather than diminish these stocks.

Having established this initial error, let us see the commercial prospects offered to Cosach and to the Government of Chile by the weak replacement of income from their old export duty and the sale of the nitrate fields.

It is advisable not to consider as a basis the present consumption, so lamentable would be the result.

Our calculations are based on normal averages. These bases are:

Consumption of nitrate during year	tons	2,000,000
Price per ton free alongside in Chilean port	pesos	30
Production by Guggenheim system	tons	1,300,000
Production by Shanks system	do	700,000
Profit on Guggenheim nitrate (according to the superintendency of nitrate, date which the commission has not checked up)	pesos	140
Profit on Shanks nitrate	do	100

With these data, the calculation is simple:

1,300,000 tons of nitrate, at 140 pesos per ton profit	pesos	182,000,000
700,000 tons, at 100 pesos per ton profit	do	70,000,000
Gross total profit	do	252,000,000

Now as to the distribution of this first or gross profit; and here is the absurd part of the Cosach in so far as it relates to Government interests.

Before the Government of Chile receives a peso of these 252,000 pesos of gross profits, it must make the following reductions:

	Pesos
Service of the Cosach loan of 1,000,000,000 pesos	80,000,000
Service of the debentures and other credits for a value of 680,000,000 pesos owned by the companies incorporated in the Cosach, which debt it had taken over	54,400,000
Service of the so-called preferred bonds of the Lautaro, which are nothing else than the original and real capital of that company, amounting to 320,000,000 pesos	25,600,000
Service of the 500,000,000 pesos of preferred shares of series B, which the industrialists received	35,000,000
Minimum sum to be discounted from value of the profits, after deducting the three preceding items and those for the reserve fund, contingencies, social laws, etc	12,000,000
Total	207,000,000

This enormous figure represents deductions, and only after they have been made do we have the liquid profit in which the Government may participate.

In the case outlined, after the deductions have been made there remain 45,000,000 pesos profit. Of these, three-fifths go to the Government for its 15,000,000 shares of series A and two-fifths to the owners of the 10,000,000 ordinary shares of series B. Three-fifths of 45,000,000 pesos are 27,000,000 pesos.

The profits to the State would be 27,000,000 pesos for the year.

And to obtain this, it is necessary to sell 2,000,000 tons of nitrate, the price must not be less than 310 pesos per ton, the profit per ton of nitrate sold must be that given above and the elaboration by the Guggenheim system must mean an economy of 40 pesos per ton over that of the Shanks system.

Even under these favorable conditions, the economic structure of the nation would have been substantially altered so as to obtain the miserable result of 27,000,000 pesos profit during the year.

It seems unnecessary to state that examples could be multiplied indefinitely, changing the bases, and arriving at results better or worse than that of the preceding instance. We have cited a case most closely approximating the average.

From the study of the deductions which must be made from the gross profit of Cosach to determine the Government's participation, this fact stands out:

That the Government can not receive one cent until the service on debts or preferred shares amounting to 2,500,000,000 pesos has been satisfied.

This results:

1. From having given to the union of the Government with the nitrate companies the form of a company to which the industrial firms brought their assets and liabilities.

2. From the fact that decree with force of Law No. 12 of February 24 last which carries the signatures of Ibanez and Castro Ruiz authorized the creation of Cosach with a loan specifically guaranteed by the State for 1,000,000,000 pesos.

3. From the fact that Law No. 4863 destroys even the apparent equality of the situation of the Government with its partner, the industry, in that of the 15,000,000 shares which pertain to the latter, it grants a preferred position to 5,000,000 with preferential payment of accumulative interest at 7 per cent annually.

7. BONDS SUBSTITUTED FOR CASH PAYMENT TO THE STATES

In so far as the first years of operation of the Cosach are concerned it can not be said that the interest of the Government was considered by the assignment of annual quotas payable whether or not profits were shown.

This was true so long as there were no modifications to the provisions of Law No. 4863 requiring payment of these quotas in cash from the first profits of the business until the Government had received the entire amount due. But it ceased to be true from the time that the decree with force of Law No. 12 of February 24, 1931, substituted for cash payment the payment in Cosach bonds of a loan of $120,000,000 which does not affect the Government as a

partner of the company; on the service of these bonds the Government will contribute its share, guaranteeing them during some thirty-odd years, and obligate itself to retain 60 pesos for each ton of nitrate exported.

In this way, the Government pays to itself half of the quotas for the years 1931, 1932, and 1933 by a loan which not only includes these quotas, but also the payment of the preferred credits of Guggenheim Bros., which were converted into first-class privileged obligations.

It should be noted, with regard to the debt of $120,000,000 that it was made up of two loans, one having preferred payment over the other (prior secured bonds), and that the bonds delivered to the Government in payment of its credit quotas for 1932 and 1933 were not the prior secured bonds, but consisted of secondary payment bonds. (Document No. 7.)

On the other hand Messrs. Guggenheim and other creditors of Cosach took care to receive a good share of their credit—$16,536,000—in prior-secured bonds.

This situation can not be received with indifference by the Government of Chile, as the enormous stocks of nitrate in consuming markets may easily prevent the exportation of the 1,700,000 tons necessary for the service and amortization of the prior-secured bonds issued.

Under such circumstances the Government will suffer a further injury.

CONCLUSION

Such is the picture presented by the study of these several and separate negotiations, dark for national welfare and dark for strictly governmental interests.

Its maintenance is impossible.

It would signify something like the suicide of a nation, once soverign, master of its destiny and now vassal of a foreign power.

The annulment of the Cosach moreover, is juridically practical, not only because of the evident unconstitutionality of Law 4945, mentioned at the beginning of this report, but also because in spite of the care of its organizers, the constitution of the Cia. de Salitre de Chile exceeded its limitations.

We have shown that the operating capital has been increased above the 3,000,000,000 pesos authorized by the law and the statutes by the amount of 423,562,250 pesos representing the acquisition of part of the properties and liquid capital of the various companies.

Therefore, as there is cause for annulment, the Cosach must be annulled.

National interests demand it, deceived fiscal interests require it, and mocked commercial ethics decree it.

With reason has the Economist of London, the most accredited financial review in the world, been able to say in its issue of September 19, on considering the situation of uncertainty of various South American countries:

"The prosperity of the nitrate industry would restore the credit of Chile, provided that country could free itself from the dominion of Guggenheim Bros. (the bailiff men)."

That the nitrate pampa may recover its old aspect of a human beehive; that there may work in it the greatest possible number of laborers; that the fires of the Shanks plants be lighted; that the Government may aid the industry with its state-owned pampas and change the export duty for an equitable proportion of the profits; and that the Provinces of Tarapaca and Antofagasta, now threatened with death, may recover their life and their commerce and their saving character as a market for their sisters of the south.

Mr. Minister, this commission, conscious of its rôle of prosecutor in the investigation of the acts of dictatorship and after more than two months of daily study of the antecedents of the Cosach, does not hesitate to declare that the laws, decrees and formalities which have given existence to the Sociedad de Salitre de Chile taken together constitute the most deplorable and injurious acts of all those executed by the dictatorship.

Those responsible for these acts are: The dictator, Carlos Ibanez, his two Ministers of Finance, Rodolfo Jaramillo and Carlos Castro Ruiz, his ex-Minister of Finance, Pablo Ramirez, the legislators who voted for Laws 4863 and 4945 and the officials who in one form or another have cooperated toward the establishment of the Compania de Salitre de Chile.

And if the minister feels that this report, without diminishing the rigorous exactness of the facts, data and figures given, shows our indignation, please bear in mind that it would be wrong to withhold it or dissimulate it after seeing

the fortune of the country largely bet on one card which marks the beginning of national decadence.

ALEJANDRO BEZANILLA SILVA.
LUIS ALBERTO CARIOLA.
MANUEL CORTES.
HECTOR RODRIGUEZ DE LA SOTTA.
ANTONIO MARIA DE LA FUENTE.
MANUEL ARANCIBIA.
LUIS DAVID CRUZ.
AMADO BARRIA.
AUGUSTO VICUNA S.
RICARDO CABIESES.
GENERAL MOISES ANABALON.
FERNANDO ALTAMIRANO.
Secretary General.

NOVEMBER 5, 1931.

Senator JOHNSON. I ask to place in the record at this point the second report from the Chilean Government rendered December 17, 1931, which has been furnished me by the Department of Commerce. I will place it in the record without reading it.

The CHAIRMAN. That may be done.

(The document relating to Cosach, dated December 17, 1931, is here printed in the record as follows:)

[Translated from Spanish]

EL DIARIO ILLUSTRADO,
Santiago, Chile, December 17, 1931.

LET COSACH BE CONTINUED, BUT IN CONFORMITY WITH THE ORIGINAL LAW WHICH CREATED IT

The advisory nitrate committee has declared itself of this opinion in its report. Subsequent modifications in the original law have injured the Government and should be annulled. Substitution of shares of stock for bonds. Dissolution of Cosach without risks possible only by reestablishing the status which the nitrate companies had prior to 1930.

The treasury department delivered to us yesterday for publication the report on Cosach issued by the advisory nitrate committee, which is couched in the following terms:

MR. SECRETARY: The undersigned committee believes that Law No. 4683 of July 21, 1930, was violated when Cosach was organized, inasmuch as its capital appears higher than that authorized, and because it considers that the sense of that law as well as the aspect under which the Government presented it and the congress placed its approval thereon concur in demonstrating that an equality of conditions, rights, and benefits, which do not exist at present between the treasury and the manufacturers, constituted the immutable basis of its conception.

Were we not oppressed by the acute financial crisis and era of unemployment through which we are passing, and the situation of the nitrate industry were that of the year 1929–30, in which Cosach was planned, the undersigned would not hesitate to recommend the total dissolution of the company, in acordance with the provision contained in article 35 of the law, for the purpose of organizing the industry on other bases.

Excise taxes proposed for meeting in part the unemployment which this would occasion, as involving work of extracting high grade caliches, would in order to be capable of functioning with entire success require the organized existence of old companies, since it exists only on an extremely small scale, and the disposal of sufficient credit, exceedingly difficult to obtain at the present time.

It would doubtless have been preferable for the treasury not to enter as a partner into the organization which was planned, but to receive a certain share of its profits and to collect a royalty on fields transferred to it, at the same time reserving its right to take part in the management of the enterprise for the purpose of harmonizing the aims of the latter with the general interests of the country.

However, the fact is that it was not so done, and hence in the present situation we deem it preferable to continue Cosach, provided it be possible to confine it within the law which created it, and provided further that its debts be reduced and its contributions be revised, the same being paid exclusively in shares of stock, in such manner that distributive justice and fiscal and individual interests may be consulted and safeguarded.

In order to confine the company within the spirit and provisions of the law on the basis of complete equality between the fiscal contribution and that of the companies, it would be necessary to convert into shares of stock the bonds of Cosach, except those transferred to the National City Co., which represent $19,000,000, and those placed in England, the Netherlands, Switzerland, and Sweden, amounting to 3,000.000 of gold pounds, and, further, those turned over to the treasury, at the same time reducing proportionally the $60 per ton reserved in favor of loans.

With the debts thus equitably reduced, they would not as at present overshadow the future of the industry. It is well known that those of Cosach were markedly increased by the acquisition of part of the assets of certain companies, by bonds delivered to the treasury in payment of their quotas for the years 1932 and 1933, and by the transfer of the credit of Guggenheim Bros. against the Anglo-Chilean for £5,577,724 which should not figure in the liabilities of Cosach but in those of the Anglo-Chilean.

Payment for assets of associated companies should have been made in shares of series B, and therefore companies which received bonds in payment for their assets should exchange them for the said B shares, so conforming with the precise terms of the law. Outstanding bonds should, as we have said, be reduced to those actually taken by bankers, which do not exceed $34,000,000, and to those turned over to the Treasury.

In their effort to relieve the industry, Senores Cabero and de Castro would agree to the elimination of the latter.

If possible, the contributions of all the companies, subsidiary companies included, should be revised, for the purpose of adjusting their valuation to their respective actual values, or of verifying figures already accepted for companies incorporated in Cosach, eliminating in lieu thereof the subsidiary companies, which would continue as independent companies, article 39 of the law being modified and their stockholders thus rehabilitated.

Were either of these two courses adopted, the fiscal contribution would be reduced or increased until it equaled that of the individual companies, so that there would be as many A shares as B shares.

The interests of Cosach would be better harmonized with national interests by requiring the former to designate within the period of 10 years the fields which it desires reserved and to which articles 11 and 12 of the law refer. These fields having been selected, the Government would be at liberty to dispose of the others, transferring them on terms agreed upon to persons who apply for them, provided the activities of Cosach are not affected thereby.

Without prejudice of the foregoing, the Government would be able, in return for certain royalties, at once to transfer to independent companies fiscal fields adjacent to their present holdings, provided the said fields were not commercially exploitable by Cosach.

It is necessary to modify the application of article 39 of the law in such manner as to insure the right of the independent companies to operate and to guarantee the payment of expenses common to the entire industry.

It would be advisable for Cosach to distribute its works, so that ports of Tocopilla, Iquique, Antofagasta, and Taltal would be assured of shipments of nitrate and the working population employed if the same would be increased. For the purpose of effecting this advantageous distribution, it should be arranged that two works should operate in Iquique, two in Tocopilla, two in Antofagasta, and one at least in Taltal.

It appears preferable in these circumstances and in order not to increase the stock, to suspend manufacturing in Maria Elena, substituting for the same extraction by an equal number of workers in high-grade caliche.

We make this recommendation without committing ourselves concerning the primacy of one or another process of manufacture, since sufficient data relative to the superior efficacy of the Guggenheim method do not as yet exist. Only now an experimental plan is being outlined in fields cubed for the Shanks system, which will be worked by the Guggenheim method, for the purpose of determining accurately the coefficient of both yields. Such an experiment alone will enable us to estimate rationally the value of the Guggenheim patents in its double aspect of coefficient of exploitation and development of the fields.

We would also recommend reduction in the high salaries which the company pays its directors and higher officials, which are out of proportion to the present situation, and review of accounts submitted for heavy expenses of organization of Cosach.

Finally, in view of the structure of this vast enterprise and in order that the interests of the treasury, the owner of all its shares of series A, may be effectively and properly considered, not only in the general directorate of Cosach, but in all its committees, it should include representatives of the Government in sufficient number, clothed with the power to veto any of its agreements prescribed in article 20 of the law.

Before signing Senor Cabero stated that in his judgment the unemployment which might result in case negotiations were broken off and Cosach dissolved could be avoided by beginning immediately the construction of the section adjacent to Antofagasta of the railroad to Salta, and by granting fiscal subsidies to companies which desired to operate independently.

ALBERTO CABERO,
JUAN ENRIQUE TOCORNAL,
ARTURO PRAT,
ARTURO RUIZ DE GAMBOA,
LUIS DIAZ GARCES,
RUBEN DAVILA,
OSVALDO DE CASTRO.

SANTIAGO, *December 5, 1931.*

Senator JOHNSON. I offer now the original agreement by which the Cosach was formed. I do not attempt to deal with this in detail at the moment. I shall expect to do so at a future time.

The CHAIRMAN. Do you want the whole of it or just part of it in the record?

Senator JOHNSON. I would like the English translation that is annexed to the document put in the record, if you please.

The CHAIRMAN. That may be done.

(The English translation of the document headed Republic of Chile. Law No. 4863 of July 21, 1930, regarding organization of Compania De Salitre De Chile (Cosach). Laws, Nos. 4864, 4865, 4866 of July 29, 1930, is here printed in the record in full, as follows:)

REPUBLIC OF CHILE, LAW NUMBER 4863, OF JULY 21, 1930, REGARDING ORGANIZATION OF COMPANIA DE SALITRE DE CHILE (COSACH)

[DIARIO OFICIAL OF THE REPUBLIC OF CHILE, Number 15728, of Monday, July 21, 1930. Law No. 4863]

MINISTRY OF FINANCE

Whereas the National Congress has approved the following project of law:

TITLE I.—ORGANIZATION AND PURPOSES OF THE COMPANY

ART. 1. The President of the Republic is hereby authorized to participate, on behalf of the Government, in the formation of a corporation to be known as "Compañía de Salitre de Chile," the organization, purposes, operation, dissolution, and liquidation of which shall be governed by the provisions of this law and of those laws established for the same class of company, in so far as they are not contrary to or inconsistent with the provisions contained in this law.

ART. 2. The duration of the company shall be 60 years. This term may only be extended by resolution of the shareholders, adopted in the manner prescribed in the third paragraphs of articles 20 and 21 of this law, and submitted to legislative approval.

ART. 3. The legal domicile of the company shall be the city of Valparaiso.

ART. 4. The company shall have the following objects:

(1) To promote the general interests of the industry and commerce in nitrate and its by-products.

(2) To obtain, through a central organization, the improvement of the industry and commerce in nitrate and the use of its derivatives and by-products, and to promote scientific and technical investigation and the establishment of experimental plants and schools for that purpose.

(3) To handle the propaganda, distribution, and sale of nitrate and its derivatives.

(4) To facilitate the transportation and shipment of all products related to the nitrate industry, as well as the articles and merchandise required therefor.

(5) To centralize and nationalize the acquisition of the articles and merchandise referred to in the foregoing subdivision; and

(6) To examine, acquire, and exploit nitrate grounds; to acquire and exploit nitrate oficinas; to sell its products and to enter into any kind of contract for the production, exploitation, sale on consignment, propaganda, transportation, and freighting of nitrate, its derivatives and by-products, and, in general, for everything related directly to the nitrate industry and commerce and the attainment of the other objects established by this law.

ART. 5. Without prejudice to the provisions of articles 2 and 6 of this law, the by-laws of the company and any amendments thereto shall be submitted to the President of the Republic for his approval.

Within 90 days from the date on which the authorization is issued, the decree granting such authorization, the deed of organization and the by-laws of the company shall be recorded in the registry of commerce corresponding to the domicile of the company and published once, in full, in the Diario Oficial, and a résumé thereof shall be published twice in one of the newspapers of larger circulation in each of the cities of Santiago, Valparaiso, Antofagasta, and Iquique.

The corresponding register shall effect the recordation in the registry of commerce without further formalities upon presentation of the documents and publications referred to in the second paragraph of this article.

The company shall be considered as legally organized when the aforesaid formalities have been complied with.

TITLE II.—CAPITAL AND SHARES

ART. 6. The capital of the company shall consist of up to 3,000,000,000 pesos legal currency, divided into shares of a value of 100 pesos each.

Any increase in capital above 3,000,000,000 pesos shall be effected in the manner prescribed by the third paragraph of article 21 of this law and with legislative approval, without prejudice to the provisions of the third paragraph of article 14.

ART. 7. There shall be two series of shares: A and B.

The shares of series A shall amount in value to a total of 1,500,000,000 pesos and shall belong to the Government. Upon the organization of the company authorized by article 1, these shares shall be considered fully paid with the obligations established in articles 11 and 12 and with the benefits and concessions accorded to the company by this law.

The shares of series B shall be ordinary or preferred and shall amount in value to a total not exceeding 1,500,000,000 pesos; they shall be issued as the needs of the company may require and may only be paid for:

(*a*) With the value of the contributions of nitrate corporations or empresas (organizations), the assets and liabilities of which are assumed by the company;

(*b*) With the value of the shares of nitrate corporations acquired by the company; and

(*c*) With cash.

The deeds of transfer of the assets referred to in subdivision (*a*) must necessarily include and specify, in addition to the properties which compose said assets, each of the processes and patents in use by the companies or owned by them, and such processes and patents must form part of their contributions.

The preferred shares shall not exceed 500,000,000 pesos in value.

ART. 8. The holders of preferred shares of series B shall have the right to be paid preferentially from the profits of the company a sum equivalent to interest at the rate of 7 per cent per annum on their nominal value.

If the profits of any corporate year should be insufficient to pay these amounts in whole or in part, they shall be paid preferentially from the profits of the following corporate years.

The preferred shares of series B shall have no participation in the profits of the company except as provided in the two preceding paragraphs and the holders of such shares shall have a right to vote only at the special meetings referred to in the second paragraph of article 17.

Each of the series A shares, and each of the ordinary shares of series B shall have equal participation in the profits and losses of the company.

ART. 9. The company is empowered to create an amortization fund sufficient to retire the preferred shares by drawing at par or by purchase in the market at a price not exceeding par, and upon such retirement the company shall issue an equal number and amount of ordinary shares of the same series to be sold to third parties at the price and on the conditions determined by the board of directors, in such a manner that the number of series A shares shall always equal the total number of preferred and ordinary shares of series B.

Under equal conditions, the holders of the retired preferred shares shall have preference in the acquisition of such ordinary shares.

The amortization fund referred to in the first paragraph of this article shall be invested in accordance with resolutions adopted at a meeting of shareholders.

ART. 10. Shareholders, regardless of the series and nature of the shares held by them, shall be responsible only for the value of their shares.

ART. 11. The Government shall grant to the company for exploitation the nitrate deposits constituting the fiscal reserves, and shall deliver them as the company may need and request them. Such delivery shall be made in accordance with official existing or future cateos. In these deposits caliche shall be considered exploitable down to the minimum grade which can be exploited commercially by the most perfected process existing at the time of their delivery.

During the first 10 years of operation of the company and provided the deposits delivered are to be exploited in oficinas employing the Shanks process, only the grades of nitrate commercially exploitable by such process shall be taken as a basis for calculating the nitrate content of such deposits.

ART. 12. If the nitrate delivered in the deposits granted to the company for exploitation should exceed 150,000,000 tons, calculated as above indicated, the excess may be bought from the Government by the company, or by the nitrate empresas (organizations) or corporations which shall have submitted to the régime set forth in article 39, in proportion to their capital and to their respective productive capacities.

The nitrate contained in the grounds, according to official cateos, shall be paid for at its commercial price on the date of delivery of the respective deposits, as determined by experts appointed by both parties, who shall take as a basis the average sales prices of nitrate during the three preceding years and the cost of treatment thereof by the most perfected process then existing.

If the experts should fail to agree, they shall appoint an arbitrator whose decision shall be given without formal proceedings, and from which no appeal may be taken. If the experts should not agree on such appointment, it shall be made by the President of the Supreme Court.

ART. 13. The delivery of the deposits referred to in articles 11 and 12 of this law shall be made, in each case, by public deed signed on behalf of the Government by the official designated for that purpose by the President of the Republic.

ART. 14. Each increase in the capital of the company shall be effected in such manner that in every case the number of series A shares shall equal the number of series B shares.

The Government, at its option, may pay for the new series A shares in cash or by the grant of nitrate deposits for exploitation in accordance with the procedure established in article 12.

In the latter case legislative approval shall not be required.

ART. 15. Series A shares cannot be alienated or pledged.

ART. 16. The by-laws of the Compañía de Salitre de Chile shall contain a provision permitting it to reserve a portion of its series B shares for distribution at such times as said by-laws may provide among the employees and workmen of the company at par and payable in monthly installments, without interest. Such shares shall participate in the profits according to the proportion of the purchase price which has been paid in upon them, but any part of such profits payable with respect to such shares shall be credited against any unpaid balance of the purchase price thereof.

TITLE III.—ADMINISTRATION AND SHAREHOLDERS' MEETINGS

ART. 17. The company shall be administered by a board of directors composed of 12 members, of whom 4 shall represent series A shares; 7 shall be elected by the holders of ordinary shares of series B; and 1 by the holders of preferred shares of the same series.

When two-thirds of the preferred shares of series B shall have been retired and the corresponding ordinary shares issued, the holders of ordinary shares of series B shall elect 8 directors, and elective rights of preferred shares of the same series shall cease.

The directors representing series A shares shall be appointed by the President of the Republic and shall hold office for four years, without prejudice to the power of the President of the Republic to reappoint or remove them. The remaining directors shall hold office for one year and may be reelected or removed by the respective special shareholders' meetings.

The designation of the president and of the general manager of the company shall require the affirmative vote of three-fourths of the directors in office.

The president may or may not be a director, and if not he shall have no right to vote.

ART. 18. Directors representing ordinary shares of series B shall be elected by a special meeting of the holders of such shares, called for the purpose. In order that such meeting may be duly held, a quorum of the absolute majority of such shares shall be necessary.

The director representing preferred shares of series B shall be elected by a special meeting of the holders of such shares, called for the purpose, and a quorum of the absolute majority of such shares shall be necessary in order that such meeting may be duly held.

If the meetings can not be held for lack of a quorum, a second meeting shall be called and such meeting shall be legally consituted with the shareholders who may attend. Each shareholder shall have the right to one vote for each share which he holds or represents. He may vote for one or more persons, as the case may be, and those receiving the greatest number of votes shall be considered elected, until the number of directors to be elected has been completed.

ART. 19. The administration of the company shall rest exclusively with the board of directors, which shall have the fullest powers to do all acts and enter into all contracts within the objects of the company set out in article 4 of this law, or which may be necessary for the attainment of its general purposes.

The board of directors may also contract debts through loans for any period, or through the issuance of bonds or debentures, in national or foreign currency, with or without guaranty of all or part of its assets, and may guarantee, in the manner and under the conditions which may be agreed upon, the dividends and obligations of nitrate companies, empresas (organizations) or corporations incorporated into or controlled by the company and may grant them loans or advances.

The debts referred to in the preceding paragraph cannot be contracted for a term exceeding the life of the company.

The board of directors may grant nitrate grounds for testing or experimenting with new processes tending to reduce the cost of exploiting nitrate.

The functions set out in article 21 of this law are reserved for the shareholders' meetings.

ART. 20. The representatives of series A shares, either jointly or severally, may oppose, in the name of the President of the Republic, any resolution of the board of directors relating to matters which they consider of national importance. In such case the resolutions shall not be effective until such opposition has been withdrawn.

Without the concurring vote of such representatives, the resolutions referred to in the second paragraph of the preceding article may not be adopted, nor may the sales prices of nitrate be fixed, nor may the annual production of the company be fixed at an amount less than the average of the total nitrate sales during the three nitrate years preceding the year of such resolution, after deducting the average nitrate sales during such years of oficinas not incorporated into or affiliated with the company.

There shall be no appeal from any such opposition on the part of the representatives of series A shares.

ART. 21. Without prejudice to the special meetings referred to in article 18, the shareholders shall meet in ordinary and extraordinary meetings.

It shall be the function of the ordinary meetings to approve the balance sheets, agree upon the distribution of dividends, take cognizance of the progress of corporate affairs and the condition of the company and to pass upon

all other matters which the board of directors may submit for their consideration.

It shall be the functions of the extraordinary meetings to authorize increases in the capital of the company, the extension of its life and all other amendments of its by-laws.

ART. 22. A majority of the issued voting shares of both series shall be necessary to constitute a quorum at the ordinary meeting of shareholders, and decisions and resolutions shall be adopted by a majority of the shares present.

If the meeting can not be constituted for lack of a quorum, a second meeting shall be called and such meeting shall be legally constituted with the shareholders who may attend.

The decisions and resolutions of the extraordinary meeting of shareholders must be adopted by a majority of two-thirds of the issued voting shares of both series.

ART. 23. The holders of ordinary shares of series B shall have the right to one vote for each share which they hold or represent. Series A shares shall be represented at the meetings by the person or persons designated for each meeting by the President of the Republic, and each such representative shall have a right to the number of votes which may result from dividing the total number of series A shares by the number of representatives present at the meeting.

ART. 24. The by-laws of the company shall provide for fixing the dates on which the special and ordinary shareholders' meetings shall be held; the power and manner of calling such meetings as well as the extraordinary meetings; the internal procedure for elections; the issuance, replacement and transfer of share certificates; the distribution of interim dividends during the course of each year, submitting such distribution to ratification by the ordinary meeting; the preparation and presentation of the annual report, balance sheet and statement of operations and assets of the company; the powers of the board of directors and the remuneration of its members; the judicial and extrajudicial representation of the company; the appointment and powers of the president of the board of directors and of the committees, if any, and any other matters relating to the operation of the company not provided for in this law.

TITLE IV.—ACCOUNTING STATEMENTS

ART. 25. The company shall publish annually a statement of its assets and liabilities and a profit and loss account.

Such statement shall be sent to the Ministry of Finance, distributed among the shareholders and published in the Diario Oficial, and in newspapers in circulation in Santiago, Valparaíso, Antofagasta, and Iquique.

The board of directors may publish and distribute such partial and interim statements as it may deem necessary.

TITLE V.—NATIONALIZATION

ART. 26. The company shall maintain a purchasing department for the acquisition of the products, materials, and merchandise required for use in all of its activities in the country.

Under equal conditions the company shall give preference to the products, fuel, manufactured articles, materials, and merchandise of domestic production over those produced abroad and imported into nitrate ports, after payment of customs duties.

Only in special cases and with the assent of the directors representing series A shares may the company acquire from abroad the articles referred to in the second paragraph.

The company shall give preference to the acquisition of all the products referred to in this article directly from producers, from cooperatives or associations formed by them, from the Caja de Crédito Agrario, from the Sociedad Nacional de Agricultura, or from other institutions devoted to such activities and which have legal personality.

ART. 27. The sales price to employees and workmen of the company of the products, materials, and merchandise referred to in the first paragraph of the foregoing article shall not exceed the cost price by more than 10 per cent thereof.

ART. 28. The Compañía de Salitre de Chile shall contract all insurance in connection with its operations in Chile with national insurance companies, and in case such companies should not be interested, with agencies of foreign companies authorized to do business in Chile.

ART. 29. At least 80 per cent of the personnel of employees of each category and of the company's workmen employed in Chile shall be of Chilean nationality.

For the purpose of the foregoing paragraph the nationality of employees shall be determined in accordance with the provisions of the Ley de Empleados Particulares.

During the first three years of the company's existence its board of directors with the consent of the representatives of series A shares, may authorize exceptions regarding the nationality of the technical personnel which it may need.

ART. 30. The company shall maintain a welfare department which shall supervise the strict observance of the social laws and everything relating to wages. This department shall also promote the improvement of living conditions and the intellectual and physical welfare of employees and workmen and their families.

The head of this department shall be of Chilean nationality.

TITLE VI.—DISSOLUTION AND LIQUIDATION.

ART. 31. The Compañía de Salitre de Chile may be dissolved before the time fixed for its expiration by resolution of shareholders representing three-fourths of the shares with voting rights, adopted at an extraordinary meeting and with legislative approval.

ART. 32. Upon the dissolution of the company, a liquidating committee of three members shall be appointed, one by the President of the Republic, representing series A shares, another by the absolute majority of the holders of ordinary shares of series B at a special meeting thereof, and the third by the president of the supreme court.

This committee shal have the powers, duties, and responsibilities of liquidators of corporations, without prejudice to the obligations provided in the by-laws, and without prejudice to the powers granted them by the respective shareholder's meetings.

ART. 33. The dissolution of the company shall relieve the Government of the obligation to grant and deliver to the company the nitrate deposits referred to in article 11 of this law, and the nitrate-bearing grounds already exploited by the company shall revert to the Government without any charge.

ART. 34. In liquidating the company the liquidators shall proceed in the following order of precedence:

(1) To cancel debts and obligations existing in favor of third parties;

(2) To restore to the State the nitrate deposits delivered by it to the company and which have not been exploited.

(3) To refund to the Government at their nominal value a number of shares equal to the value of the fiscal deposits delivered in accordance with article 11 of this law and exploited by the company, calculated in accordance with the provisions of articles 11 and 12 of this law. The balance of the series A shares shall be considered as amortizado (retired);

(4) To refund to the holders of series B shares the amount of the nominal value thereof;

(5) To distribute and deliver the remainder, if any, to the holders of series A shares, including those considered as amortizado (retired) in accordance with the provisions of subdivision 3 and to the holders of ordinary shares of series B.

TITLE VII.—JURISDICTION

ART. 35. The President of the Supreme Court shall have jurisdiction, as a trial court, over all questions relating to the application of this law which may arise during the life of the company or during or in connection with its liquidation:

(*a*) Between the socios (members) of the Compañía de Salitre de Chile;

(*b*) Between the socios (members) and the company;

(*c*) Between the socios (members) and the liquidators of the company; and

(*d*) Between the company and the liquidators.

The Supreme Court, exclusive of its President, shall have appellate jurisdiction over such questions.

Such tribunals shall also have jurisdiction over any questions which may arise between the company and the empresas (organizations) or corporations referred to in article 39.

Both tribunals shall act as judicial arbitrators as to decision and procedure, in conformity with prevailing legislation, except as otherwise expressly provided in this law.

TITLE VIII.—TAXATION

ART. 36. The nitrate and iodine produced by the company shall be exempt from the export duties established in Laws No. 980 of December 30, 1897, and No. 4113 of January 25, 1927.

ART. 37. The company shall be subject to the payment of all other taxes, contributions and duties now established or which may hereafter be established with the exceptions and modifications indicated in the laws.

ART. 38. The nitrate grounds which the State grants to the company for the exploitation of their deposits shall be exempt from payment of the land tax while they are not being exploited.

ART. 39. The President of the Republic shall declare exempt from payment of the export duties referred to in article 36 of this law, the nitrate empresas (organizations) or corporations now existing of which may be hereafter organized, which sell their production through the Compañía de Salitre de Chile and which, in the judgment of the President of the Republic, subject themselves to a régimé tending toward the general attainment of the purposes of this law and which specially comply with the provisions established in Title V.

In such case such organizations or corporations shall be subject to the system of taxation established in article 37 of this law; but they shall pay to the Government for each metric quintal of nitrate which the Compañía de Salitre de Chile sells for their account, an amount equal to receive in the same annual sales pedíod as net profit per quintal of nitrate sold by the Compañía de Saltire de Chile.

The President of the Republic shall issue regulations determining the conditions and requirements necessary for the application of this article. These regulations shall make provision for the manner and amount of the advances which the company will make to the empresas (organizations) referred to in this article, and the liquidation of the sales.

The deposits of nitrate in warehouses of the company shall be considered as deposits made in general warehouses for the purpose of the law involved, and the President of the Republic shall regulate the manner and conditions under which they constitute this pledge.

ART. 40. The company shall withhold and pay into the Government receiving offices the tax of the second category established by the income tax law on the interest upon sums which the company owes abroad.

TITLE IX.—GENERAL PROVISIONS

ART. 41. The ministry of finance shall be charged with the application of this law.

ART. 42. The company, the organization of which is authorized by this law, shall be subject to the supervision and control of the Inspección General de Sociedades Anónimas y Operaciones Bursátiles in everything relating to the operations and powers contemplated by Law No. 4404 of September 6, 1928.

The annual patente (license tax) payable by the Compañía de Salitre de Chile pursuant to article 33 of Law No. 4404 shall be 150,000 pesos.

ART. 43. The water concessions and pipe lines, railroads and their equipment, water fronts, wharves, and other privately owned shipping facilities existing in the nitrate zone and designated in each case by the President of the Republic are hereby declared of public utility, and the President of the Republic may decree their expropriation.

The President of the Republic may transfer to the Compañía de Salitre de Chile, at the price of such acquisition plus the incidental expenses, all or part of the properties expropriated in accordance with the provisions of the foregoing paragraph.

In fixing indemnities there shall be taken into account not only the value of the properties expropriated, but also all damages caused the owner by reason of such expropriation.

The indemnities shall be fixed in accordance with the standards set forth in article 12 of Law No. 4144 of July 25, 1927, it being understood that in connection with any claims arising therefrom the Government shall be represented by the president of Consejo de Defensa Fiscal.

In fixing the indemnity upon expropriations affecting the entire property of a railroad company there shall be taken into account the circumstances referred to in paragraphs 2 and 3 of article 28 of Decree Law No. 342 of March 13, 1924, according to the text of such article as modified by article 2 of Decree Law No. 684 of October 17, 1925.

ART. 44. Materials and machinery of foreign origin which the company may import for the construction or maintenance of its installations may remain up to three years enjoying suspension of customs duties. In such case they shall be kept in private warehouses authorized for the purpose, in such manner and subject to such restrictions and guarantees as the Junta General de Aduanas, with the approval of the President of the Republic, may determine.

Such materials and machinery may be handled in any manner which, in the judgment of the customs authorities, does not interfere with their identification.

ART. 45. The property of the company shall be subject, without right to indemnity, in favor of the Government, to the necessary easements for railroads, drinking water, drainage, power plants and transmission lines, irrigation, roads and other public services.

ART. 46. The Compañía de Salitre de Chile shall deliver to the Caja de Crédito Agrario or to other institutions designated by the President of the Republic at cost price free on board ships or railroad cars all nitrate necessary for the agriculture of the country.

ART. 47. The Compañía de Salitre de Chile shall pay the expenses of cateo of the fiscal nitrate deposits the exploitation of which is granted by this law.

The amount of the cateo expenses for each year shall be established on the basis of the nitrate tonnage which the Government proposes to cateo during such year and of the total unit cost per metric quintal of nitrate cateoed, which shall be fixed by mutual agreement between the Government and the company.

Each year the company shall deliver to the Government, in equal monthly installments, payable in advance, the funds required for cateos in accordance with the provisions of the two preceding paragraphs.

ART. 48. Wherever in the present law reference is made to "pesos" or to "pesos, legal currency," it is understood that the peso is equivalent to 183,057 millionths of a gram of pure gold.

ART. 49. Articles 433, 434, 435, 436, 437, 438, 440, 441, and 442 of the commercial code shall not apply to the Compañía de Saltire de Chile, nor shall articles 2, 3, 4, 5, and 6 of Law No. 4404 of September 6, 1928, and paragraph (k) of article 9 of said law apply to the company.

The provisions of the first paragraph of article 463 of the commercial code shall be interpreted in such manner that the company shall not distribute dividends without first deducting the amount to be applied to the formation of the reserve fund.

ART. 50. The second paragraph of article 15 of Law No. 4520 of January 3, 1929; Law No. 4378 of July 31, 1928; and Law No. 4734 of December 20, 1929, are hereby repealed.

TRANSITORY PROVISIONS

ARTICLE 1. All documents which it may be necessary to draw up or execute for the constitution of the company, including those which refer to the transfer of properties and rights comprising contributions and the original share certificates corresponding to the authorized capital, shall be exempt from the tax established in Law No. 4,460 of November 17, 1928.

ART. 2. During the calendar years 1930, 1931, 1932, and 1933, the Compañía de Salitre de Chile shall make the following minimum payments to the Government by way of dividends on series A shares and income tax, in cash instalments payable after the termination of each quarter, such payments to be made without prejudice to any amounts, over and above such minimum payments, to which the Government may be entitled by way of dividends and income tax; provided, however, that the Government shall be entitled to retain any difference between the amount of such minimum payments and the amount to which the Government may be entitled by way of such dividends and income tax:

In the year 1930, 186,000,000 pesos; in the year 1931, 180,000,000 pesos; in the year 1932, 160,000,000 pesos, and in the year 1933, 140,000,000 pesos.

The amount of export duties on nitrate and iodine received by the Government in the respective years from other nitrate companies, empresas (organizations) or corporations shall be credited against such sums.

ART. 3. Within six months from the date of promulgation of this law, the President of the Republic shall submit for the consideration of the national Congress a project of law modifying Law No. 4,144 of July 25, 1927, in conformity with the new conditions created by this law.

ART. 4. The nitrate corporations or empresas (organizations) which, on the date of promulgation of this law, have not adhered to the formation of the Compañía de Salitre de Chile and which desire to contribute their properties to the company, may, in case of disagreement as to the valuation of their respective contributions, submit the settlement of their differences to arbitration by the President of the Republic, who shall decide as arbitrator, and no appeal shall lie from his decision.

ART. 5. The owners of nitrate grounds may request the company to acquire such grounds, provided they agree to sell such grounds and they submit themselves to the conditions set forth in this article and in transitory articles 6 and 7.

Such grounds shall be previously cateoed by government authorities or else the existing cateos and surveys shall be reviewed by said authorities.

The owners of grounds shall deposit with the Government receiving offices the sums fixed by the President of the Republic to cover cateo and survey expenses or for the reviewing of these operations.

ART. 6. The price and the adaptability to commercial exploitation by the company of the grounds shall be determined by experts, one designated by the company and another by the owner. In case of disagreement between such experts, a third expert shall be designated by the president of the supreme court.

If either of the parties disagrees with the decision of the third expert, he may appeal to the President of the Republic, who shall decide as arbitrator, and no appeal shall lie from his decision.

In the same manner, the President of the Republic shall settle any differences between the parties as to the conditions of the purchase.

ART. 7. The company shall establish a special fund to be devoted to the acquisitions referred to in transitory article 5, composed of 5 per cent of its annual net profits from the fifth to the fifteenth year of its existence. During such period the company shall be obliged to purchase out of such special fund the grounds referred to in transitory article 5, but at its option may determine the order of preference of such acquisitions. Such obligation is understood to be without prejudice to the provisions of subdivision 6 of article 4.

ART. 8. Employees who have been discharged since May 1, because of plant shutdowns, and those discharged through application of this law, may demand the immediate return of their retirement funds from the Caja de Previsión de Empleados Particulares.

ART. 9. Workmen discharged by reason of the application of this law must be given one month's advance notice by the Compañía de Salitre de Chile. Each workman discharged shall receive an indemnity of 300 pesos if the company does not furnish him work under similar conditions within the month covered by the notice.

ART. 10. The two preceding articles shall apply during the first three years of operation of this law.

FINAL ARTICLE. This law shall be effective from the date of its publication in the Diario Oficial.

And whereas I have thought proper to approve and sanction this law; therefore, let it be promulgated and carried into effect as a law of the Republic.

Santiago, July 21, 1930.—Carlos Ibanez.—R. Jaramillo.

LAW NO. 4864 OF JULY 29, 1930.

ARTICLE 1. The President of the Republic is authorized to issue, within the country, up to ₱20,000,000 pesos ($20,000,000) of 7 per cent Government bonds, with 1 per cent cumulative annual amortization, which shall be devoted to the payment of the bonuses pending from the nitrate year 1928-1929.

The Ley de Presupuestos (Budget) of the year 1931 and following, shall provide for the necessary amounts to defray the service of the issue to which reference is made in the preceding paragraph.

ART. 2. This law shall go into effect upon the date of its publication in the "Diario Oficial."

LAW NO. 4865 OF JULY 29, 1930.

ARTICLE 1. The following modification to Law No. 4.174 of September 5, 1927, is hereby made:

In article 2, add the following number after No. 7:

"(8) The nitrate grounds already exhausted and the exploitation plants and machinery shut down in consequence of such exhaustion."

ART. 2. This law shall go into effect upon the date of its publication in the "Diario Oficial."

LAW NO. 4866 OF JULY 29, 1930

ARTICLE 1. The following modification in the income tax law, consolidated in a single text by supreme decree No. 225 of February 17, 1927, is hereby made:

In the fourth category: "Profits from mining or metallurgical operations," after the third paragraph insert the following:

PARAGRAPH 4

"Special provisions relating to nitrate companies not subject to export duties.

Article — : Nitrate companies which, by virtue of special laws, are not subject to export duties, shall pay the tax of 6 per cent.

Article — : Dividends distributed to their shareholders by the companies to which reference is made in the preceding article, shall be exempt from the tax of the second category.

Article — : The provisions of articles 32 (33) and 33 (34) of this law shall apply in determining the taxable income.

In addition, such companies shall be permitted to deduct from their gross income, an amortization for depletion of the nitrate reserves and for extraordinary amortization of their installations, at the rate of 10 pesos legal currency per ton of nitrate produced during the year."

ART. 2. This law shall go into effect upon the date of its publication in the "Diario Oficial."

Senator JOHNSON. I call to your attention that the second communication that was received from the Chilean Government this morning says:

In connection with the reply to query No. 6, my Government wishes to state that the difference between the previous export duty and the present assessment of 60 Chilean pesos per ton of exported nitrate, is that the previous export duty was collected by the custom service as a state tax, and the present assessment is received by the bankers representing the bondholders.

That is the Cosach bonds.

The CHAIRMAN. That whole letter I think was put into the record, Senator Johnson.

Senator JOHNSON. That is in the record already, sir.

I now offer for the record the report of the Controller General of the Republic of Chile. That is the portion which deals with the real property in Chile. I offer it because all of the nitrate lands of Chile under the agreement which I have put in the record now by which Cosach and the Chilean Government entered into their covenants respecting the nitrate lands, all of these nitrate lands are in effect given to the Cosach accommodation. The value of these lands, according to the report of the controller of Chile, is $4,600,000,000, it is

termed here, but that is Chilean dollars, it will be understood, pesos, and that $4,600,000,000 is a part of the total real values in Chile aggregating $5,902,829,895. So the extraordinary proportion of the nitrate-bearing lands to the value of the real estate of Chile is thus demonstrated.

(The portion of the report of the Controller General of the Republic of Chile dealing with the real property of Chile is here printed in the record in full, as follows:)

CUADRO No. 4.—BALANCE DE COMPROBACION EN 31 DE DICIEMBRE DE 1930

DEBE

Bienes muebles e inmuebles:		
Bienes Raíces	$278,495,095.00	
Terrenos Salitrales	4,600,000,000.00	
Propiedad Austral y Reservas Forestales	684,354,000.00	
Obras de Puertos	234,301,944.64	
Bienes Muebles y Equipos Varios	100,167,252.43	
Varios	5,511,603.48	
		$5,902,829,895.55
Obras nuevas en construcción:		
Obras de Puertos	205,240,996.15	
Ferrocarriles	88,805,471.18	
Caminos	130,761,301.21	
Regadío	54,119,098.89	
Canalización del Mapocho	5,742,267.54	
Alcantarillado y Agua Potable	50,090,930.05	
Edificios de la Administración pública	72,301,557.03	
Edificios de Educación pública	28,910,225.94	
Construcciones de Educación Física	7,524,558.60	
Construcciones Diversas	6,058,948.14	
Varias Obras y Estudios	15,761,529.11	
		665,316,883.84
Inversiones del Estado:		
Acciones—		
Banco Central de Chile, Clase "A"	20,000,000.00	
Caja Reaseguradora de Chile, Clase "A"	3,500,000.00	
Ferrocarril Transandino Chileno	42,000,000.00	
Caja de Crédito Agrario	18,000,000.00	
Cía. Electro Siderúrgica de Valdivia	500,000.00	
Aportes de Capital—		
Ferrocarriles del Estado	688,599,474.70	
Ferrocarril de Arica a La Paz	60,764,295.08	
Ferrocarril de Puetne Alto al Volcán	9,742,589.44	
Imprentas Fiscales	4,000,000.00	
Fábricas y Maestranzas del Ejército	33,907,490.95	
Correos y Telégrafos	17,403,953.58	
Escuela de Artes y oficios	5,152,931.93	
Servicios Eléctricos	346,567.27	
Talleres Fiscales de prisiones	1,432,314.41	
Caja de Colonización Agrícola	21,930,000.00	
		927,279,617.36
Aprovisionamiento del Estado: Existencias, según inventarios de la Dirección General de Aprovisionamiento		7,309,112.70
Varios Deudores y Cuentas Pendientes:		
Banco Popular en Quiebra	352,750.51	
Deudores Morosos	11,690,465.18	
Préstamos	38,039,003.06	
Préstamos Frigoríficos	171,375.03	
		50,253,593.78
Balance de los Fondos Fiscales:		
Total al Debe (véase Cuadro No. 3)	160,958,920.87	
Menos: Varios Acreedores y Fondos de Terceros (véase cuadro No. 3)	138,055,907.97	
		22,903,012.90
Bonos del Estado—Fondo de Emergencia—Por Contra:		
Deuda Externa: (a precio de adquisición)	15,406,169.24	
Deuda Interna: (a precio de adquisición)	5,145,101.25	
		20,551,270.49
		7,596,443,386.62

	HABER		
Deuda Pública del Estado:			
Saldos al 31 de Diciembre de 1929		$2,688,133,570.24	
Nuevas emisiones de Bonos en el año 1930		430,371,780.66	
Anticipos bancarios y vales provisorios pendientes al 31 de Diciembre de 1930		301,250,000.00	
Deudas Varias registradas en el año 1930		1,496,123.68	
		3,421,251,474.58	
Menos—			
Amortizaciones efectuadas en el año 1930	$103,360,350.22		
Ajustes de Cambio	115,202.50		
Anticipos bancarios de 1929, liquidados en 1930	75,900,000.00		
		179,375,552.72	
Saldos en 31 de Diciembre de 1930:			
Deuda Externa	2,482,812,598.61		
Deuda Interna	457,813,323.25		
Anticipos bancarios y vales provisorios pendientes a cuenta de emisiones definitivas	301,250,000.00		
		3,241,875,921.86	
			$3,241,875,921.86
Hacienda Pública—Cuenta de Control:			
Saldo en 31 de Diciembre de 1929		4,533,344,265.30	
Aumento por amortización de la Deuda Pública pagada en 1930, con cargo al presupuesto Ordinario y mediante rescates según ley 4,386	103,360,350.22		
Aumento por ajuste de cambio en la Deuda Externa	115,202.50		
Aumento por anticipos bancarios de 1929, liquidados en 1930	75,900,000.00		
Aumento por Bienes Nacionales registrados en 1930	45,717,254.29		
Aumento de Obras Nuevas en Construcción	287,645,239.61		
Aumento de Existencias de Aprovisionamiento	1,987,832.26		
Aumentos Varios	171,375.03		
		514,897,253.91	
		5,048,241,519.21	
Menos—			
Nuevas emisiones de bonos en el año 1930	430,371,780.66		
Anticipos bancarios y vales provisorios pendientes al 31 de Diciembre de 1930	301,250,000.00		
Deudas Varias registrados en el año 1930	1,496,123.68		
Disminución de Capital en Inversiones del Estado	3,644,823.11		
Disminuciones Varios	365,605.39		
		737,128,337.84	
Saldo en 31 de Diciembre de 1930		4,311,113,181.37	
Fondos Fiscales al 31 de Diciembre de 1930:			
Presupuesto Extraordinario y demás Leyes Especiales (véase Cuadro No. 2).			
Saldo por invertir al 31 de Diciembre de 1930	21,581,806.01		
Presupuesto Ordinario (véase Cuadro No. 1)—			
Superávit al 31 de Diciembre de 1930	1,321,206.89		
		22,903,012.90	
Fondo de Emergencia—Ley 4,520: Fondo creado por la ley 4,520, con cargo a los Presupuestos Ordinarios de los años 1929 y 1930, e invertido en bonos del Estado, según contrapartida		20,551,270.49	
			4,354,567,464.76
			7,596,443,386.62

Senator JOHNSON. I offer from Poor's Manual of Investments, 1931, just a brief paragraph. [Reading:]

The Anglo Chilean Consolidated Nitrate Corporation to be reorganized into the Companies Salitra Anglo-Chilena. 400,000 shares the entire capital of the Anglo Chilean Consolidated Nitrate Corporation each of a par value of 100 pesos were to be acquired by the latter company.

Five million five hundred and seventy-seven thousand seven hundred and twenty-four pounds in bonds to be issued in satisfaction of certain obligations to Guggenheim Bros. and are to be assumed by the Compania Salitra Anglo-Chilena. The bonds of Cosach are to be issued internationally in the total loan limit $50,456,500, or equivalent in other currencies.

The National City Co. of New York purchased $19,000,000 of these bonds, subject to a provision against their being offered under 96 prior to July 1, 1931, and to other restrictions.

Included in the Cosach organization will be the Lautaro Nitrate Co. (Ltd.), a Guggenheim organization.

Senator JOHNSON. I pass for the moment now the Chilean loans.

I desire to put in evidence certain communications relating to the Colombian loan and the Barco concession. These communications were communications passing between the National City Bank and its agents in Bogota, Colombia, and from the agents in Bogota, Colombia, to the National City Bank. You will recall that Mr. Samels was the representative of the National City Bank in Bogota. I begin with, first, June 19, 1930. [Reading:]

Mr. W. W. SAMELS, JUNE 19, 1930.
The National City Bank of New York,
Bogota, Colombia.

(Re Colombian Financing.)

DEAR MR. SAMELS: In order that you may be advised step by step as regards the discussions going on here and in Washington with Doctor Olaya as to Colombia financing, I am inclosing in duplicate the following memoranda. The suggestions and conditions contained in these memoranda are the basis of the discussions taking place this week: (*a*) Memorandum 1; (*b*) memorandum 2; (*c*) memorandum 3 with notes accompanying; (*d*) memorandum 7; (*e*) memorandum 9.

Those memoranda did not accompany the letter. [Continuing reading:]

Undoubtedly these memoranda will have to be altered in many places. For instance, after conversations with Doctor Olaya to-day it has been pretty definitely determined that the settling aside of customs revenues, as mentioned at the top of page 2 of memorandum 1 and on page 2 of memorandum 3, can not be carried out. Also, it has been determined that the idea of having the certified public accountant mentioned in article 3 of memorandum 3 approved by the bankers would not be acceptable, either to Doctor Olaya or the State Department. Mr. Jefferson Saffery, United States minister to Colombia, is actively participating in the present discussions.

Yours very truly, A. J. ACCOLA, *Foreign Department.*

Jefferson Caffery is the gentleman whom I called as a witness, and who, it was stated by the State Department, would not be permitted to testify.

Cablegram from the National City Bank of New York, Bogota, Colombia, to the New York house, signed by Mr. Samels, who was stated to be the representative there:

NATIONAL CITY BANK OF NEW YORK,
Bogota, Colombia, March 2, 1931.

Your cable of the 24th ultimo Banco De Colombia. Believe you can continue extending $500,000 clean line(s). Prime factor(s) considered in arriving at expressed determination are present policy board of directors (of) scrutinizing carefully affair(s) bank and direct intervention (of) (in) chairman of the boards of directors in management he acting in accord (with) Garces interest(s) (in). See our letter (of) January 17. Furthermore business outlook Colombia much more encouraging. President of the Republic authorized us (to) advise you (to) (of) petroleum law(s) will be signed this week and that contract(s) settling Barco case will be signed tomorrow morning. Superintendent (of) (at) repeat(s) former(ly) declaration(s) bank in good condition.

W. J. SAMELS.

Another cablegram from Bogota to the National City Bank, signed by Jefferson and Samels:

NATIONAL CITY CO., *New York.*

BOGOTA, *March 5, 1931.*

NO. 27, SECOND PART

(6) Failure of President to make good promise clean up floating debt 1930 will seriously injury him politically. Already being criticized.

(7) Passage of oil law and settlement Barco ——— concessions have contributed to material improvement business outlook during past week(s) but

nonpayment of $4,000,000 all kinds of past due Government obligations will delay return normal conditions at a time when every aid should be given if we are to reap benefit seven months hard work and expenses.

(8) Have hesitated present these facts earlier because seems to be selling arguments other side but believe they are unbiased frank answer to your inquiry. Now is the time to show confidence by making second $4,000,000 available in accordance with our cable 55.

JEFFERSON.
SAMELS.

Next a letter air mail to Mr. Ford and Mr. Schoepperle of the National City Co. and the First National Old Colony Corporation, signed by Mr. Jefferson. I read just a portion of it, and I put the whole of the letter in, because in my opinion when I refer to a part of a letter any individual that is interested has a right to all of the letter, and believing that to be the only fair way of dealing I insert the whole of the letter in the record, instead of declining to submit all of it and insisting only upon a part.

The part that is pertinent to my discussion, however, is [reading]:

Status of legislation: The reorganization bills referred to in the letter of October 25, are in the following condition at present:

(*a*) The budget bill has passed both Houses and is in the hands of the President awaiting signature. Under these conditions it is likely to become a law any day.

This is May 21, 1931 [continuing reading]:

(*b*) The customs administration measure has passed the Senate and is now in the House moving along day by day and we expect that it will probably be put in final shape at any time.

(*c*) The Government has practically abandoned the Contraloria bill for reasons which we have stated a number of times to you in the present Congress.

(*d*) The other important bill is the Barco concession. This has been passed by the Senate and the committee of the House spent 13 days working on it and is now submitting two reports, one of the majority entirely in favor and a minority report which evidently will recommend certain changes. We understand that the administration has completed its organization in the House and that, while the bill will probably be debated for a week or 10 days, it is confidently expected that it will pass.

The whole of this letter that deals with budgetary conditions I ask to be printed in the record.

The CHAIRMAN. Was it signed by anybody?

Senator JOHNSON. Jefferson. He was one of their representatives. That was testified to here.

(The letter from H. M. Jefferson to Mr. Schoepperle and Nevil Ford, dated May 21, 1931, is here printed in the record in full, as follows:)

MAY 21, 1931.

DEAR Mr. FORD and Mr. SCHOEPPERLE: In endeavoring to get the most complete information possible in order to give an answer to the first paragraph of your cable No. 17 of April 28, we made rather exhaustive studies of the budget situation and had many conferences with the Minister of Finance following the dispatch of the information on the other points. After getting out all of the other material Mr. Samels and I came to the conclusion, on Saturday, May 16, that it would be well to bring the question up to date and advise you, so that if possible you might come to a decision on whether or not you would make the last four million available soon.

We were anxious to have such an answer because we are informed that it is the President's intention to close the Congress just as soon as the Barco bill is passed, and we thought that if you were thinking about the fiscal agency matter, a decision should be reached just as quickly as possible, so that the approval bill can be presented and passed before the Congress is closed.

Our cable No. 14 gave you a complete statement of affairs up to that date. We think it may be desirable to confirm this by a more complete review of the situation. This may perhaps best be done under certain headings.

1. *Status of legislation.*—The reorganization bills referred to in the letter of October 25 are in the following condition at present:

(*a*) The budget bill has passed both Houses and is in the hands of the President awaiting signature. Under these conditions it is likely to become a law any day.

(*b*) The customs administration measure has passed the Senate and is now in the House moving along day by day and we expect that it will probably be put in final shape at any time.

(*c*) The Government has practically abandoned the Contraloria bill for reasons which we have stated a number of times to you in the present Congress.

(*d*) The other important bill is the Barco concession. This has been passed by the Senate and the committee of the House spent 13 days working on it and is now subittting two reports, one of the majority entirely in favor and a minority report which evidently will recommend certain changes. We understand that the administration has completed its organization in the House and that, while the bill will probably be debated for a week or 10 days, it is confidently expected that it will pass.

2. *Deficit 1930.*—We have had a number of discussions with the controller general over the calculation of this deficit. The chief of his accounting division some time ago told us that the controller hoped to reduce this deficit to $28,000,000 by means of cancelling some old reserve accounts. In view of the fact that it was so tentative we did not like to rely upon the lower figure until the controller unofficially advised the Minister of Finance to that effect; the latter, in turn, gave us a memorandum based upon the $28,000,000. We therefore cabled you on April 25 (our No. 93), using that figure.

Later the controller reported that while he had decided to adjust more than $1,500,000 of these old reserves, it would be essential for him to hold the reserves in the form of a "reserve for contingencies" to cover the old period up to December 31, 1930, and this decision left the deficit at the end of 1930 at $30,626,841.16 which has now been accepted as a final figure and will appear in the controller's report. The defict is built up in the following manner:

Deficit Jan. 1, 1930 (all held in the form of reserves)		$17,993,002.94
Expenses paid in 1930	$49,387,089.21	
Reserves established by controller for the year 1930	12,604,666.20	
Total expenses in 1930	61,991,755.50	
Revenues collected 1930	49,357,917.28	
Deficit 1930		12,633,828.22
Total deficit to the end of 1930		30,626,841.16

This has been accepted by the Minister of Finance and all hopes of reducing it have disappeared.

3. *Liquidation of 1930 deficit.*—The following is worked out in round figures:

Deficit		$30,627,000
Loans:		
By the group to date	$12,822,000	
By National City Bank	[1] 1,905,000	
Pagares del Tesore	[2] 5,500,000	
	20,227,000	
Final loan, if made by group	4,000,000	
		24,227,000
To be provided for		6,400,000
Government proposes using part of proceeds of match loan, which if $10,000,000 will give		4,000,000
To be carried by Bank of Republic or otherwise provided for		2,400,000

[1] We have arbitrarily shown the figure $1,905,000 in order to take off the small items.
[2] While $6,000,000 of these bonds were authorized, the Minister of Finance has not yet placed a part of them and in this calculation we have reduced the amount by $500,000 to make allowance for this. If and when the minister is able to use this $500,000 of pagares, the net amount to be provided for will be reduced by that amount.

4. *Balancing the current budget.*—Since the first of March we have made a number of estimates of the manner in which the budget would work out, but did not have much to go on until we received the telegraphic returns for the first three months' collections. On this basis and with rigid cutting down and adjustments, we arrived at a deficit of $1,183,000 for the quarter, which multiplied by four gave us a deficit of $4,732,000. As soon as we had come to a decision that there was a substantial deficit, we notified you by cable, the above figure being included in our cable No. 6 of May 7. Shortly after, a special survey was made of the April collections, and calculated in the same manner as the three months' period, the deficit was reduced to $3,762,000. The Minister of Finance also made a calculation of these figures and arrived at a deficit of $3,600,000.

While this was going on, the Minister of Finance and the cabinet were debating on what could be done to adjust the budget and the minister came to the conclusion that it would be possible for him to increase the salt revenues by increasing the prices of the mineral salt slightly and leaving the prices of the maritime salt unchanged to act as a balance. The mineral salt is mined by the Government as a monopoly. The rock salt is converted at once into a brine which is sold by the Government to producers. The prices of this brine have not been changed for 20 years whereas the prices of salt to the ultimate consumer have been increased.

According to careful estimates, the minister felt that even though the Government should raise the price of the brine to the refiners, a part of the increase would be carried by the manufacturers and with a little competition with the maritime salt the price would be held down so that the price to the ultimate consumer would not be increased a great deal.

The desirability of increasing these prices was discussed by the cabinet and under the leadership of the President, it was decided that, while the increased prices might be easily put into effect, it would be unwise to do so while the Congress was in session and while there is more or less political discussion. The President also feels that it would be very dangerous to increase the price until the bankers have paid the final four million. It was therefore agreed that if the increased price is established, it will not be done until about August 1, which would yield $500,000 by the end of the year.

The minister also proposes increasing the river transportation tax which he estimates will yield $200,000.

It was discovered, after the closing of the books for the year 1930, that the National would have to pay the Department of Santander and the city of Barranca Bermeja, their participation in the $630,000 of oil revenues during the year 1931, although it is a part of the 1930 expenditures. This amounts to $264,971.02, and they will also have to pay $157,003 for the share of the oil revenue to be paid in July covering the period from January 1 to July 1. There is included in the budget $500,000 for participation of the department and the city in these revenues, and the minister states that there will be left about $78,000 of this item unused, which may be regarded as a possible saving of expenses.

The minister has included in the 1931 budget, $2,085,000 for interest on debt to be incurred this year. Since the loans have not been made as promptly as he had expected, there is a considerable saving in this account. The figures were very carefully prepared by the minister and checked by the treasurer, and they have agreed upon a saving of $300,000 in this account.

The sum of these four items aggregates a little over one million pesos.

We wired you yesterday that we had called a conference on the question of the estimated customs collections for 1931. The chief of the revenue department consented to our suggestion that Mr. Roddy, the new customs adviser, and Mr. Donnelly the American commercial attaché, join us in this conference. Mr. Donnelly has had considerable experience in customs tariffs and has studied both new tariffs very carefully. He is also well-informed on imports from the United States into Colombia.

The four months' collections showed an excess of $650,510.10 over the budget estimate. Mr. Samels and I have questioned whether this excess were not due to imports being made in anticipation of the application of the new tariffs and had eliminated these excesses in our calculations of the total estimated revenues for the year. The chief of the revenue department has always maintained that the four months were normal and that they would continue through the year. After exploring the subject from many angles, we felt that the Government was amply justified in that position and we therefore allowed the

calculation in our final figures bringing the deficit to the end of the year at $2,600,000 instead of the former higher figures. We cabled this decision to you last night and also advised you that of the million dollar increased revenues and savings above described, there would remain $500,000 to reduce the deficit mentioned to $2,100,000 after making full allowance for the probable cost of the present Congress.

5. Conclusions of the President and cabinet with reference to the budget.—Both the Minister of Finance and ourselves did a lot of work in reanalyzing the budget item by item and we held numerous conferences with the minister and his staff in regard thereto. Every item which could not be decided in the conference was noted for further study by the minister and a list prepared which was submitted by the minister to the cabinet. After the first meeting the ministers directed their department heads to restudy their expenditures and later another meeting was held with all the reports in hand and also including our further studies and the articles suggested by you.

The President and the cabinet concluded that it would be impossible to make further cuts in the salaries because it would create social disturbances. They felt that very little could be rescued from materials and supplies, although they studied this article by article. We found that, relying upon their budget, contracts had been executed in many cases and that very little could be eliminated or deferred. Their conclusion was that the only way to effect substantial savings would be to reorganize the administrative service but that it would be impossible to carry out this reorganization until after the Congress closes, and then would have to seek approval by the subsequent Congress. This would mean that nothing could be expected from this source in the 1931 budget. The suggestions that we have made have indicated some means of accomplishing something in this regard and we hope, whether or not the budget will require this reorganization, that some work will be done toward improving the administrative work before the end of the year.

The minister calls our attention to the fact that the customs expert is at work, that the Government is about ready to negotiate for a technical expert for the controller general, and that they will reorganize the railroads after the Congress is closed.

6. *Match monopoly.*—We have called your attention to the fact that the cabinet has discussed the possibility of using $1,546,950 of the portion of the proceeds of the match loan—if and when received—for payment of the railway bonds maturing in 1931, together with interest, and also about $1,000,000 for additions and betterments to the railroads, on the ground that these are both public works expenditures.

The minister told us today that the representative of Kreuger & Toll will arrive either the latter part of this week or the first of next, and that there will be no delay in the negotiations. He says that on his part he will be willing to conclude within a week. If the representative is in a position to act in the same manner, we should know in a very short time the results of this proposition.

7. *Use of proceeds of match loan.*—In your cable No. 17—fourth paragraph—you raised a question regarding the conflict of the proposed loan with clauses 6 and 7 of our contract of October 1, 1930; and we called your attention to the numerous waivers of those provisions in cables from you and also in the letter of December 31, 1930, deposited with the American minister here. We also thought that you had been thinking rather seriously about this matter because of the letter of April 30 written by Mr. Accola to us, with which he inclosed a memorandum dated April 25, 1931, addressed by Mr. Henneman to Mr. Schoepperle, in which he maintained that the making of the loan by the match company would violate the letter and spirit of the agreement of October 1. Your later cable No. 30 cleared the air on this question, confirming our opinion that waivers are in force.

8. *Additional credits.*—In making the studies connected with the budget we discovered that the Congress has passed additional credits aggregating $929,627.63 to the end of April, without providing additional revenues to cover, as provided by law 34 of 1923. Practically all of this covers expenditures necessary to the continuation of Congress and will have to be taken care of in any event.

The budget includes an item of $469,500 and we had added $500,000 in our adjustment of March 9, so that we think this expenditure is pretty well taken

care of. The Congress passed the responsibility on the administration to find these funds, but it is our thought that if and when the opportunity presents itself, we shall make a particular point of following the law regarding these additional credits, and this will again be brought to their attention in connection with the new budget law. As we have stated a number of times before, we place more faith on the results that will be obtained under the direction of an able technical adviser to the controller, whose duty will be to control such points as these, as well as others in budget administration.

This rather complete review will give you some of the background out of which our cable No. 14 was developed, and we hope that it will be of some service to you.

Very truly yours,

H. M. JEFFERSON.

VICTOR SCHOEPPERLE,
Vice President National City Co., New York, N. Y.
NEVIL FORD,
Vice President First National Old Colony Corporation, New York, N. Y.

Senator JOHNSON. Next is a cablegram from Bogota, Colombia, dated June 2, 1931, to Mr. Schoepperle and Mr. Ford from Mr. Samels and Mr. Jefferson [reading]:

Your cable 32 our cable 23 President Minister of Finance and Government attorney(s) arrived at conclusion that congressional ratification of fiscal agency agreement legally unnecessary furthermore would be extremely inadvisable at this time account politics and expenses involved continuing Congress. Our attorney(s) confirm(s) previous opinion of congressional authorization or ratification unnecessary. Your cable 32 consideration 4 President contends that loans have been made for the purpose of covering floating debt and not for developments and therefore requests deletion "and the country's economic development(s)" and the substitution in the Spanish version of especialmente pararecoger ladeuda flotantey facilitarel equilibrio del presupuesto (especially to gather together the floating debt and facilitate the balancing of the budget). If this change acceptable President ready to give assurance and authorize Minister of Finance sign fiscal agency agreement at once. Expect to have minor changes to-morrow letter your cable 33. Customs bill is in final stage and Barco bill expected to pass this week. Since Congress not needed for fiscal agency agreement President will close as soon as possible after passing Barco bill.

June 5, 1931, Bogota, cablegram to Schoepperle and Ford from Samels and Jefferson [reading]:

Passage of Barco bill which is imminent offer possibility upbuilding credit Colombia if it is properly handled (by) President of the Republic and the Bogota Publicity Committee very much interested and request that you please notify (when) New York committee John L. Merrill, chairman, requesting them endeavor to secure and prepare material for release to the press when officially signed. Suggest also representative of committee consult with George Rublee in order to secure background. Sending some material Merrill by air mail to-morrow.

That was publicity for the Barco concession.

June 5, 1931, to Schoepperle and Ford. The subject is "Publicity in connection with passage of Barco bill." Signed by Jefferson [reading]:

JUNE 5, 1931.

Mr. VICTOR SCHOEPPERLE,
Vice President, The National City Company,
New York, N. Y.

Mr. NEVIL FORD,
Vice President, The First National Old Colony Corporation,
New York, N. Y.

Subject: Publicity in connection with passage of Barco bill.

DEAR MR. SCHOEPPERLE AND MR. FORD: All of our informants feel quite hopeful that the Barco bill will be approved some time next week. It would seem as if the thing has been completely exhausted as a political debating ground

and that a vote must come. In our last conversation with the President, I mentioned that I hoped we might find a way to place before the public in the States and possibly in Europe, the features connected with this negotiation and the contract, which have a direct bearing on the attitude of Colombia toward foreign interests. After all, that is the fundamental of the legislation. The passing of the law will settle automatically a legal dispute which has been extremely annoying and in which Colombia has not been placed in a pleasant light. The President agreed with me and we thought it might be possible for the New York committee, of which I was a member when the President visited the States, to do something to present this idea through the press.

Following the above-mentioned conference with the President, the latter telephoned to the chairman of the Bogota committee who called a meeting and invited me to be present. We discussed the matter and the committee asked me to communicate with the New York committee requesting them to endeavor to work out some such publicity if they could possibly do so.

After thinking over the manner of transmitting the request to New York, we came to the conclusion that we did not want to do anything that might couple the Barco bill with the bankers, and therefore sent the message to you in code and requested you to pass the request of the President and Bogota committee over to Mr. Merrill. We hope you have found it convenient to assist them in meeting Mr. Rublee and possibly in putting before them some of the atmosphere which you have gathered in this connection.

I am inclosing a copy of a letter addressed to Mr. Merrill with which I inclosed a report on the entire matter prepared by the President's legal adviser.

Very truly yours,

H. M. JEFFERSON.

Cablegram from Bogota, June 6, 1931, to V. Schoepperle and N. Ford from W. J. Samels and H. M. Jefferson [reading]:

Press report probable(ly) sponsored(by) opposition Barco bill(s) being broadcast to-day from Bogota to the departmental newspaper(s) that Lazard Bros. and Co. (Ltd.) withdrawing group as a protest against Barco bill(s) on alleged basis British interest(s) in petroleum distinct(ly) from American(s). Minister of finance with our consent has issued emphatic denial. We urge you and/or Lazard Bros. & Co. (Ltd.) cable as quickly as possible denial for publication to-night and to-morrow morning paper(s) * * *.

Bogota, June 8, 1931, to Mr. Schoepperle and Mr. Ford from Mr. Jefferson and Mr. Samels [reading]:

We received to-day from the President a draft of his proposed reply to your letter as covered by your cable No. 33, and inclose herewith copy of such draft. The president directly and through the medium of his advisers states that every effort has been made to adapt this reply to the points raised in your letter. From our previous correspondence you will have learned that for reasons of policy here, the President desired to eliminate direct reference to certain correspondence passed between yourselves and him, and for that reason his reply is constructed along these lines.

After the preamble, which as you will note, is more or less a reaffirmation of the points brought forth in your letter, the President states concretely his position and proposed lines of activity with regard to the necessity of a balanced budget for the current year, and also with regard to the desirability of enacting as soon as possible the comptroller bill. It is felt that the letter itself is sufficiently explicit on these two points and conveys to you the President's ideas and attitude.

In addition we are authorized to state to you that the present intention of the President is to incorporate in his message on July 20, upon the occasion of the inauguration of the new Congress, a statement to the effect that the loan of the second 4,000,000 was based specifically on his understanding with the bankers to the effect that the Government would close the current year with a balanced budget.

We are taking advantage of this occasion to inclose herewith copy of our letter of June 6 together with a copy of your proposed letter to the President as modified by the latter and which went forward in the air mail of Saturday.

In addition we are inclosing herewith in duplicate draft of the proposed fiscal agency agreement, based upon the draft cabled to you under date of February 16 and as modified by our subsequent cable correspondence up to the date of this letter.

In view of our understanding to the effect that the bankers shall be designated as official bankers rather than as fiscal agents, we are inclosing herewith draft of the proposed announcement to be published by the Government, adapted to the foregoing change in terminology and which we feel you will find acceptable.

With reference to our cable of Saturday concerning the efforts being made by certain Colombian politicians to inject the question of an alleged discord among the bankers composing the group into the discussions in Congress on the Barco bill, we will state that as a result of energetic efforts on the part of the minister of finance the notices of this matter as appearing in the local press were confined to the attached copy which, as you will note, is inocuous and simply a statement to the effect that there is no intention on the part of Lazard to withdraw from the group.

There is other matter in the letter that follows that is not particularly pertinent, but the whole letter I put in the record.

(The letter is as follows:)

BOGOTA, *June* —, *1931*.

Mr. VICTOR SCHOEPPERLE,
Vice President, National City Co., New York, N. Y.
Mr. NEVIL FORD,
Vice President, First National Old Colony Corporation, New York, N. Y.

DEAR MR. SCHOEPPERLE AND MR. FORD: We received to-day from the President a draft of his proposed reply to your letter as covered by your cable No. 33, and inclose herewith copy of such draft. The President directly and through the medium of his advisers states that every effort has been made to adapt this reply to the points raised in your letter. From our previous correspondence you will have learned that for reasons of policy here, the President desired to eliminate direct reference to certain correspondence passed between yourselves and him, and for that reason his reply is constructed along these lines.

After the preamble, which as you will note, is more or less a reaffirmation of the points brought forth in your letter, the President states concretely his position and proposed line of activity with regard to the necessity of a balance budget for the current year, and also with regard to the desirability of enacting as soon as possible the comptroller bill. It is felt that the letter itself is sufficiently explicit on these two points and conveys to you the President's ideas and attitude.

In addition we are authorized to state to you that the present intention of the President is to incorporate in his message on July 20, upon the occasion of the inauguration of the new Congress, a statement to the effect that the loan of the second 4,000,000 was based specifically on his understanding with the bankers to the effect that the Government would close the current year with a balanced budget.

We are taking advantage of this occasion to inclose herewith a copy of our letter of June 6, together with a copy of your proposed letter to the President as modified by the latter and which went forward in the air mail of Saturday.

In addition we are inclosing herewith in duplicate draft of the proposed fiscal agency agreement, based upon the draft cabled to you under date of February 16 and as modified by our subsequent cable correspondence up to the date of this letter.

In view of our understanding to the effect that the bankers shall be designated as official bankers rather than as fiscal agents, we are inclosing herewith draft of the proposed announcement to be published by the Government, adapted to the foregoing change in terminology and which we feel you will find acceptable.

With reference to our cable of Saturday concerning the efforts being made by certain Colombian politicians to inject the question of an alleged discord among the bankers composing the group into the discussions in Congress on the Barco bill, we will state that as a result of energetic efforts on the part of the minister of finance the notices of this matter as appearing in the local press were confined to the attached copy which, as you will note, is inocuous and simply a statement to the effect that there is no intention on the part of Lazard to withdraw from the group. However, the Minister of Finance stated

that he understood that a notice more pernicious in character was transmitted by a local news agency (presumably Sin) to newspapers in the more important cities of the department. It is expected, however, that the denial of the minister here in Bogota will also be transmitted and will serve to modify any disagreeable effects produced by the original notice. We shall advise you of anything important that may develop in this connection. Meanwhile, this morning we are in receipt of a cable from Lazard, London, reading as follows:

"We understand that rumors are current in Colombia that we have withdrawn from banking group. Please issue emphatic denial on our behalf, stating that there is no foundation whatever for this rumor. Thanks."

A copy of this cable has been sent to the minister of finance, who expresses his appreciation of the promptness with which Lazard has responded.

We are able to dispatch this letter to you by airmail to-day through the kindness of Mr. Winslow, of the Pan American Airways, who is flying from Barranquilla direct to Miami on Wednesday of this week and who is mailing this letter to you from the latter point.

Very truly yours.

Bogota, June 20, 1931, from Samels and Jefferson to Schoepperle and Ford [reading]:

Your cable 52 President agrees to grounds undoubtedly exist for higher rate of interest but contends that extremely inopportune at the present moment imperiling administrative plans including future financing and reacted(ing) unfavorably on business generally. His reasons are first he has forced through Congress many constructive measures including those proposed by group and financial mission and especially petroleum law and Barco concession which latter he has continually supported as credit building measure as evidencing intention of Colombian Government to comply with foreign commitment. If now immediately after competition for this legislation and naming official bankers he concludes negotiations increasing interest rate his claim of improving credit of nation by virtue of new legislation will be challenged and used to discredit him and Government. Opponents will allege increase rate of interest would represent his compensation for enactment of laws and appointment of official bankers and more so if increase in form of commissions. It is obvious that such accusations would reflect on foreign interests in general as well as on bankers second announcement of increase rate of interest would bring condemnation administration from the general public through their (his/her) not understanding reasons.

Third Administration counts upon full support next Congress and is planning other constructive measures but attacks as indicated would make difficult if not impossible. As an alternative President earnestly requests bankers consent to leave all conditions including rate as at present for renewal and new-- loan(s) until the end of 1931 and in November when to be considered in the light then existing conditions. President states amount involved is not major consideration and indicates willingness bankers receive commensurate return advances either through condition long term financing and or adjustment of interest rate beginning of year 1932. Taking into consideration all the important factors including political latter difficult to explain by cable we feel that in connection with this matter interest (in) Government and bankers closely allied and as a consequence (of) bankers should accede to request of the President defer adjustment of interest rate until November and we so recommend. In view of short time prompt consideration and early decision necessary.

Cablegram from Bogota to the National City Co., New York, N. Y. To V. Schoepperle and N. Ford from W. J. Samels and H. M. Jefferson [reading]:

Customs administration and Barco law(s) signed Saturday afternoon Ericksson Krenger and Toll, A. B. arrived yesterday.

Cablegram from Bogota, June 24, 1931, to the National City Co., New York, N. Y. To Victor Schoepperle and N. Ford from W. J. Samels and H. M. Jefferson [reading]:

Your cable 58 our cable 56 President has never intimated directly or indirectly petroleum or Barco law pass(ed) at the instigation or even suggestion

of the banker(s). He called attention (to) these measures as being among most important pass present Congress.

Letter dated July 9, 1931, Bogota, Colombia [reading]:

Mr. VICTOR SCHOEPPERLE,
Vice President, The National City Co., New York, N. Y.

DEAR MR. SCHOEPPERLE: For your information and records I am enclosing herewith two copies each of the following laws recently signed by the President of the Republic, as follows:

Law 79 of 1931: Customs organic.

Law 80 of 1931: By which a contract for the exploitation of national petroleum in Norte de Santander is approved.

That is the Barco concession.

Very truly,

WM. J. SAMELS.

This much for the letters I offered in evidence.

I offer now the first message sent by the President of the Colombian Republic upon this subject to his Congress. The message is dated March 11, 1931. You will recall we read the other day, Mr. Chairman, the message of June, 1931. That was another message. This is the first of the messages.

It was the purpose of the Government in prorogating indefinitely the extraordinary session of the present legislature, to obtain the expedition of various laws which the Government considered indispensable for improving the difficult situation of the country and for properly developing the administrative plan. Various projects of law are submitted for your early consideration.

The difficult financial situation of the country has forced the Government to initiate a rigorous plan of economy to prevent a financial deficit, but it is necessary to secure new fiscal revenues without aggravating the financial condition of the taxpayer.

The following projects are recommended:

1. Concerning the customs régime.
2. Authorizations to the Government concerning the phosphorus industry.
3. The unification of all taxes on the importation of goods.
4. The Government recommends especially to the chambers the bill by which is terminated the litigation pending in relation to the old Barco concession, by means of which the Government hopes for economic and financial repercussions and the possibility of opening new prospects for national work and of promoting the colonization and development of important regions of the country.
5. Bill by which is approved a contract concerning the exploitation of national petroleum and deposits in the north of Santander, the old Barco concession,
6. Bill by which is adopted a plan for national roads.

Message of April 7, 1931. This is the second of his messages [reading]:

Among the recommendations of the President of March 11 last were the bills concerning the phosphorus industry and the bill approving a contract for the exploitation of national petroleum and deposits in the north of Santander (Barco concession). The importance of these projects explains why we again earnestly make these recommendations to-day.

(Reasons are given for recommending the establishment of a phosphorus monopoly.)

The other bill is recommended by the Executive power most emphatically. It approves a contract concerning the exploitation of national petroleum and deposits in the north of Santander (Barco concession) which was signed by the Minister of Industries, and the President of the Republic and all the executive cabinet take the opportunity to express their approval.

This bill, which was presented to the Senate March 5 last, was studied and carefully discussed before signing, by the Ministry of Industries and in a conference which the minister had with the Senate committee.

We would repeat what has almost unanimous consent if he tallied about the great importance of the solution of this business. The reasons which counsel no delays are of diverse kind, but all of great importance. It can be said without exaggeration that it has projections not only within the country but also economic and financial ones in the international field. It is our conviction that, among other considerations, this contract must be approved:

First. Because it solves a complicated litigation which for years has paralyzed the development of one of the petroleum regions which the country considers very promising for its future. The judgment which seeks an end of these differences on a basis of equity and friendly understanding, is without doubt preferable and much more beneficial than that which recommends the continuation of controversies and litigations which, whatever the verdict, make difficult a friendly cooperation of mutual benefit to the parties interested. In place of the uncertainties with which the way of litigation is full, we propose a settlement accepted voluntarily and in good faith, both by the Government and by the companies interested, a settlement in which an attempt has been made to harmonize the interests of both parties.

Second. Because it eliminates a question which has had international repercussions and the incidents of which in past years have occasioned a diplomatic correspondence of a tone scarcely cordial. The resolutions passed on said Barco concession formed the subject of diverse commentaries not only in the country but abroad—commentaries which filled pages of European and American financial publications—and while we persist in maintaining that at all times the Government of Colombia has been within the standards of correctness and justice, it is desirable for our international reputation to give palpable proof of our sincere proposal to solve, with a judgment of fairness and friendly disposition, the differences which arise with foreign capital, to which we offer not only the protection of our laws and of our courts of justice, but the sincere desire shown in deeds to attract it and give it facilities for establishing itself with us to our mutual profit.

Third. Because this contract opens propitious horizons for the financial possibilities of the Republic abroad. The good reception granted in the great markets to the initiatives not only of the Government but also of private institutions in order to seek for credit an ample cooperation, which permits our national resources to be developed on the large scale which we all desire, depends in very considerable part upon the presentation, exempt from controversy, which we can make of our sources of wealth, showing that they are in the process of being enriched by labor and capital of importance. There is not the least doubt, on the contrary it is an evident fact for those who are familiar with the financial potentialities of the companies with which negotiations have been made, that they can cooperate with the Government of Colombia not only in the development and exploitation of petroleum, which are the objects of concession, but also in operations of credit for the economic development of the country, today interrupted, and for the renewal, in due time, of a policy of public works which the country is not able to carry on, and without which there will be a stagnation of our prosperity and it will be impossible to give effective impulse to the common prosperity.

Fourth. Because in this negotiation there have been incorporated clauses, the realization of which will open the way—with the construction of an oil line which starts from Columbia territory and terminates at a Columbian port—for communication from our important regions, now distant and separated, to the point of its commercial union being considered almost Utopian, which, however, when this work is completed, will be united in a way not only extremely beneficial from the material point of view, but also from the no less important viewpoint which seeks the connecting of the various sections of the Republic, creating among them bonds of community of interests which would fortify national sentiment.

Fifth. Because it is of great interest to the Republic to create on all its frontiers nuclei of capital and of work which, acting under our laws and our authority, would legalize, with the efficacy of commercial and industrial activity, the rights of the nation and represent a positive guarantee of national sovereignty. Since the greater part of the territories to which the contract extends

are scarcely populated and isolated from the rest of the country the concluded negotiation will serve to give impulse to the works of colonization and to populate these regions which are to-day deserted and in need of the civilizing action of the State, an action which we will be able to exert in intense form, impossible under present circumstances.

Sixth. Because although the crisis which the country is enduring to-day, can not last long, it is certain that a negotiation like that concluded with the South American Gulf Oil Co. and the Columbian Petroleum Co., serves considerably—apart from its profitable works—as a psychological factor of undeniable importance, to establish at home confidence in the restoration of national activity and to create, rightly, abroad the assurance that we are using all our resources in order that the economic future of the country may have the firmness and the magnitude for which we hope.

Translated by the Library of Congress.

Senator JOHNSON. Now, Mr. Chairman, I have received various communications, which I feel it my duty to submit to the chairman of this committee, and which, I think, it would not be inappropriate to put into the record.

But first before I submit them, I put in the record a pamphlet of the National City Co., entitled "Foreign Dollar Bonds," made in 1931, which contains a page headed "Foreign Bond Suggestions." In these Foreign Bond Suggestions I find Chile, Lautaro Nitrate Co., Mortgage Bank of Chile, Sao Paulo, and various others. And I ask that it may be made a part of our record.

The CHAIRMAN. So ordered.

(The pamphlet of the National City Co., headed "Foreign Dollar Bonds," is here printed in the record in full, as follows:)

FOREIGN DOLLAR BONDS

Numerous signs point to a favorable outlook for the bond market during 1931. Time money rates on the New York Stock Exchange are now lower than at any time during the past 50 years, and the present rediscount rate of the Federal Reserve Bank of New York is the lowest in the history of the Federal reserve system. In the past, low interest rates and declining commodity prices have invariably spelled higher prices for fixed income securities. Hence, with lower commodity prices, and with prospects of continued low interest rates for a indefinite period, basic factors at the beginning of 1931 would seem to afford ample justification for optimism regarding the bond market.

As far as high-grade domestic bonds are concerned, a distinct improvement in tone is already in evidence. On the other hand, there still exists a general lack of confidence in foreign dollar bonds on the part of the investing public. Spectacular political upsets abroad during the past year, and the decline in the bonds of the countries involved, have led to a widespread belief that foreign countries can no longer be considered as sound and stable media for investment.

This general distrust of the foreign-bond market we believe to be unwarranted. It is clearly the result of an inadequate understanding of particular situations in each different country concerned. The focussing of public attention upon recent political and economic unsettlements in certain sections of the globe has tended to make investors lose sight of the past record of foreign securities in the American market, and at present is causing them to neglect unusual bargains now available.

STABILITY OF FOREIGN BONDS

There is a prevalent but mistaken belief that all foreign bonds have suffered severe price declines during the past year. In the table below is presented a list of foreing dollar bonds which shows the inaccuracy of any such sweeping assumption.

	Issue price	Price on Feb. 10 1931	Price range Jan. 1, 1930–Feb. 6, 1931	
			Low	High
Antwerp (city of) 5's, 1958	94	100	92	101
Austrian Government, 7's, 1943	90	105	102	108
Belgium (Kingdom of) 6's, 1955	87½	103	100¼	106
Copenhagen (city of) 5's, 1952	97¼	99¾	95¼	100½
Denmark (Kingdom of) 6's, 1942	94½	106¼	103½	107¼
Dutch East Indies 6's, 1962	94¾	102¾	101	103⅛
French Republic (Government of) 7½'s, 1941	95	126¾	117	127
French Republic (Government of) 7's, 1949	94	120⅝	112⅛	122
Greek Government 7's, 1964	88	99½	97	103¼
Imperial Japanese Government 6½'s, 1954	92½	104½	101½	105⅞
Lyons, Marseilles, Bordeaux (cities of) 6's, 1934	92½	104¼	102½	106⅝
Nord Railway Co. 6½'s, 1950	88½	106¾	102½	107⅜
Norway (Kingdom of) 5's, 1963	97½	101⅛	96¾	101½
Oriental Development Co. (Ltd.) 6's, 1953	92	98	92	100
Oslo (city of) 6's, 1955	99¼	101⅞	96¾	104
Paris-Lyons-Mediterranean R. R. Co. 6's, 1958	83	104¾	102	106⅞
Paris-Lyons-Mediterranean R. R. Co. 7's, 1958	93¼	106¾	103¼	107½
Paris-Orleans R. R. Co. 5½'s, 1968	96	103⅛	99¾	105¼
Seine (Department of the) 7's, 1942	90½	107⅜	106	109½
Soissons (city of) 6's, 1936	85½	105	101⅛	107
Swedish Government 5½'s, 1954	99½	105	102½	107¼
Switzerland (Government of) 5½'s, 1946	97½	105⅝	102½	106¼
Tokyo (city of) 5½'s, 1961	89½	92¼	87¼	93½
Yokohama (city of) 6's, 1961	93	97½	93½	99¼
United Steel Works of Burbach-Eich-Dudelange 7's, 1951	92½	105⅜	102	107⅜

The above table consists of foreign issues which not only showed during 1930 a degree of price stability equaled only by the very highest grade domestic securities, but which are also now selling at prices considerably above their original offering basis. This list includes governmental, municipal, railroad and industrial bonds of 10 countries. It is, of course, not representative of the entire field of foreign securities, but is by no means exhaustive of the large number of foreign dollar bonds with splendid records of stability and appreciation in price.

Another measure of the fundamental security of foreign dollar bonds as a class is furnished by the record of interest and capital payments by the great majority of borrowers in this market. This record is excellent and is such as to inspire confidence in the ability and intention of our leading foreign debtors to meet all commitments as they come due. In fact, many foreign issues in recent years have been called before maturity at substantial premiums. The table below presents a number of foreign issues of wide geographical distribution which have been or are in the process of being called before maturity.

	Amount	Issue price	Anticipated redemption price	Increment in principal over purchase price
City of Copenhagen, 5½'s, 1944	$15,000,000	93½	100	$975,000
Kingdom of Belgium, 7½'s, 1945	50,000,000	97¼	115	8,875,000
Government of Switzerland, 8's, 1940	25,000,000	100	105	1,250,000
Republic of France, 8's, 1945	100,000,000	100	110	10,000,000
Solvay & Cie, 8's, 1927	10,000,000	100	104	400,000
Kingdom of Norway, 8's, 1940	20,000,000	100	110	2,000,000
Kingdom of Denmark, 8's, 1945	25,000,000	100	110	2,500,000
City of Zurich, 8's, 1945	6,000,000	99½	107	450,000
City of Christiania, 8's, 1945	5,000,000	99	110	550,000
City of Berne, 8's, 1945	6,000,000	99	107	480,000
City of Bergen, 8's, 1945	4,000,000	98	110	440,000
Danish Consolidated Municipal Loan, 8's, 1946	15,000,000	98	107½	1,425,000
Kingdom of Belgium, 8's, 1941	30,000,000	100	107½	2,250,000
Republic of Chile, 8's, 1941	24,000,000	99	110	2,640,000
Dominican Republic, 8's, 1925	2,500,000	100	105	125,000
Republic of Chile, 8's, 1946	10,560,000	99½	110	1,102,500
Paris Orleans R. R., 7's, 1954	10,000,000	92¾	103	1,025,000
French Mail Steamship, 7's, 1949	10,000,000	91	103	1,200,000
Est Railroad, France, 7's, 1954	20,000,000	87½	105	3,500,000
Czechoslovak Republic, 7½'s, 1945	25,000,000	96	105	2,250,000
Ilseder Steel Corporation, 7's, 1946	7,500,000	94	103	675,000
French Line, 6½'s, 1951	4,500,000	91½	103	382,500
Total	425,000,000			41,535,000

This group of 22 issues, with a total principal amount of $425,000,000, was sold to the public for $416,015,000. In return, upon redemption, holders received a total of $460,550,000, or a net profit of $44,535,000, equivalent to 10.705 per cent upon their original investment. In the meantime, as long as these respective issues were outstanding, a weighted average return of 7.85 per cent in current interest was received punctually by investors.

CENTRAL EUROPE AND LATIN AMERICA

Turning now to the foreign issues which have shown marked declines in recent months, we find in almost every case that these situations are aspects of the current world-wide business depression, and, therefore, must be considered as largely transitory. Particularly in the case of central Europe and Latin America, we feel that the wholesale depression of bond prices, without discrimination as to the merits of each separate issue, has been greatly overdone.

The countries of central Europe have passed through a trying period of economic readjustment since the summer of 1929 and many serious problems remain to be solved. These difficulties have loomed large in the public press, but they appear less formidable if compared to the European situation of only seven or eight years ago. As late as 1923, postwar bitterness was still acute, the currency and banking systems of virtually all the countries of Europe were in a state of chaos, and, from surface indications, the Continent seemed to have been bled beyond power of recovery. Since then Europe's resilience and recuperative vitality have been demonstrated. Now, after a decade of reconstruction and growing stability, with sound systems of currency and finance firmly established, and with central bank cooperation initiated under the Bank for International Settlements, there is ground for confidence in the ability and willingness of European nations to honor their debts.

In Latin America, similarly, all of the responsible governments have accepted as a corner stone of their policies the strict observance of external obligations. Furthermore, the revolutions which last year overturned in quick succession several of the leading governments in this part of the world were not of such nature as to arouse undue apprehension for anyone with a clear understanding of each situation. While economic distress and unemployment caused by the world-wide business depression and the decline in commodity prices provided added momentum to the popular support for the revolutionary movements, and thus insured their success, the basic reasons for the overthrow of the existing governments differed substantially in each of the countries involved. It was characteristic of each of the movements, however, that a growing civic consciousness appears to have caused the leaders of the revolution to seek the active support of the general public on the basis of honesty and efficiency in the public administration. Nevertheless, in most of the countries involved, the continued depression has resulted in lower government revenues, loss of gold and serious foreign exchange, currency and credit problems which contribute to make interest and sinking fund payments on external loans increasingly difficult. While it is not possible to anticipate much improvement while world prices for primary commodities remain at their present low level, any general recovery in conditions of world trade would probably be reflected most rapidly in the raw material producing countries of Latin America.

REPATRIATION OF FOREIGN BONDS

One reason for the stability of foreign bonds in certain cases has been repatriation through purchases by nationals of the issuing countries. This support of their own obligations has been particularly notable in the case of the French, Dutch, Belgian, Scandinavian, and Irish issues, and, to a lesser extent, in the case of Austrian and Greek securities. On the other hand, tight monetary conditions at home and the lack of internal investment power have been important factors in the recent price declines of central European and Latin American issues. As business recovers and confidence is restored we can anticipate that the current plethora of short-term funds in leading financial centers will seek an outlet in more profitable long-term investments, and thus cause a gradual easing of credit conditions throughout the world. Falling interest rates at home, together with the high yields now obtainable on dollar obligations, should lead in turn to a more rapid repatriation of these securities, and provide the basis for stronger and more stable markets in the United States. Already there is evidence of such a trend, particularly in the case of certain German issues,

which are currently quoted in Germany at slightly higher prices than in the United States.

In surveying the field of foreign investments, one should not overlook the fact that many of the issues currently selling at relatively low yields, or recently called at substantial premiums, were quoted only a few years ago at prices roughly comparable to those of the foreign bonds now so acutely depressed. Striking evidence of this change is afforded by the list of securities recommended in the first of these foreign bond circulars, which was published in 1924. This list with current prices contrasted with those in 1924 is quoted below and furnishes its own forceful commentary. Although of course no such analogy is strictly accurate, it is well to emphasize that these issues were underpriced in 1924 for much the same considerations as now affect central European and Latin American bonds, and there is good reason to believe that the present depressing influences are no more permanent in character than were those in 1924:

	Price June 19, 1924	Price Feb. 10, 1931
Kingdom of Netherlands 6's, 1954	99¾	(1)
City of Rotterdam, 6's, 1964	98	104
Czechoslovak Republic, 8's, 1952	96¾	110¼
Japanese Government, 6½'s, 1954	90⅝	104½
Swiss Government, 5½'s, 1946	96⅞	105⅝
Republic of Finland, 6's, 1945	89¾	87
Austrian Government Gtd., 7's, 1943	91¼	105
Oriental development, 6's, 1953	85	98
Republic of Haiti, 6's, 1952	91	95⅜
Republic of France, 8's, 1945	101¾	(2)
Kingdom of Denmark, 6's, 1942	97¾	106⅛
Kingdom of Norway, 6's, 1943	96½	105¾
P. L. M. Railway, 6's, 1958	77⅛	104¾
Department of the Seine, 7's, 1942	88⅛	107⅜

[1] Called at par. [2] Called at 110.

In conclusion, we believe that foreign credits as a class are still sound, that their past record entitles them to confidence, and that the future abroad holds forth promise of eventual economic recovery just as it does in the United States. It is not our intention to make a blanket recommendation of all foreign bonds, nor do we believe that any investor should place too large a proportion of his funds in this class of securities. Careful discrimination and sound diversification in the field of foreign investments are no less essential than in the case of domestic securities. Within the limits of sound investment principles, however, we feel confident that many unusual bargains are now available in foreign dollar bonds which will attract a steadily growing number of investors. In some cases, depending upon conditions, we believe that sound diversification warrants placing 25 per cent of one's holdings in foreign issues, yielding, as they do at present, a higher average return than any other class of investments of comparable security.

COMPARISON WITH DOMESTIC YIELDS

The character of these bargains may be judged by comparing the current average yields on high-grade domestic bonds with yields on a selected list of foreign issues. As computed by the Standard Statistics Co., high-grade domestic bond yields on February 4, 1931, were as follows:

	Per cent
15 industrials	5.07
15 utilities	4.56
15 railroads	4.29
15 municipals	3.95
Average, 60 bonds	4.47

We present on the following page a list of foreign issues, with prices and yields as of February 10, 1931, which we recommend both from the standpoint of fundamental security and attractiveness of yield. The present average yield on these bonds is 7.36 per cent, or 2.89 per cent more than the average yield on 60 high grade domestic bonds.

Foreign bond suggestions

	Issue	Price	Yield
			P. ct.
Argentine Nation (Government of)	6's, 1961	90½	6.74
Austrian Government	7's, 1957	96⅜	7.31
Belgium (Kingdom of)	7's, 1955	112¾	5.99
Chile (Republic of)	6's, 1961	80⅛	7.70
Cuba (Republic of)	5½'s, 1953	97⅜	5.71
Finland (Republic of)	5½'s, 1958	81⅜	7.05
German external loan	7's, 1949	102¼	6.79
German Government international loan	5½'s, 1965	76⅜	7.38
German Central Bank for Agriculture (second series)	6's, 1960	79½	7.78
German General Electric Co. (A. E. G.)	6's, 1948	86½	7.39
Greek Government	6's, 1968	85	7.16
Imperial Japanese Government	5½'s, 1965	93½	5.94
Italy (Kingdom of)	7's, 1951	98⅝	7.12
Lautaro Nitrate Co. (Ltd.)	6's, 1954	59¼	10.81
Mortgage Bank of Chile	6's, 1961	78	7.92
Norwegian Hydro-Electric Nitro-Gen. Corporation	5½'s, 1957	99¼	5.51
Oriental Development Co. (Ltd.)	5½'s, 1958	91⅜	6.12
Panama (Republic of)	5's, 1963	88	5.83
Rhine Westphalia Electric Power Corporation	6's, 1955	70	7.97
Sao Paulo (State of)	7's, 1940	82½	9.83
Saxon Public Works (Inc.)	7's, 1945	84¼	9.00
Vienna (city of)	6's, 1952	87½	7.14

THE NATIONAL CITY CO., NATIONAL CITY BANK BUILDING, NEW YORK

Offices throughout the metropolitan district
Other domestic and foreign offices are as follows:

Albany, N. Y.
Atlanta, Ga.
Atlantic City, N. J.
Baltimore, Md.
Birmingham, Ala.
Boston, Mass.
Buffalo, N. Y.
Chicago, Ill.
Cincinnati, Ohio.
Cleveland, Ohio.
Dallas, Tex.
Davenport, Iowa.
Denver, Colo.
Detroit, Mich.
Hartford, Conn.
Houston, Tex.
Indianapolis, Ind.
Kansas City, Mo.
Los Angeles, Calif.
Louisville, Ky.
Memphis, Tenn.
Milwaukee, Wis.
Minneapolis, Minn.
Newark, N. J.
New Orleans, La.
Oakland, Calif.
Omaha, Nebr.
Pasadena, Calif.
Philadelphia, Pa.
Pittsburgh, Pa.
Portland, Me.
Portland, Oreg.
Providence, R. I.
Rochester, N. Y.
St. Louis, Mo.
St. Paul, Minn.
Salt Lake City, Utah.
San Diego, Calif.
San Francisco, Calif.
Scranton, Pa.
Seattle, Wash.
Syracuse, N. Y.
Tacoma, Wash.
Toledo, Ohio
Washington, D. C.
Wilkes-Barre, Pa.
Worcester, Mass.
Montreal, Canada.
Toronto, Canada.
Ottawa, Canada.
Quebec, Canada.
London, E. C. 2, England.
Manchester, England.
The Netherlands.
Amsterdam.
The Hague.
Geneva, Switzerland.
Tokyo, Japan.
Shanghai, China.

Senator JOHNSON. I offer for the record a statement furnished me by Hon. R. P. Lamont, Secretary of Commerce, giving me such data as the Department of Commerce has upon the concessions which have been granted to American corporations and Americans in Latin America, and without reading, may I submit it as a part of the record, please.

The CHAIRMAN. It may be printed as a part of the record at this point.

(Letter from R. P. Lamont, Secretary of Commerce, to Senator Johnson, together with inclosure concerning concessions in Latin-America, are here printed in the record in full, as follows:)

DEPARTMENT OF COMMERCE,
OFFICE OF THE SECRETARY,
Washington, January 13, 1932.

Hon. HIRAM W. JOHNSON,
United States Senate, Washington, D. C.

MY DEAR SENATOR: In response to your letter of January 7, receipt of which was acknowledged on the 11th, requesting information on concessions in Latin America granted to a specified group of American companies, I take pleasure in sending you herewith such information as we have been able to develop on the subject.

The information has been compiled from such data and works of reference as we have available, and although it is not complete for the reason that the activities of the American companies you specified in many instances are carried on through subsidiary organizations, affiliates and foreign incorporated entities not reported on, I hope you will find it helpful in your work.

Again assuring you of my desire to be of service, I am,

Very sincerely,

R. P. LAMONT,
Secretary of Commerce.

FREDERICK SNARE & CO.

Colombia.—Under Law No. 33, 1931, the Colombian Government was reported as having granted an option to Frederick Snare & Co. to build on a concession basis, new docks at Cartagena. It is believed the option has not been exercised due to failure to secure financing for the project.

Peru.—In February, 1928, the Peruvian Government awarded a contract to Frederick Snare & Co. for the construction of new port works at Callao. The work was said to have been undertaken on a lump-sum basis. By supplemental contract, Snare & Co. undertook the management of the Government's port works at Callao in the capacity of agents for the Peruvian Government. Details concerning the contracts are not available.

WARREN BROS.

Available information indicates that Warren Bros. have not obtained concessions from Latin American Governments, but performed their work mainly under contracts secured on a competitive basis.

Argentina.—Warren Bros. Co. of Argentina, a subsidiary of Warren Bros. Co., obtained contracts in September, 1925, and November, 1926, from the municipality of Avellaneda for the paving of some 358 city blocks. Subsequent contracts covering paving in six other cities were obtained.

Chile.—Warren Bros. incorporated a subsidiary company in this Republic in 1928. In the same year (July) they were awarded by the Government a 300,000 square meter paving contract in the city of Santiago. In August, 1930, the company was awarded, by the national Government, a 60,000 square meter paving contract in the city of Antofagasta. The company has also done paving work in two other Chilean cities.

Colombia.—Incomplete information from Bogota indicates that that municipality awarded contracts, in 1928 and 1929, to Warren Bros., principally for street paving.

Cuba.—Warren Bros. bid for and were awarded a contract in December, 1926, by the Cuban Government, for the construction of that section of the Cuban National Highway passing through the Provinces of Pinar del Rio, Habana, Camaguey, and Oriente.

Guatemala.—Warren Bros. were reported as having obtained a contract from the municipality of Guatemala for street-improvement work. It appears that the contract was awarded either late in 1929 or early in 1930, and was obtained in competition with other contracting firms.

ULEN CO.

No detailed and complete knowledge is had of any concessions alleged to have been obtained by the Ulen Co. This enterprise has, at different times in the past, been awarded construction contracts in Latin America. The available information regarding these contracts is set out below.

Bolivia.—The Government of Bolivia awarded the contract for the construction of the Atocha-Villazon Railway to the Ulen Co. in 1921. In 1925 the company was awarded a contract by the Government for the installation of sewerage systems in La Paz and Cochabamba.

Brazil.—The State government of Maranhao entered into a contract with Ulen & Co., in March, 1923, covering the rehabilitation of the public utilities of the city of Sao Luis (population 50,000); modern system of sewers, water, light, power, traction. The arrangement also provided for management on the part of Ulen & Co. for a term of years.

Chile.—The Government of Chile was reported to have awarded a contract to Ulen & Co., in 1929, for the construction of the Recoleta irrigation works, also, the La Guna and Juntas del Carmen irrigation dams.

Colombia.—In July, 1929, the Government of Colombia awarded a contract covering the Bocas de Ceniza project (dredging the mouth of the Magdalena River and construction of port works at Barranquilla) to the Ulen Co. The contract was closed out in 1929, although the work was still incomplete.

STANARD OIL CO. OF NEW JERSEY

Argentina.—The Standard Oil Co. of New Jersey, through local subsidiary companies, holds oil-land rights in the Territory of Neuquen and the Province of Salto. These rights, it appears, were granted some time prior to 1924; probably in 1922. The government of the Province of Salto contested the oil companies' rights to lands in the Province, but in 1931 entered into an agreement, which is to be ratified by provincial legislature before the end of 1932, whereby oil people, for a period of 30 years, will pay a royalty of 10 per cent on total monthly production, either in cash or in kind, to the province.

Bolivia.—The Standard Oil Co. of Bolivia, a subsidiary of the Standard Oil Co. of New Jersey, obtained a concession from the national Government of Bolivia covering 1,000,000 hectares of land in the Departments of Santa Cruz, Chuquisaca, and Tarija. In addition the company also holds 581,090 hectares of land in these Departments under fee concessions in accordance with the petroleum laws. The 1922 concession provided for:

1. Drilling a well for each 50,000 hectares, viz., 20 wells in 7 years or (*a*) renouncing portions not drilled, or (*b*) producing 2,000,000 barrels of oil annually, or (*c*) paying increasingly heavy duty rentals.
2. Paying the Government 11 per cent royalties on oil produced.
3. Concessions valid for 55 years after which wells, pipe lines, refineries, etc. revert to Government without reimbursement.
4. Company to pay no taxes except land rentals and profits taxes.
5. All controversies to be decided by the Supreme Court of Bolivia. After 10 years difficulties to be settled by arbitration.

Chamber of Deputies debated cancellation of concession in August, 1931, claiming company had not produced oil as required by terms of concession. Decided that failure to produce oil as required was proper in view of world oil situation.

Colombia.—The Tropical Oil Co., a subsidiary of the International Petroleum Co. (Ltd.), a Canadian enterprise controlled by the Standard Oil Co., of New Jersey, operated in Colombia over a 30-year concession granted by the national Government on August 15, 1919. The original concession was granted to the Colombian General Demares in 1905 who later transferred it to American interests. It is believed that the Colombia Government receives a 10 per cent royalty on net production based on New York prices.

The Andian Pipe Line Co., controlled by the Imperial Oil Co. of Canada, which in turn is controlled by the Standard Oil Co. of New Jersey holds a 50-year concession, granted by the national Government of Colombia in October, 1924. It is believed that this company pays a royalty to the Government on the value of petroleum run through its pipe lines. The Andian Pipe Line Co. has expended to date approximately $30,000,000 in pipe lines, terminals, etc.

Ecuador.—The International Petroleum Co., a subsidiary of the Imperial Oil Co. of Canada, controlled by the Standard Oil Co. of New Jersey, obtained

acreage by denouncement under old laws, in 1916. Later it purchased several private properties. The company is believed to have ceased operations in Ecuador in 1927.

Mexico.—The Standard Oil Co. of New Jersey operates in this Republic through a local subsidiary concern known as the Transcontinental Oil Co. It is not definitely known that this latter company has acquired any concessions under the new Mexican petroleum law. It appears that its holdings were acquired prior to 1920.

Peru.—The International Petroleum Co., a subsidiary of the Imperial Oil Co. of Canada, controlled by the Standard Oil Co. of New Jersey, purchased in 1922 the holdings of the London & Pacific Petroleum Co. and its subsidiary, the Lagunitas Oil Co., comprising the lands known as Lagunitas, La Brea, and Negritos. In March, 1931, the International Petroleum Co. was granted permission to use company tankers for transporting oil to Peruvian coast ports. This permission does not constitute a concession or monopoly, but is rather an exception to the Peruvian coastwise shipping law.

Venezuela.—From available data it is not possible to show the involved set-up of the Standard Oil Co. of New Jersey in this oil-producing area. The Standard Oil Co. of Venezuela, controlled by the Standard Oil Co. of New Jersey, and other subsidiaries hold numerous concessions for the exploitation and development of oil-bearing lands which were obtained from the Venezuelan Government in the last 10 or 15 years. Under the Venezuelan law any national or foreign person or company may obtain concessions from the national Government in return for which the concessionaire pays royalties, ranging up to 15 per cent of the commercial value of the mineral exploited.

THE TEXAS CORPORATION

Colombia.—The Texas Corporation holds lands in this Republic acquired from private interests. It does not appear to have any concessions in Colombia and is not believed to be developing or exploiting any of the holdings it has acquired.

Mexico.—A subsidiary of the Texas Corporation has lands in this Republic which it is believed were acquired prior to May 1917. The lands have been developed. It is not known of the subsidiary company has obtained any concessions to drill and exploit new petroleum lands since the passage of the Mexican petroleum law of 1925.

Venezuela.—Under the Venezuelan laws nationals or foreign persons or companies may obtain concessions from the national Government for the exploitation and development of oil-bearing lands. In return for the concessions granted holders pay to the Government certain small surface taxes and royalties, ranging up to 15 per cent of the commercial value of the mineral exploited. It appears that the Texas Corporation first entered Venezuela in 1924, and at various times since then through direct concessions, transfers and the acquirement of holdings from other companies has obtained considerable acreage. According to Moody's Manual of Investments (1931 edition), the Texas Corporation owns a half interest in the California Petroleum Corporation of Venezuela which in turn holds 679,568 acres in Venezuela in concessions for exploration and or development. Concessions in Venezuela are valid for 40 years from the date they are granted.

SINCLAIR OIL CO.

Colombia.—Available information indicates that the Sinclair Oil Co. through the Cordillera Petroleum Corporation has contracts covering certain oil lands in Colombia. There are no data at hand showing when or how the Cordillera Petroleum Corporation acquired its properties.

Mexico.—The Sinclair Oil Co. operates in Mexico through its subsidiary, the Mexican Sinclair Petroleum Co. The subsidiary company is believed to have acquired its holdings prior to 1917. The lands have been developed. It is not known if the Mexican Sinclair Petroleum Co. has obtained any concessions to drill and exploit new petroleum lands since the passage of the Mexican petroleum law of 1925.

Venezuela.—Moody's Manual, 1931 edition, states as follows:

"Venezuela Petroleum Co. (controlled by Sinclair Consolidated Oil Corporation), incorporated under Delaware laws April, 1922, to acquire and develop properties formerly held by Kunhardt & Co. (Inc.), of New York

and Venezuela, has royalty or working interest in or owns 11 concessions totaling about 182,660 acres of developed and prospective oil territory in the Lake Maracaibo Basin and State of Monagas, Venezuela. Controls, through subsidiaries, 385 petroleum exploration concessions having a total area of approximately 9,500,000 acres. Contracts: Gulf Oil Corporation, through subsidiaries, is operating, exploring, and developing in the Lake Maracaibo Basin 10,161 acres on 7 per cent royalty basis, free of all expenses and out of oil produced, and 18,750 acres on a royalty basis from 2½ to 10 per cent free of all expenses and out of oil produced. In the same district subsidiaries of Standard Oil Co. of California are developing 25,000 acres on a 50 per cent working interest basis and 68,750 acres on a 35 per cent working interest basis. Development operations on part of company's acreage in the State of Monagas, Eastern Venezuela, will be started in 1931 under contracts with Creole Petroleum Corporation (subsidiary of Standard Oil Co. of New Jersey) and Venezuelan Atlantic Refining Co. (subsidiary of Atlantic Refining Co.) Control: In December, 1928, Sinclair Consolidated Oil Corporation acquired 1,001,000 shares in exchange for 425,000 shares of the capital stock of the Apure-Venezuelan Petroleum Co., having an authorized capital of 500,000 shares, owning certain concessions to explore for oil and has in the State of Apure, Venezuela, 240,000 shares of the capital stock of Zamora-Venezuela Petroleum Corporation, having an authorized capital stock of 300,000 shares, owning certain concessions in Zamora, Venezuela; 22,500 shares of the capital stock of Eastern Zamora Oil Field (Inc.), having an authorized capital of 25,000 shares, owning certain concessions in Eastern Zamora, Venezuela; all the capital stock of the Cordillera Petroleum Corporation, having an authorized capital of 1,000 shares, owning certain concessions in Venezuela * * *."

GULF OIL CO.

Colombia.—The South American Gulf Oil Co. acquired the Barco concession, in the eastern part of Colombia, in January, 1926. This concession was originally granted to General Baro (Colombian) in 1905 for a period of 50 years. It was transferred to American interests in 1918. The concession was canceled in February, 1926, by President Ospina and the cancellation reaffirmed by President Mendez on August 4 and December 1, 1928. The matter was referred to the supreme court of Colombia. The Gulf interests acquired the concession in January, 1926. In June, 1931, the Government, with the sanction of Congress, approved the concession for a period of 50 years. Royalties: 10 per cent at well head or 6 per cent at tidewater, payable in cash or oil. Land rental $25,000 per annum until royalties exceeded that sum. The South American Gulf Oil Co. is now carrying on exploration and preliminary development work.

Mexico.—The Mexican Gulf Oil Co., a subsidiary of the Gulf Oil Co., is believed to have acquired holdings in Mexico prior to 1917. Moody's Manual of Investments, 1931 edition, states: "Mexican Gulf Oil Co., incorporated July 31, 1912, in Delaware to prospect for and produce petroleum in Mexico. In September, 1929, the Mexican Government authorized the company to suspend operations in Mexico. Company to retire from this field. Properties consist of oil leases, pipe lines, and ocean terminal in Mexico."

Venezuela.—From the information available, it is impossible to accurately define all the ramifications of the Gulf Oil Co. in Venezuela. The Venezuela Gulf Oil Co., a subsidiary of the Gulf Oil Co., is known to hold several tracts of land obtained by concession, and in conformity with the oil laws. When the company obtained its concession is not definitely known, but most of them probably were acquired between 1922 and 1925. The concessionaires are believed to be paying royalties ranging from 7½ to 10 per cent on production to the national government.

INTERNATIONAL TELEPHONE & TELEGRAPH CO.

The above-named enterprise, either in its own name, its controlled All America Cables (Inc.), or through local subsidiary companies operates throughout Latin America.

No information is had, other than that set out below, regarding the operating permits, rights, contracts, concessions, franchises, etc., held by the enterprise and its subsidiary concerns.

Argentina.—Acquired a controlling interest, in 1927, in the Compania Telephonica Argentina operating a telephone service in the city of Buenos Aires. In 1928 the Compania Internacional de Radio (Argentina) was formed to operate a radio telephone and telegraph service in Argentina. A controlling interest in the United River Plate Telephone Co. (Ltd.), operating a general telephone service in Argentina, was acquired in 1929. All American Cables (Inc.), a subsidiary of the International Telephone & Telegraph Co., has rights covering the operation of a cable service in Argentina.

Bolivia.—The All America Cables (Inc.) has rights covering the operation of a cable service with Bolivia.

Brazil.—In 1927 the International Telephone & Telegraph Co. acquired a controlling interest in the Companhia Telephonica Rio Grandense, which operates a telephone service in the State of Rio Grande do Sul. The Radio Internacional Ltda. (Brazil) was organized in 1928 to operate a radio, telephone and telegraph service in Brazil. A concession contract is believed to have been granted the company in August 1930. The All America Cables (Inc.) has rights covering the operation of a cable service with Brazil.

Chile.—In 1927 a controlling interest was acquired by the International Telephone & Telegraph Co. in the Chile Telephone Co. operating a telephone service in Chile. Organized the Compania Internacional de Radio S. A. (Chile) in 1928 to operate a radio telephone and telegraph service in Chile. Organized the Compania de Tepefonos de Chile in 1930 in accordance with the provisions of the concession granted by the Chilean Government; has a 50-year concession for extending lines to all parts of the country and abroad. The All America Cables has rights covering the operation of a cable service with Chile.

Colombia.—In 1929 a radio telephone and telegraph concession was acquired in Colombia by the All America Cable Co.

In September, 1927, All America Cables (Inc.) was given a concession by the Government of Colombia for a submarine cable service between Barranquilla, Colombia, and Colon, Panama, and took over government land line between Buenaventure and Bogota, Colombia. All America Cables obtained a concession in June, 1931 to install a wireless and radio station in Medellin, Colombia.

The International Telephone & Telegraph Co. was granted a concession for radio telephone service between Bogota and Buenaventura Colombia.

Costa Rica.—All America Cables (Inc.) has rights covering the operation of a cable service with Costa Rica.

Cuba.—In 1920-21 the International Telephone & Telegraph Co. acquired a controlling interest in the Cuban Telephone Co., also half interest in the Cuban-American Telephone & Telegraph Co. All America Cables (Inc.) has rights covering the operation of a cable service with Cuba.

Dominican Republic.—All America Cables (Inc.) has rights covering the operation of a cable service with Dominican Republic.

Ecuador.—All America Cables (Inc.) has rights covering the operation of a cable service with Ecuador.

Guatemala.—All America Cables (Inc.) has rights covering the operation of a cable service with Guatemala.

Haiti.—All America Cables (Inc.) in 1929 took over operation of United States & Haiti Telegraph & Cable Co.'s cable from New York to Cape Haytien and the cables of the French Antilles System connecting Cuba, Haiti, and Santo Domingo, Porto Rico, St. Thomas, Curacao, and Venezuela.

Honduras.—All America Cables (Inc.) has rights covering the operation of a cable service with Honduras. The Honduran Government in August 1931 approved a contract with the International Telephone & Telegraph Co. for the installation of a new telephone system in the city of Tegucigalpa.

Mexico.—The International Telephone & Telegraph Co. in 1925 acquired a controlling interest in the Mexican Telephone & Telegraph Co., operating a general telephone service in Mexico. All America Cables (Inc.) has rights covering the operation of a cable service with Mexico.

Nicaragua.—All America Cables (Inc.) has rights covering the operation of a cable service with Nicaragua.

Panama.—All America Cables (Inc.) has rights covering the operation of a cable service with Panama.

Peru.—All America Cables (Inc.) in 1929 obtained a concession to operate radio telephone and telegraph services in Peru. The International Telephone & Telegraph Co., in 1930 acquired a controlling interest in the Compania Peruana de Telephonos Ltda. operating a telephone service in Peru. All America Cables (Inc.) has rights covering the operation of a cable service with Peru.

Salvador.—All America Cables (Inc.) has rights covering the operation of a cable service with Salvador.

Uruguay.—The International Telephone & Telegraph Co. in 1927 acquired an interest in the Montevideo Telephone Co. (Ltd.), also the Sociedad Cooperativa Telephonica Nacional, both of which operate a telephone service in Uruguay. The All America Cables (Inc.) has rights covering the operation of a cable service with Uruguay.

Venezuela.—The All America Cables (Inc.) in December, 1929, obtained a concession from the Government of Venezuela for taking over the French Cable Co. The company was also granted the privilege to inaugurate a telephone service through the medium of its cables.

RADIO CORPORATION OF AMERICA

Available information fails to disclose that the above named enterprise holds concessions granted by Latin American Governments. If the enterprise has concessions they probably were granted to local companies incorporated in the several countries with which communication is obtained. The R. C. A. Communications (Inc.), a subsidiary of the Radio Corporation of America, maintains a direct circuit service to Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Panama, and Venezuela.

WESTINGHOUSE ELECTRIC CO.

Available information fails to disclose the granting of any concessions to the above named enterprise or its subsidiaries by Latin American Governments.

AMERICAN TELEPHONE & TELEGRAPH CO.

Cuba.—Moody's Manual, 1931 edition, states that the American Telephone & Telegraph Co. owns a half interest in the Cuban American Telephone & Telegraph Co., which was incorporated in 1919 and which holds a concession from the Cuban Government for submarine communications service between the United States. The nature and terms of the concession are not known. The American Telephone & Telegraph Co., it is believed, has no other interests in Latin America.

FOUNDATION CO.

Available information does not disclose that the Foundation Co. obtained concessions in Latin America, although the enterprise has been active in construction work in that area during the past 11 years. The activities of the company seemingly have been confined mainly to Peru and Bolivia where it constructed roads, sanitation works, buildings, etc., mostly for the account of the national governments. The company has also been reported to have done construction work in Argentina, Chile, and Colombia.

AMERICAN & FOREIGN POWER COMPANY (INC.)

The above enterprise, it is believed, does not have any concessions in Latin America since it is primarily a holding company organized to acquire participation in operating properties. Many of the operating properties, which serve some 870 communities, hold franchises but the nature of such franchises is not known.

Regarding the American & Foreign Power Company (Inc.), Moody's Manual, 1931 edition, states as follows:

"History: Incorporated under the laws of Maine, on December 19, 1923. Its objects, as stated in its certificate of organization, are those of holding companies generally, with power to acquire and hold stocks and securities of other corporations and to assist, financially or otherwise, the corporations in which it is interested. It is the primary policy and object of the company to acquire securities representing controlling interests in public utility enterprises, to consolidate the operating companies into larger operating units (to the extent practicable under the laws of the countries in which the companies operate),

to simplify their corporate and capital structures, to assist in financing their development through the issuance of the company's own securities, and to supply to the operating companies the advantages and economics of group management.

"American & Foreign Power Co. (Inc.) owns directly or indirectly substantially all of the common stock (and in some cases various amounts of preferred stock as well as certain indebtedness) of companies supplying electric power and light and other public utility service to a total of 870 communities in Cuba, Argentina, Brazil, Chile, Mexico, Panama, Guatemala, Ecuador, Colombia, Venezuela, and Costa Rica and in the International Settlement of Shanghai, China, and some surrounding districts. * * *

"In 1923 the properties of all the Cuban companies then owned, except the street-railway properties later disposed of, were leased to the Compania Cubana de Electricidad (Inc.). On May 1, 1928, the newly formed Compania Cubana de Electricidad, which is controlled by Habana Electric & Utilities Co., acquired substantially all properties in Cuba controlled directly or indirectly by American & Foreign Power Co. (Inc.), including properties previously operated by the old Compania Cubana de Electricidad (Inc.); the electric has property formerly owned by Habana Electric Railway, Light & Power Co., together with electric, water, and ice properties formerly owned by Cuba-Hydro-Electric Co. and certain other properties in the Island of Cuba.

"On October 1, 1927, South American Power Co. was acquired from Electric Bond & Share Co. for 364,175 shares of second preferred stock, series A, of American & Foreign Power Co. (Inc.), accompanied by 1,456,700 option warrants.

"Company acquired control of the Mexican Utilities Co. in June, 1928, through exchange of shares. In September, 1928, company's subsidiary, Empresas Electricas Brasileiras acquired the utility property of the city of Pernambuco, including Pernambuco Tramways & Power Co. (Ltd.). In October, 1928, company contracted to acquire, as of January 1, 1929, from Whitehall Electric Investments (Ltd.) latter's holdings in Chile and Mexico. These properties included Compania Chilena de Electricidad (Ltda.) of Santiago and Compania de Electricidad de Valparaiso, both serving important cities of Chile and the west coast of South America, and Compania Electrica de Tampico, S. A.; Compania Hidro-Electrica; Puebla Tramway, Light & Power Co.; Vera Cruz Electric Light, Power & Traction (Ltd.); Compania de Luz Electrica y Fuerza Motriz de Orizaba, S.A.; and Compania Electrica de Cordoba, S.A.; supplying electric power and light and street railway service in Mexico. There was also acquired, during the year, control of other electric power and light companies in Mexico, including those in Merida, Torreon, Aguascalientes, Salvatierra, Irurango, Zacatecas, and Mazatlan, and also the water property of Mazatlan and the street railway system in Torreon.

"In February, 1929, company purchased from Atlas Light & Power Co. (Ltd.) all of latter company's interest in electric supply and traction companies operating in Argentina. In May, 1929, acquired Empresa Duranguena de Luz Electrica, S. A. in Mexico. In 1929 also acquired control of Northern Mexico Power & Development Co. (Ltd.), North State Power Co. (Ltd.), and the electric light and power system of the International Settlement in Shanghai, China. * * *

"In September, 1929, acquired control of Compania Anonima Luz y Fuerza Electrica de Los Teques, supplying power and light service in Los Teques, Venezuela. In December, 1929, acquired control of Empresa Luz y Fuerza de Mendoza in Argentina. This company supplies electric power and light and transportation service in Mendoza, Godoy Cruz, Guaymallen, and Las Heras, and electric power and light service in Lujan de Cuyo and Maipu and serves a population reported at approximately 216,000. Other smaller properties were acquired by company's operating subsidiaries in Argentina during 1929.

"Principal acquisitions by company's Brazilian subsidiaries during 1929 were the electric power and light and street-railway properties serving Bello Horizonte, capital of the State of Minas Geraes, which were bought from the State; control of Southern Brazil Electric Co. (Ltd.), which owns operating companies supplying electric power and light and other utility service in Campinas, Amparo, Piracicaba, Itapira, and 35 other towns in the State of Sao Paulo; control of Companhia Taccao Luz e Forca de Florianopolis, supplying electric power and light service in Florianopolis (the capital of the State), San Jose, and Bizuassu, in the State of Santa Catharina; Empreza Melhoramentos Urbanos de Paranagua, in the State of Parana; and the government-owned electric power and light and street-railway properties supplying

BEST AVAILABLE COPY

service to Natal, capital of the State of Rio Grande do Norte. Numerous smaller properties in the State of Sao Paulo were also acquired by a one-half interest (the other one-half being owned by prominent citizens of India) in Tata Hydro-Electric Agencies (Ltd.), of Bombay, India, a company supervising operations of a group of hydroelectric companies. This group produces and transmits power and sells this power to the local electric power and light and street railway company in Bombay and to numerous cotton mills and other large power users there. Total electric generating station capacity of the supervised companies is 183,500 kilowatts. During 1929 company disposed of its minority interests in Spain and at the end of the year owned minority interests in companies with interests in utility properties in Canada, Japan, Italy, France, Germany, and India.

"The most important Brazilian acquisition during 1930 was the purchase in March, 1930, of the securities of Rio Grandense Light & Power Syndicate (Ltd.), supplying electric power and light and transportation service in the city of Pelotas (population, 64,000), State of Rio Grande do Sul. Acquisitions in Chile during 1930 included control of Empresa Electrica de Los Andes, supplying electric power and light service in Los Andes, and 10 other communities, and Compania Electrica del Departamento Limache (Ltda.). Compania Electrica de San Felipe as well as the electric properties in Quillota and La Cruz. During 1930 properties were purchased in 13 communities in Cuba located in the Provinces of Santa Clara, Matanzas, Camaguey, and Oriente. These, in addition to 12 other communities, added to company's lines during the year, are located generally along company's transmitting system. In 1929 the hydroelectric plants owned by Atoyac Textil, S. A., Mexico, were acquired by Compania Electrica Mexicana, S. A., and leased to Puebla Tramway, Light & Power Co., of Compania Electrica, S. A., consisting of transmission and distribution systems, service six communities in western Michoacan and in southeastern Jalisco. In June, 1930, Empresas Electricas Mexicanas (Inc.) was formed as a subsidiary holding company to control American & Foreign Power Co. (Inc.) interests in Mexico. In August, 1930, Compania Electrica Mexicana, S. A., a subsidiary, acquired the properties and concessions of Compania Hidro-Electrica de Puebla y Tlaxcala, S. A., a cooperative project which had been formed in 1926 by 27 industrial power customers of Puebla Tramway, Light & Power Co., with the object of acquiring and developing a hydroelectric project at a point in the State of Vera Cruz known as Las Minas, approximately 75 miles from the city of Puebla. In September, 1930, Compania Colombiana de Electricidad acquired electric properties together with long term and satisfactory concessions in the following communities in Colombia, all of which are interconnected: Girardot, Tocaima, Agua de Dios, and Flandes. Acquisitions in Venezuela in 1930 included electric properties and concessions in La Victoria, San Felipe, Turmero, Cagua, together with a concession to operate in San Mateo, in which community service has since been inaugurated. In May, 1930, Compania Venezolana de Electricidad was incorporated for the purpose of consolidating American & Foreign Power Co. (Inc.) interest in properties controlled in Venezuela. During 1930 the new company acquired the properties previously owned by two associated companies, Compania Anonima Venezolana de Luz and Venezuela Electric Light Co. (Ltd.). In June, 1931, all of the Venezuela properties of American & Foreign Power Co. (Inc.) were owned and operated by Compania Venezolana de Electricidad. * * *

"Service and property: Operating subsidiaries controlled by American & Foreign Power Co. (Inc.) at December 31, 1930, served on that date a total of 870 communities in Cuba, Argentina, Brazil, Chile, Mexico, Panama, Guatemala, Ecuador, Colombia, Venezuela, and Costa Rica and in the International Settlement of Shanghai, China, and some surrounding districts. They supplied electric power and light service in 846 communities, manufactured gas in 8 communities, water service in 14 communities, transportation service in 48 communities, telephone service in 60 communities, and operated ice plants in 40 communities. Total population of the territory served by all operating subsidiaries is 12,762,000."

GUGGENHEIM NITRATE INTERESTS

The Anglo-Chilean Consolidated Nitrate Corporation was organized under the laws of Delaware in December, 1924, to acquire the assets of the Anglo-Chilean Nitrate & Railway Co. (Ltd.), consisting of about 60 square miles of nitrate deposits, nitrate plants, 120 miles of railway trackage. In September, 1924, it purchased some 35 square miles of nitrate lands from the Chilean

BEST AVAILABLE COPY

Government and later constructed the "Maria Elena" processing plant. Acquired control in 1929 of the Lautaro Nitrate Company (Ltd.), owning more than 1,100 square kilometers of nitrate lands and 26 plants equipped to operate under the Shanks reduction process.

In April, 1931, the Anglo-Chilean Consolidated Nitrate Corporation became a member of the Cosach (Compania Salitre de Chile) which is a combine of the Chilean Government and nitrate-producing companies.

Moody's Manual of Investments, 1931 edition, in reporting on the Cosach (Compania Salitre de Chile) states that it was "incorporated March 20, 1931, under special act of the Chilean Congress to consolidate into one enterprise substantially all the nitrate producing properties of Chile, through acquisitions, directly or indirectly, of the undertakings, properties, and assets of voting control of producing companies in Chile. As of April 1, 1931, 36 companies, representing over 95 per cent of nitrate productive capacity in Chile, had agreed to adhere to the company. Chilean Government has exempted from the export duty in nitrate and iodine all nitrate and iodine exported by the company and its subsidiaries, and has made available to the company, without cost, Government-owned nitrate deposits up to 150,000,000 metric tons of recoverable nitrate, and will own 50 per cent of the total authorized capital stock of the company. * * * Properties: Upon adherence of the 36 companies mentioned above, company will own, directly and through subsidiaries, deposits conservatively estimated to contain 103,503,000 metric tons of recoverable nitrate, will give the company reserves sufficient for over 50 years at double present production rate. Company will also own two Guggenheim process plants having annual rated capacities of 600,000 and 750,000 metric tons, respectively, and all the Shanks process plants formerly owned by the adhering companies, as well as railroad properties and port facilities. Adhering companies: Following is a list of adhering companies to be acquired by the company (Cosach) and the number of series B shares to be issued in payment or part payment:

	Shares
Aguas Blancas Nitrate Co. (Ltd.), 1928	30,000
Alianza Co. (Ltd.)	156,000
Angela Nitrate Co. (Ltd.)	84,000
Lagunas Nitrate Co. (Ltd.)	23,500
Cia. Salitrera Anglo-Chilena	8,318,335
Liverpool Nitrate Co. (Ltd.)	157,030
New Paccha & Jazpampa Nitrate Co. (Ltd.)	6,870
New Tamarugal Nitrate Co. (Ltd.)	500,000
Pan de Azucar Nitrate Co. (Ltd.)	26,000
Rosario Nitrate Co. (Ltd.)	144,000
San Sebastin Nitrate Co. (Ltd.)	4,320
Santa Catalina Nitrate Co. (Ltd.)	9,875
Santa Rita Nitrate Co. (Ltd.)	31,250
Tarapaca & Tocopilla Nitrate Co. (Ltd.)	420,000
Societe Nitratiere de Condor	50,000
Cia. de Salitres y Ferrocarril de Agua Santa	140,000
Lautaro Nitrate Co. (Ltd.)	2,181,665
Cia. Salitrera Astoreca	120,000
Cia. Salitrera Asturias	30,000
Cia. Salitrera "Aurrera"	96,000
Cia. Chilena de Salitres	8,080
Cia. Salitrera Galicia	12,080
Cia. Salitrera La Granja	40,000
Cia. de Salitres y Ferrocarril de Junin	100,000
Cia. Salitrera Koryma	14,000
Cia. Salitrera El Loa	234,000
Cia. Salitrera de Taltal	400,000
Cia. Salitrera El Peroni	12,000
Cia. Salitrera Nueva Castilla	64,000
Cia. Industrial Comercial Santiago Saboinceello	160,000
Cia. Comercial y Salitrera de Tarapaca	380,000
Cia. Salitrera de Tocopilla	100,000
Barbazza, Cicarelli y Cia	12,000
De La Fuente, Gajo y Cia. (partnership)	13,000
Marcos Cicarello	1,000
Medies, Gajo y Cia. (partnership)	2,200

Senator JOHNSON. I may remark to the chairman that in some instances the loans have gone hand in hand—I will not say "hand in hand," because I do not produce evidence of that sort, but the loans have been contemporaneous with the granting of concessions in various of the countries that have defaulted.

Now, I leap back from Colombia to Peru for just a moment. I have in my hand an air mail letter that came to me the other day, very, very recently, from the present Peruvian Ambassador to the Argentine Republic. It becomes a matter of some consequence because he annexes to his letter a statement of Peruvian loans which he says he transmitted to various banks in order that they might understand exactly the situation in regard to the loans that were made to Peru. And therefore, if there be no objection from the chairman, I will read that letter into the record.

The CHAIRMAN. There being no objection, that may be done.

Senator JOHNSON (reading):

BUENOS AIRES, *January 12, 1932.*

Senator JOHNSON,
Capitol, Washington, D. C.

DEAR SIR: I have followed with very keen interest and attention the spectacular investigation of the senatorial commission regarding Latin American loans, specially Peru.

I am at present Ambassador of Peru to the Argentine Republic; but for the last 11 years I was living in the United States and in Europe. Leguia deported me in September, 1919, and I was forced to live in exile till the end of his government, August, 1930.

As conditions in Peru were very familiar to me I did everything to show the bankers and the American people the serious harm which every new loan inferred to Peru.

The New York Journal of Commerce, the Wall Street Journal, the Chicago Tribune, La Prensa of New York, have published during the last 11 years many articles in which I exhibited the danger of the uncontrolled debauchery of Leguia's government supported by a series of unjustified and onerous loans.

In the year 1926 and as a warning to the bankers who were trying to float the $30,000,000 loan of that year, I sent to the Guaranty Trust Co. of New York, the National City Bank, Seligman & Co., Grace Co., and many other American concerns interested in Peruvian finance, a very clear memorandum showing conditions in Peru and anticipating the future insolvency in which the country had to be thrown if such a loan should be floated. My advice was ignored. I include herewith a copy of said memorandum (1926).

The banker, F. Kent, of the Bankers Trust, went to South America to study financial conditions in Peru. After careful examination of the matter he expressed an unfavorable opinion with regard to the prospective loans.

Conditions in Peru were well known to the American commercial attaché and officers of the American embassy in Lima.

I remember quite well that I received the biggest shock of my life, as an exile of Leguia, when in November, 1927, I read the statement of Mr. Miles Poindexter, Ambassador of the United States to Peru, on the occasion of a lecture which he delivered at the University Club in Washington, D. C., telling the audience that the Peru of Leguia was a land of prosperity under the leadership of that dictator. The lecture was a kind of invitation to the American investors to lend money to Peru. The lecture of Mr. Miles Poindexter was published in the Evening Star of Washington, D. C., on the first week of November, 1927. In those days Mr. Poindexter in a luncheon which took place in New York called Mr. Juan Leguia, a guest at the banque', the "Kronprince of Peru." I have to add that in the next month, December, 1927, the first issue of the big loan of $100,000,000 was floated.

I want to say, Mr. Chairman, that I telephoned Mr. Poindexter, for whom I have a very high regard, and quoted him this portion of this letter, and Mr. Poindexter authorized me to say that the portion of the letter which refers to a luncheon in which he participated

with Juan Leguia, and in which he is said to have referred to him as the "Crown Prince of Peru" is entirely inaccurate, and I want that to be in the record in justice to Mr. Poindexter.

The CHAIRMAN. The balance of the letter may be the same way, then, Senator?

Senator JOHNSON. Sir?

The CHAIRMAN. The balance of the letter may be of the same character.

Senator JOHNSON. It may be. But there are things in the letter which we can check, you know, as to the documents. This being a diplomat, however, and at the present time the Ambassador of Peru to Argentine, I thought it my duty not to withhold it.

The CHAIRMAN. Oh, I have no objections to it.

Senator JOHNSON (continuing reading):

I published several articles as a protest against the financial domination of my country and I delivered a lecture in Colombia University, New York City, under the auspices of the Instituto de las Españas, January, 1928, when I made a public denunciation of the method employed by certain banks while dealing with Peru, and I then predicted the approaching insolvency of my country victim of a very abusing financialism. But everything was ignored and the big loan was floated.

Excuse, Mr. Senator, my intruding in this affair; but it is so important to the vindication of my country.

I think that this letter will contribute a little to clear some faces.

I authorize you to make use of this letter as you may consider it useful or proper.

Very truly yours,

FELIPE BARREDA,
Peruvian Ambassador to the Argentine Republic.

And annexed is the article that he wrote, The New Peruvian Loan. Finance, Figures, and Valuable Data. By Felipe Barreda, which he transmitted, he says, to the various bankers.

The CHAIRMAN. Do you want that to go in the record?

Senator JOHNSON. Yes; we will insert it in the record.

(The article by Felipe Barreda is here printed in the record in full, as follows:)

THE NEW PERUVIAN LOAN—FINANCE, FIGURES, AND VALUABLE DATA

(By Felipe Barreda)

According to information published in the newspapers the Peruvian Government intends to issue a $30,000,000 loan in successive series; the first one for $16,000,000 has been already subscribed.

The excessive increase of the public debt of any nation is such a big danger to her future, and will lead to such big difficulties to the creditors, that I believe it is fair and wise to give in time to the public every chance to know about very important facts concerning the financial condition of the nation in which the money is going to be invested.

THE PUBLIC DEBT OF PERU

The total debt of Peru at the end of the last year, 1925, was $70,061,246 (American currency), of which about $28,000,000 was internal debt.

Till the year 1919, in which the actual Government was inaugurated, the external debt of the Republic consisted of a cash annuity of $388,800 paid to the Peruvian corporation according to the terms of the agreement adjusted with the same company in the year 1907; and the sterling salt loan offered in London in 1909 for an original amount of £5,832,000.

If we put aside the agreement concerning the Peruvian corporation (1907) which was not performed by the present Government it can be noticed that during the past seven years the present Government of Peru has increased the external debt of the Republic to the amount of $45,483,429; that is, more than

seven and a half times as much as it was the amount of the external debt of the country in the year 1919. The total public external and internal debt including the new loan of $16,000,000 will amount to $87,261,246. It can be also noticed that the present Government of the country during the past seven years has increased the public debt in an amount equal to more than seven and a half times the total amount of the external debt incurred by all the governments which ruled the country for the last 20 years prior to the year 1920.

What a big and justified alarm would shake the mind of the American financiers if the Government of the United States instead of enduring the wise and healthful policy of economy and reduction of public expenses and debts would adopt the strange resolution of increasing the public depts of the country by seven and a half times as much as it was the public debt of the United States by the year 1920.

POPULATION AND ESTIMATION OF THE PUBLIC DEBT PER CAPITA

I have been reading a lot of wrong information concerning the population of Peru in regard to the economic capacity of the country.

The total population of Peru can be estimated in 5,000,000 inhabitants. But when the population of a country is considered as a primary factor to estimate the tributary capacity of the nation it is necessary to have the utmost care so as to consider only and alone the part of the population valuable and appreciable as a real economic factor of work, production, consumption, and taxation. In the case of Peru in order to have a proper appreciation of the taxation per capita it is necessary to eliminate the Indian serranos, the women, and the children. Thus the Peruvian population ready and able for taxation can be estimated in only 2,500,000 taxable people. These 2,500,000 persons constitute in fact the population to be considered as a primary factor for work, production, and consumption. And these 2,500,000 people are really the supporters of all the tributes of the country. Then it is very clear that to-day the public debt per capita is in Peru very high and in the course of the last few years has been increasing very fast. If we consider only the external debt the charge per capita in the year 1920 was $2.33. During the last seven years, and as a consequence of the increase of the external debt, the obligation per capita has raised to $18.19, that is seven and a half times as much as it was the obligation per capita in the year 1920. And if we consider not only the external debt but also the internal debt of to-day; that is, the total amount of $87,261,246, the total obligation per capita is to-day $34.90, which is very high. To say as it has been said that in Peru the obligation per capita in reference to the public debt is less than $13 is really to have a very wrong appreciation of the real facts.

THE PUBLIC DEBT IN RELATION TO THE ECONOMIC INDEX

In order to appreciate the weight of a financial obligation in relation to the economic capacity of a nation there are three fundamental factors to be considered:

(1) The public budget, which represents the money collected from the people.

(2) The foreign trade, which has a first-class relation with the capacity to transfer payments to foreign countries.

(3) The national income.

The public revenue of Peru in the year 1923 amounted to $28,821,620.60 and in the year 1924, $34,899,306.40.

Taking the average of both years at the present exchange of $3.80 per Peruvian pound, the public revenue of the country can be estimated in $31,860,463.50.

The annual service of the public internal and external debt, refund and interest, including the new loan of $16,000,000, would be as follows:

Peruvian corporation, annuity of S. P. 80,000, at $4.86	$388,800
Internal debt, $41,777,817, at 7 per cent	2,924,447
Sterling salt loan, 5½ per cent	206,268
Sterling opium loan, 5 per cent	160,828
Sterling guano loan, 7½ per cent	441,445
Sanitation loan, 8 per cent	491,360
Petroleum loan, 7½ per cent	562,500
New loan, $16,000,000, 7½ per cent	1,200,000
Average annual refunding of 6 per cent on the total external and internal debts, $87,200,000	5,232,000
Total	11,607,648

The annual service of all the public debt will oblige a disbursement of $11,607,648, that is the 36½ per cent of the annual income of the public budget. If, when the question of the European debts to the United States was in discussion, the Secretary of Finance of the United States in the report presented to the national house at the beginning of this year pointed out that the settlement of the Italian debt to the United States, together with the settlement of the Italian debt to Great Britain represented a charge to Italy of 11.47 per cent of the annual revenue and that this charge was a little high, what to think of the financial condition of a country in which the annual service of the public debt will take 36½ per cent of the annual revenue of the budget?

The second index concerning the foreign trade of Peru shows also a lot of very interesting facts. Any careless observer is always ready to notice the remarkable increase of the foreign trade of Peru as the safest index to show the increased wealth and economic prosperity of the people of Peru. And that observer will be entirely wrong; for the first and proper thing to do would be to find out which is the big share that in the export trade belongs to foreign companies and which is the share that in the "favorable" trade balance of Peru belongs to foreign capital that will remain in foreign countries as a refund of the capital of the same companies or as dividends and profits to be distributed to the board of directors and to the shareholders.

The total value of the foreign trade of Peru was as follows:

Year:	
1914	$66,075,198
1916	122,710,029
1917	156,359,438
1924	209,678,843

As it can be noticed, the major increase in the foreign trade of almost $100,000,000 took place during the period of 1914 to 1917. The increase from 1919 to 1925 has been a minor increase of about $53,000,000. But during the period of the major increase the public debt of the Nation, far from being increased in proportion to the increasing capacity of the foreign trade, was diminished and cancelled in a total amount of $12,261,629; while during the period of the minor increase of the foreign trade from 1919 to 1925 the public debt of the country has been increased by $50,000,000. That is, that in Peru during the last years the public debt has raised too much out of proportion to the minor increase of the foreign trade. In regard to the "favorable balance" of the foreign trade if we take the year 1924 we find a surplus of exports over imports of $34,432,900. But this figure is far from being a sure index to appreciate the capacity of Peru to transfer payments to the foreign creditors; because almost the whole surplus belongs to American and British companies; that surplus will remain in the United States and in Great Britain; that surplus belongs already to the foreign creditors, and in consequence can not and will not be incorporated to the national wealth of Peru.

British capital has been invested in Peru to the extent of about $125,000,000 and American capital to the extent of $100,000,000. The greater part of these capitals has been invested in industries for the exploitation of oil, copper, vanadium, silver, and guano. If from the total favorable balance of $34,000,000 we take off what belongs to these American and British companies and we take off the millions of dollars to be paid every year to the United States and to Great Britain on account of the several external loans above mentioned we will have to conclude that in the present condition the index of the foreign trade means a poor economic and financial position of the nation and that the said index is entirely against any new increase of the public debt.

The domestic capital of Peru has been diverted principally in agricultural industries, sugarcane, cotton, wool. At the present depressed condition of the world markets for agricultural products, the very small favorable balance of foreign trade, if any, belonging really to Peruvians and valuable for the transference of payments to foreign creditors is well absorbed by the imports that the country is obliged to make for her own consumption and by the annual payments to England and to the United States on account of the service of the outstanding external loans. This situation explains by itself the disastrous present condition of the Peruvian exchange; and gives a proper and right explanation to those people who can not find out why the Peruvian pound is quoted so low in spite of the remarkable increase of the Peruvian foreign trade and in spite of the so-called "favorable balance" to Peru.

The monetary unit of Peru is the Peruvian pound, equivalent at par of exchange to $4.86. By the year 1919 the gold reserve against the paper money in circulation was around 90 per cent. On account of the new monetary policy of the present Government and the constitution of the new Reserve Bank of Peru the gold reserve of the Peruvian pound was lowered to 78 per cent by the end of the past year. But even that and in despite of this reduction the Peruvian pound with 78 per cent gold reserve is yet one of the best and very solid monetary units in the world. But the depression of the Peruvian pound has been so severe that only a few weeks ago the Peruvian pound was quoted at $3.60. If the reduction of 12 per cent gold reserve of the Peruvian pound would explain the depression of the exchange, the present value of the Peruvian pound should be $4.28. Then the very severe depression of 26 per cent of its value needs another very different explanation. And the only reason which explains this big depression of the Peruvian currency rests upon a disfavorable foreign trade balance, or upon an excess of payments to foreign countries, payments higher and bigger than the favorable balance of the Peruvian foreign trade. In any of these cases the economic index of the foreign trade points against any new increase of the external debt.

The third economic index refers to the capacity of the national income.

The income tax on individuals and corporations in already in Peru as in any other country a source of national revenue. But the income tax has been raised in the course of the last 10 years. The very big and fast increase of the public debt from the year 1919 to 1925 and the new taxes levied in order to meet the charges of the new debts and the increased expenses of the Government, have raised the cost of living in such a scale that Peru being in the year 1919 a very inexpensive country to live in, is to-day one of the most expensive countries. The cost of living in Peru is to-day as high as it is in the United States.

The present depressed condition of the agricultural industries of the country has placed them in such a serious condition that they are working without profit if not at a pure loss. The import trading is in a precarious condition on account of the very low Peruvian exchange. Then the income of individuals and corporations has been greatly reduced during the last years, but at the same time the taxes have been increased.

In such a strange and abnormal economic situation any increase in the income tax will be entirely out of all sense. Then the economic index concerning the national income is also against any new increase of the public debt.

When studying the financial situation of Peru some facts attract the attention of any impartial observer. During the years 1915 to 1919 the total yearly public revenue of the country was about $19,000,000; and with this revenue the Government at that time paid all the public expenses of the country, covered all the financial obligations of the public administration and repaid and cancelled more than $12,000,000 of the public debt. But from the year 1919 to 1935 the public annual revenue has increased to the annual amount of $32,000,000, that is $12,000,000 yearly in excess to what was collected prior to the year 1919; and in spite of this remarkable increment of the public income the Government every year has been receiving huge amounts of money from internal and external loans and has increased the public debt of the country by $50,000,000. Unfortunately big shares of these loans have been diverted in unproductive subjects, in payment of floating debts of the same Government, in decoration of some cities, etc., which never will repay the money so consumed.

This way of dissipation and extravagance is leading the Peruvian finances straight into bankruptcy with great damage and troubles not only to the nation but also to the creditors of Peru.

Senator JOHNSON. There came to me from the Bolivian ambassador the other day a letter which he asked me to insert in the record, and I pass it up to the chairman of this committee whether or not it shall be inserted in the record, as he desires. I think probably in view of the fact that already there has been inserted in the record a communication from the Bolivian Government, that it is not inappropriate that the minister here shall be permitted to express his views.

The CHAIRMAN. I see no objection.

Senator JOHNSON. All right, sir. This is the letter from the Bolivian minister [reading]:

LEGACION DE BOLIVIA.
Washington, January 25, 1932.

The HON. HIRAM JOHNSON,
The Senate, Washington, D. C.

MY DEAR MR. JOHNSON: I am inclosing my article, Three Revolutions, which was published in the Washington Post a year ago, and I would appreciate it very much if you could be kind enough to have this article read at the next meeting of the Finance and Investigation Committee of the Senate and to have it included in the minutes, so it may serve as a reminder when any regulation should be studied toward checking the granting of loans, when I hope that my plea for the absolute refraining from making loans to dictatorial governments will not be ignored.

Lending money can only be detrimental to all parties concerned when the governments are running their countries without allowing freedom of public opinion or even permitting their congressmen to express their views regarding the loans. When the 1922 loan was contracted with Bolivia there were hundreds of people deported and jailed, and the press was absolutely muzzled during the negotiations, and when the 1928 loan was agreed upon, even senators were persecuted and confined when they attempted to combat this borrowing.

It was in this way that American bankers helped such governments to remain in power and ruin their countries financially. The life of many a dictatorial and corrupt government has been prolonged or rescued by American bankers, and the money supposed to have been borrowed for the construction of public utilities has been squandered upon mercenary supporters and spies.

Hoping this may be of use to you, and congratulating you again upon the most laudatory results being obtained by your arousing of public interest in those matters of such vital importance to both North and South America, I beg to remain

Your most sincere friend and admirer,

LUIS O. ABELLI.

The CHAIRMAN. Is he the present ambassador, Senator?

Senator JOHNSON. Yes, sir.

The CHAIRMAN. Located here in Washington?

Senator JOHNSON. Yes, located here in Washington.

The article he has inclosed is an article that was published in the Washington Post, Saturday, October 11, 1930, which I ask to have printed in the record with his letter.

The CHAIRMAN. It may be so printed.

(The article appearing in the Washington Post, Saturday, October 11, 1930, is here printed in the record in full, as follows:)

[Washington Post, Saturday, October 11, 1930]

THREE REVOLUTIONS

(By Luis O. Abelli, Bolivian writer and diplomat)

It is surprising the amount of inaccurate information, and above all the absurd comments, that are published by newspapers and magazines in this country concerning Latin American affairs. The writers do not seem conscious of the harm they cause by dishing out to the public whimsical commentaries about things they do not know or understand sufficiently to pass opinion upon.

This lack of comprehension may explain why the intended help, financial or otherwise, of the United States to the Latin American countries has been mostly extemporaneous or misdirected, often so blundering as to create a reaction of resistance and unjust prejudice against everything North American, in every country south of the Rio Grande, giving rise to the popular "spook" of the so-called "Yankee imperialism" and "The hand that grips," as applied to the supposed intentions of this country in relation to its Central and South American neighbors.

At present the spirit, the meaning, and the cause of the revolutions in Bolivia, Peru, and the Argentina are not clearly understood in this country. Even a writer of prestige, former President of the United States, seems to have had

the same erroneous belief when writing, in reference to such an important event in Peru's republican life.

Some of the previous revolutions have been, as this above-mentioned writer says: "A curse to the country, for the selfish purpose of getting the power and the spoils of office, and meaning only a loss of life and property, in order to substitute a new régime that is no better than the old and accomplishing no constructive purpose." But the recent revolutions have been fought by patriots who represented outraged public opinion fighting against dictatorial governments, formed by cliques of grafters, headed by Presidents, who believed themselves to be God's gift to their countries, and who in their mad endeavor to govern regardless of public opinion had, in most cases, gagged the press and the free expression of citizens, deporting or jailing without trial any one who dared to criticize their doings, accusing them of revolutionary activities, while, on the other hand, permitting the men who flattered them to "sack" the treasury with impunity.

It was to such governments, with perfect knowledge that they were squandering the people's money, that American bankers made extensive loans which helped them to remain in power and ruin their countries financially. The life of many a dictatorial and corrupt government has been prolonged or rescued by American bankers, and the money supposed to have been borrowed for the construction of public utilities has been squandered upon mercenary supporters and spies. Revolution is the only available way to straighten matters up, elections being engineered and faked by those in power.

In the future, conscientious bankers, for the sake of real progress and lasting prosperity, should make a point of not lending money under any circumstances to governments that are running their countries under the self-protective measure of "state of siege," whether declared or not, when the press and the taxpayers are silenced by censorship, imprisonments, and deportations, even though the dictator may have a puppet congress, appointed by faked elections to give legal appearance to his doings. With such a wise policy the bankers could stop many a government from acting illegally in fact, though constitutional in appearance, eliminating thus in nine cases out of ten the need of revolutions. To do otherwise means to enslave the inhabitants of a nation to outside and foreign capitalism, driving the country, through moral and financial bankruptcy, to anarchy, also creating intense opposition to North American enterprise in those countries.

There was a time when South Americans came to believe that dictatorship, or stronghand government was the one best suited to their countries, but the dictatorship experiment has proven a failure in Latin America, as it will be demonstrated everywhere else in the world; because no matter how intelligent or honest a dictator may be, or how successful his government may appear at the beginning, the country will not stand for antidemocratic and anticonstitutional methods.

The running expenses of a dictator government is enormous on account of the number of spies, mercenary militia, and partisans whom it is necessary to maintain in order to hold itself in power. The railroads, highways, irrigation, and all other works carried out by this kind of government are infected by grafters, and with such poor advisers are outrageously costly and often badly conceived, which kills the profits or benefits that could be derived from them. The loans, acquired with the alluring excuse of accelerating the progress of the country, heavily burden the taxpayer.

These three revolutions can not be called "a curse" to their countries. They are as well meaning, constructive, and meritorious as those that freed the New World from European governments. These revolutions are unquestionably another healthy step on the onward march to democracy. They represent the efforts of exploited citizens to free themselves from oppressive governments. They have been carried out by men who are ready to give their lives to secure a constitutional, democratic, and honest administration for their countries.

The provisional governments are composed of men whose previous records are perfectly satisfactory to the people, and they are directing all of their efforts to reforming and purging public administration. They are also reconciling the political parties in an endeavor to form honest and capable governments, through honest elections, and the freedom to suggest and criticize.

Politically, there is no doubt that better days will shine for those countries. Economically, they are very seriously affected by the world crisis, but in spite of unfavorable conditions, Bolivia and Peru are making supreme efforts, successful so far, not to delay payments due on loans granted in many cases to

their spurious governments by profiteering bankers. Although, under the circumstances, defaulting on such loans should be perfectly justified, they will do everything in their power to avoid such a thing happening. A clear understanding at this end of the true situation might help them in their laudable endeavors.

Senator JOHNSON. Now, Mr. Chairman, I think I am through with the evidence that I desire to present, save in one particular. I do want Mr. Breck to answer the communication that I addressed to him, which, having been written on Sunday, it was impossible for me then to submit to the chairman, and I sent it Sunday in order to give him time by Wednesday to send his reply. Has any reply been received from him?

Mr. STEWART (the clerk of the committee). No, there has not, sir.

Senator JOHNSON. I will submit this letter for the record where it may be printed, and ask the chairman if he would not insist that he shall respond as to that account.

The CHAIRMAN. I will send him a telegram to-day.

Senator JOHNSON. All right, sir. The reason that I ask it, Mr. Chairman, is not alone because of the item, such as I read to the representatives of the Chase Bank, but because a computation of the debit and the credit sides of his account shows an aggregate of nearly $1,000,000, and I do not understand it. Therefore, I would like some explanation concerning it.

(The letter from Senator Johnson to Mr. Henry C. Breck, dated January 24, 1932, is here printed in the record in full, as follows:)

JANUARY 24, 1932.

Mr. HENRY C. BRECK,
New York City, N. Y.

MY DEAR SIR: It is only very recently that I have had the opportunity to go over the account of Juan Leguia with J. & W. Seligman & Co., which was submitted by you to the Finance Committee of the Senate in the investigation under Senate Resolution No. 19. There are certain parts of the account, which I think require either explanation or amplification. I am writing you concerning them, so that you may not be put to the inconvenience of again coming to Washington, and I would ask if you will be good enough to explain certain items, to which I draw your attention:

April 24, 1928: $40,000 Republic of Peru, 6 per cent, 93½ credit	$38,273.33
April 30, 1928:	
$66,000 Republic of Peru, 6 per cent, 50/93, 8/93, ⅛, 8/93¾ credit	62,917.00
$34,000 Republic of Peru, 8 per cent 10/93, ¼, 22/93¼, ⅜	32,471.33
May 1, 1928: $2,000 Republic of Peru, 6 per cent, 93½	1,916.00
June, 1, 1928: Coupons 68,500, Peru, 6 per cent	2,055.00
July 9, 1928:	
$4,000, Peru, 6 per cent, 1960, 91⅝	3,682.33
$6,000, Peru, 6 per cent, 1960, 91⅝	5,523.50
July 10, 1928: $3,000, Peru, 6 per cent, 1960, 91⅝	2,762.25
July 25, 1928: $40,000, Peru, 6 per cent, 1960, 91	36,680.00
Aug. 17, 1928: $6,000, Republic of Peru, 6 per cent, 1960, 90¼	5,479.00
Aug. 20, 1928: Draft 1, National Road Co., Lima, debit	20,000.00
Sept. 12, 1928:	
$9,000, Peru 6 per cent	
3,000, at 90⅝; 6,000, at 90½	8,282.25
$500, Peru, 6 per cent, 90¼	458.67
Oct. 4, 1928: McVickar and Co	4,055.46
Nov. 5, 1928: National City Bank	4,000.00
Nov. 30, 1928: National City Bank	4,000.00
Feb. 2, 1929: National City Bank	4,000.00
Mar. 6, 1929: National City Bank	8,000.00
Apr. 6, 1929: Equitable Trust Co	4,070.00
Apr. 17, 1929: Chase National Bank	2,000.00

April 23, 1929, National City Bank, Apr. 5	$5,956.60
Apr. 25, 1929: Chase National Bank	8,000.00
May 3, 1929: National City Bank	8,000.00
Aug. 3, 1929: National City Bank	20,000.00
Aug. 17, 1929: Royal Bank of Canada	4,100.00
Sept. 3, 1929: Royal Bank of Canada	8,600.00
Sept. 7, 1929: Royal Bank of Canada	10,000.00
Sept. 26, 1929: National City Bank	7,000.00

Apparently the bonds of the Republic of Peru were sold by Leguia to J. & W. Seligman & Co. and the credit given upon such sales. Is this correct? If not, would you please advise us just what these credits for securities of the Republic of Peru mean?

The item of August 20, 1928, is a draft relating to the National Road Co., of Lima, $20,000. Would you please give us what information you have in respect to this?

October 4, 1928, there is an item of McVickar & Co., with credit to the account of Mr. Leguia of $4,055.46. Would you kindly send a statement of who McVickar & Co. are, and the details of that particular item?

November 5, 1928, is an item, National City Bank, $4,000.; November 30, same year, a like item of $4,000; February 2, 1929, a similar item of $4,000; March 6, 1929, a similar item of $8,000; April 23, 1929, a similar item of $5,956.60; May 3, 1929, another of like sort of $8,000. Would you kindly advise us how these items arose, and the details respecting them?

April 6, 1929, is an item Equitable Trust Co., $4,000. Would you make a like explanation concerning this item as for those of the National City Bank?

April 17, 1929, is an item Chase National Bank for $2,000; April 25, 1929, a similar item of $8,000. Would you please explain what these mean in the same fashion as the National City Bank items?

August 17, 1929, the account shows an item, Royal Bank of Canada; credit $4,100; a similar item of September 3, 1929 with a credit of $8,600; a similar one September 7, 1929, with a credit of $10,000. Would you kindly afford us an explanation on these items?

The debit and credit sides of the account show an amount of over $900,000. Your testimony was as to payments made on account of Peruvian loans something over $400,000. Would you please state what made up the balance of the amounts, whence they came, and any facts you may know concerning them?

Sincerely yours,

———— ————.

Reply of Mr. Breck to Senator Johnson's letter of January 24, 1932:

JANUARY 28, 1932.

Hon. HIRAM W. JOHNSON,
United States Senate, Washington, D. C.

MY DEAR SENATOR: I acknowledge receipt of your letter of January 24 asking for an explanation of certain items in the account of Mr. Juan Leguia.

With reference to your statement that "the debit and credit sides of the account show an amount of over $900,000," have you not obtained this figure by adding the total of the credits (or debits) in each of the three accounts, transcripts of which were sent to the committee? This would appear to be the case, because the total credits (and, of course, the total debits) in the Juan Leguia account alone are approximately $858,000. For each credit entry in the Juan Leguia special reserve account and in the Juan Leguia, reserve for Bolster claim account (excepting credit entries for interest aggregating $1,329.84 in these two accounts combined), there is a corresponding debit entry in the Juan Leguia account on the corresponding date, so that it would be counting these items twice if you added the total credits in the first two accounts above mentioned to the total credits in the Juan Leguia account.

Turning now to the figure, above mentioned, of approximately $858,000 representing the total credits in the Juan Leguia account, an analysis of these credits follows:

1. Deposits made to his credit as testified	$416,400.98
2. Deposits made from time to time to the credit of his account by others than ourselves, including the banks mentioned in your letter, and as to the sources of which we have no knowledge	147,546.75
3. Proceeds of sales of bonds owned by him	198,445.66
He purchased these bonds through us and the cost thereof was charged to his account, being the debit item of $193,624.92 on Dec. 30, 1927. He later sold them from time to time, as indicated in the several credit items relating to Peru bonds mentioned in your letter, and to which I refer further below. This series of credit entries does not, of course, represent any moneys received by him in addition to the deposits above listed.	
4. Profit on sales of above bonds	5,262.50
5. Loans for his account, which appeared on the credit side when the proceeds were received and on the debit side when paid, but which, of course, represented no new money	85,000.00
6. Miscellaneous credits, i. e., interest on his balance, interest on bonds held by him, interest on money he loaned on call, and cancellations of previous debit entries	5,667.00
Total	858,322.89

Replying to the inquiries in your letter concerning particular items in the account, one group of these items represents credits arising from the sales of bonds, described above, as follows:

April 24, 1928: $40,000, Republic of Peru, 6 per cent, 93½, credit	$38,273.33
April 30, 1928:	
$66,000, Republic of Peru, 6 per cent, 50/93, 8/93, ⅛, 8/93¼, credit	62,917.00
$34,000, Republic of Peru, 6 per cent, 10/93, ⅛, 22/93¼, 2/93⅜	32,471.33
May 1, 1928: $2,000, Republic of Peru, 6 per cent, 93½	1,916.00
July 9, 1928:	
$4,000, Peru, 6 per cent, 1960, 91⅝	3,682.33
$6,000, Peru, 6 per cent, 1960, 91⅝	5,523.50
July 10, 1928: $3,000, Peru, 6 per cent, 1960, 91⅝	2,762.25
July 25, 1928: $40,000, Peru, 6 per cent, 1960, 91	36,680.00
Aug. 17, 1928: $6,000, Republic of Peru, 6 per cent, 1960, 90¼	5,479.00
Sept. 12, 1928:	
$9,000, Peru, 6 per cent. 3,000, at 90⅝; 6,000, at 90½	8,282.25
$500, Peru, 6 per cent, 90¼	458.67

He purchased $210,500 face amount Republic of Peru 6 per cent first series bonds at 91½, his account being debited $193,624.92 therefor, as shown on page 2 of his account, under date of December 30, 1927. All of said bonds were sold by him on the New York Stock Exchange, at different times between April 24, 1928, and September 12, 1928, and the proceeds of such sales were deposited to the credit of his account on the dates and in the amounts above indicated.

The item, "June 1, 1928 coupons, 68,500, Peru, 6 per cent $2,055," represents the collection of the semiannual coupon due June 1, 1928, of $30 per bond on $68,500 principal amount of Peru 6 per cent bonds then held by him, the remaining $142,000 of Peru bonds having previously been sold by him.

The item, "August 20, 1928, draft 1, National Road Co., Lima, debit, $20,000," was a payment which he ordered made to the National Road Co. in Lima. We understand that the money was used by the company to pay for certain road-building machines and material purchased in the United States.

The item October 4, 1928, McVickar & Co., $4,055.46, was a payment made to us for the credit of his account by a firm named McVickard & Co. We know nothing further about the deposit. I think McVickard & Co. were the firm of that name, members of the New York Stock Exchange. The items:

Nov. 5, 1928, National City Bank	$4,000.00
Nov. 30, 1928, National City Bank	4,000.00
Feb. 2, 1929, National City Bank	4,000.00
Mar. 6, 1929, National City Bank	8,000.00
Apr. 6, 1929, Equitable Trust Co	4,000.00
April 17, 1929, Chase National Bank	2,000.00

Apr. 23, 1929: National City Bank, Apr. 5	$5,956.60
Apr. 25, 1929, Chase National Bank	8,000.00
May 3, 1929, National City Bank	8,000.00
Aug. 3, 1929, National City Bank	20,000.00
Aug. 17, 1929, Royal Bank of Canada	4,100.00
Sept. 3, 1929, Royal Bank of Canada	8,600.00
Sept. 7, 1929, Royal Bank of Canada	10,000.00
Oct. 26, 1929 (Sept.), National City Bank	7,000.00

All represent payments made to us from time to time by these banks for the credit of his account. We have no knowledge of the source of the above deposits to his account other than that these banks sent the money to us for his credit.

In the second paragraph of this letter I have replied in detail to the inquiry in the last paragraph of your letter concerning the totals in the debit and credit sides of the account, and I think that nothing further need be added except the conclusion that of the total credits of approximately $858,000, approximately $563,947.73 represents the total of money paid into his account from all sources, including substantial deposits of which we have no knowledge, and small interest credits. The remainder of approximately $294,000 does not represent additional deposits, but constitutes the bookkeeping record of bond purchases and sales and of loan transactions, as above described.

I trust that the foregoing will supply the explanation which you desire.

I am inclosing herewith for your information copy of Mr. Strauss's letter of even date to Senator Smoot, together with copy of the inclosure accompanying that letter, entitled "Statement of J. & W. Seligman & Co., regarding Peruvian loans, made to the Committee on Finance of the United States Senate, January 28, 1932."

Yours sincerely,

HENRY C. BRECK.

Letter received by the chairman from Frederick Strauss, J. & W. Seligman & Co.:

J. & W. SELIGMAN,
New York, January 28, 1932.

Hon. REED SMOOT,
Chairman Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR SENATOR: Referring to my letter of January 14, I am now inclosing the statement therein referred to regarding the Peru bonds sold by the group headed by my firm, which, from your letter of January 15, I understand you will be kind enough to include in the record of the committee's hearings.

A copy of this statement is being inclosed by Mr. Breck in his letter of to-day's date, replying to Senator Johnson's letter to him of January 24. I am inclosing for your information copy of Mr. Breck's lettter.

Faithfully yours,

FREDERICK STRAUSS.

STATEMENT OF J. & W. SELIGMAN & CO. REGARDING PERUVIAN LOANS MADE TO COMMITTEE ON FINANCE OF UNITED STATES SENATE JANUARY 28, 1932

During the years 1927 and 1928, we and the National City Co. and our associates here and abroad offered publicly three bond issues of the Republic of Peru aggregating $100,000,000 in principal amount. This memorandum outlines the investigations made in connection with these loans, the situation of Peru when the bonds were bought, our continuing efforts to persuade the Peruvian Government to take the financial measures we considered necessary to keep these loans sound, and the attempts of the Peruvian Government to do so up until the present world-wide economic crisis became far advanced, when the Government found itself unable to continue further payments of loan service. Our investigations were carefully made, and the bonds we purchased were thoroughly sound in view of the economic and financial position, both of Peru and the world, at the time the loans were made. The inability of the Peruvian Government to continue the interest and sinking fund payments on these loans is due almost entirely to world-wide causes over which they had no control, namely, the catastrophic fall in commodity prices commencing in the year 1929, nearly 12 months after the

last of these bond issues had been floated and resulting in the severest world depression of which there is any record. We believe that, when the adjustments incident to this depression are completed, the Peruvian people, in conformity with their long and honorable record of observance of international obligations, will resume service on their loans.

The following loans of the Republic of Peru were issued by ourselves, the National City Co. and our associates here and abroad.

In March, 1927, $15,000,000 tobacco loan, 7 per cent bonds; in December, 1927, $50,000,000 national loan 6 per cent bonds, first series; in October, 1928, $25,000,000 national loan 6 per cent bonds, second series (at the same time £2,000,000 second series bonds were issued in London).

At the time the tobacco loan was issued Peru had a government which during the nearly eight years that it had been in office had established and maintained peace and order in Peru and welcomed foreign enterprise and investment in the country. It was on the best of terms with our own Government. It was estimated that more than $325,000,000 of foreign capital was invested in Peru, of which about $125,000,000 was American and a like amount British. By the end of 1923 certain arrears of payments due the British-owned Peruvian corporation had been liquidated. Certain external loan payments had been made irregularly in 1922 and 1923 and were later regularized, but no defaults had, as far as is known, occurred on any of Peru's foreign loans during the present century. Among the laws which had been passed by this administration had been the excellent budget law and the law creating the Banco de Reserva del Peru on a model similar to that of our own Federal reserve system.

The total funded debt of Peru, as of December 31, 1926, was not large, being approximately $62,000,000, or slightly more than $10 per capita, of which about $46,000,000 represented external debt. The annual service charges on this external debt amounted to approximately $5,500,000, or less than 15 per cent of the Government's ordinary revenues for 1926.

Such revenues amounted to approximately $38,000,000. Total expenditures for 1926 amounted to substantially more than this figure, and the excess was covered by the proceeds of long-term loans. Among the total expenditures was a large amount for public works which was in our opinion properly fundable into long-term loans, but among them also were some expenditures which were not properly covered by loan proceeds and were therefore in our opinion excessive. Methods of reducing such expenditures were discussed with the Government, and it was only upon a covenant being made in the national loan agreements in December, 1927, that they would be eliminated that we were willing to go forward with the comprehensive plan of financing embodied in those agreements. While such expenditures were not entirely eliminated, our analysis of the official Government reports indicates that they were substantially reduced in 1927 and again in 1928.

Peru's exports in 1926 amounted to nearly $90,000,000, imports to about $73,000,000, and the excess of exports over imports to about $16,500,000.

Peruvian currency at this time was fundamentally sound, being issuable only by the Reserve Bank of Peru, an institution modelled on our own Federal reserve system, and being backed to the extent of over 80 per cent by the bank's gold reserves. The embargo on the export of gold from Peru, which had been imposed during the war, had not been lifted by 1927, and the reserve notes in circulation were not convertible into gold, with the result that the currency was quoted below its legal parity. As a result, one of the principal objects of the Peruvian financing which we and our associates undertook was the placing of the Peruvian currency on a free gold basis. After considerable study, and as a result of cooperation between the Peruvian Government and the reserve bank, this was finally accomplished in 1931, with the result that Peru is one of the two South American countries now on a free gold basis.

At the time the tobacco loan was issued in March, 1927, cotton was selling at more than 14 cents per pound, raw sugar at slightly more than 3 cents per pound, copper at nearly 13 cents per pound, and crude petroleum at about $3 per barrel. These were Peru's principal products and constituted about 85 per cent of her exports. These prices were not high in relation to prices which could be considered normal, i. e., the average prices which had prevailed during the period 1909–1913, and which compared as follows with those of March, 1927:

Cotton, 12.89 cents per pound, as compared with 14.33 cents in March, 1927.

Raw sugar, 2.70 cents per pound, as compared with 3.016 cents in March, 1927.

Copper, 14.11 cents per pound, as compared with 13 cents in March, 1927.

Crude petroleum, 1.67 cents per barrel, as compared with $3.18 in March, 1927.

The bonds of other Latin-American countries with which Peru compared favorably from an economic and financial point of view were selling at the same time at prices to yield in the case of Bolivia 7.56 per cent, Brazil 7.02 per cent, Chile 6.50 per cent, Antioquia (a department of Colombia) 7.34 per cent, and Uruguay 6.30 per cent. Peru's 8 per cent sanitation loan was selling in the New York market to yield 7.47 per cent, and her 7½ per cent petroleum loan was selling to yield 7.40 per cent.

As important as, if not more important than, the then favorable current position of Peru were the trends during a period of years. These trends were favorable, too, as indicated by the fact that between 1913 and 1926 ordinary revenues of the Government had increased 186 per cent, exports 162 per cent, the excess of exports over imports 45 per cent, physical production of cotton (since 1916) 117 per cent, production of sugar 110 per cent, production of copper 58 per cent, and production (exports) of petroleum 565 per cent.

Prior to the creation of the "national loan" in December, 1927, Peru's borrowing in foreign markets had been of a "piecemeal" character. Her loans had been issued from time to time as funds were required for public works and were secured by the pledge of specific revenues. The national loan was intended by the Government to be the vehicle for the reorganization of Peru's complicated debt structure and of its future borrowing abroad. All of the outstanding loans secured by pledges of revenues were to be gradually refunded, effecting a saving in annual service charges, and freeing revenues for the service of the national loan. The Republic was to issue bonds of this loan from time to time as it required funds, and each issue would provide for retiring one or more of the outstanding secured loans until they were all refunded. In order to guard against overborrowing, however, and thus insure the continued soundness of the national loan no additional bonds were to be issued unless the gross revenues of the Republic had averaged for the three preceding years at least three times the service charges on the Republic's entire funded debt.

It was the Government's wish, and the agreements for the national loan stipulated, that all of the Government's revenues, excepting the postal and telegraph revenues and most of the customs revenues, be collected by a company known as the Caja, which had been formed in 1905 as a depisitary of certain Government funds, which was administering the tobacco monopoly and serving the tobacco loan, and all the capital stock of which was owned by the Peruvian banks. It was the Government's desire that the Caja should eventually collect all the revenues and make all the Government's disbursements as well. Before the first series bonds of the national loan were issued a contract was entered into by the Government, the Caja, and the fiscal agents of the loan (ourselves and the National City Bank) according to which the Caja would pay from the revenues to be collected by it the service charges on the tobacco loan and a few small miscellaneous loans and then the monthly service charges on the national loan before turning over to the Government the balance of the revenues.

Our decision to make the tobacco loan had been based upon our study of all the statistics and other information available to us in New York and upon our previous experience in Latin American financing. In order to obtain comprehensive, first-hand information upon which to base a judgment as to the soundness of the Peruvian national loan plan, we sent to Peru in the spring of 1927, more than six months before any bonds of the loan were issued, two men, one a member of our staff, an engineer by education and early experience, and the other a man who had been the manager of a Latin American bank of issue and had had experience in foreign exchange and currency control. These men made detailed investigations, and their reports were fully analyzed and considered by us.

Realizing fully that careful expenditure of borrowed money for public works, a balanced budget and a stable currency had become important factors in Peruvian credit, we obtained provision for them all in the first of the national loan agreements, and from the beginning of the negotiations for this loan we continously exterted all our efforts to bring them about. The agreements referred to provided for the retention by the fiscal agents of that part of the proceeds which would go to public works and for the payment thereof to the

Government at the rate of $750,000 per month. While the Government was not prevented from spending on public works then in progress funds to be derived from the budget or by internal borrowing, it was agreed that no new works would be undertaken, and the $750,000 per month which, under the loan contract, was to be devoted to public works, was, in fact, substantially less than the rate at which expenditures on public works had been proceeding prior to the national loan. We considered the prohibition of new undertakings (which was to be operative for six years) to be a particularly important protection against the temptation, frequently met in developing countries, to borrow more rapidly for the construction of public works than the rate of growth of the country might warrant.

In the case of the Callao harbor development, the national loan contracts provided for the retention by the fiscal agents of the allocated proceeds and their monthly payment to the American contractors in accordance with the construction contracts. In these contracts, the fiscal agents had no pecuniary interest whatever, and it should also be added that at no time have the fiscal agents had any pecuniary interests, directly or indirectly, in any construction contracts in Peru.

At the end of 1927 the two men who had gone to Peru in the spring to study conditions there, returned to New York, and there remained to represent us the American lawyer who had worked on the national loan documents. Early in 1928 there was sent to Peru a prominent American banker and foreign exchange expert, Mr. Fred I. Kent, to study the country's foreign exchange situation. Mr. Kent made a careful study of all the factor's bearing on the exchange problem, conferring at length with the President, other members of the Government and leading bankers, agriculturists, and business men, both native and foreign. He made a number of recommendations which he was confident would, if carried out, and barring unseen and abnormal developments, make possible the stabilization and maintenance of the Peruvian pound at the equivalent of $4 United States currency. His recommendations were submitted to the Peruvian Government, and we joined in recommending to the Government their adoption. Pending their adoption, the reserve bank commenced a "de facto" stabilization of the pound at the rate mentioned. This stabilization was undertaken in accordance with Mr. Kent's advice as the first step in the cooperation between the Government, the reserve bank and the fiscal agents toward the end of exchange stability.

Soon after Mr. Kent's return from Peru in April, 1928, the head of our foreign department went there and remained for approximately four months, studying conditions, conferring with the President and the Finance Minister about those conditions and about ways and means of improving the Republic's credit, and finally negotiating the purchase of the second series bonds in October, 1928.

By this time the unfavorable, as well as the favorable, aspects of Peru's situation had been reported to us, and we were convinced of the soundness of the bonds we were buying for public issue. After these bonds were issued and the refunding effected with part of their proceeds had been accomplished, the total annual service charges on the external funded debt amounted to approximately 20 per cent of the average ordinary revenues for the preceding three years (1925, 1926, and 1927). By comparison, the annual service charges for 1927 on the direct external funded debt of the Republic of Chile (exclusive of service charges on about $84,000,000 external funded debt guaranteed by the Republic) amounted to approximately 22 per cent of average annual ordinary revenues for the three years 1925 to 1927, inclusive. The corresponding figure for Brazil was about 25 per cent. The Peruvian Government's ordinary revenues for 1928 were 20 per cent greater than for 1926, and the excess of its expenditures (exclusive of those for public works) over such revenues was substantially less than for 1926. Exports were 31 per cent greater, the excess of exports over imports 215 per cent greater, the production of cotton 2 per cent greater, sugar 4 per cent less, copper 21 per cent greater and petroleum (exports 6 per cent greater than in 1926. At the time the second series bonds were issued the reserve bank of Peru's gold reserves amounted to 88 per cent of the paper money in circulation and the exchange value of the Peruvian pound had been stable for more than six months.

The total principal amount of national loan bonds issued, including the sterling bonds issued in London, was approximately $85,000,000. As they were bought at a price of 86, the net proceeds to the Republic amounted to approxi-

mately $73,320,000, and the cost of the money to the Republic was about 7.1 per cent per annum. The following table shows the allocation of these proceeds.

	Amount	Percentage of total proceeds
Purchase or redemption of external secured bonds	$43,005,811	58.65
Redemption of external secured serial notes	1,228,705	1.68
Retirement of internal floating indebtedness	2,375,028	3.24
Total used to retire debt	46,609,544	63.57
Payment of the Republic's share of the capital of the Mortgage Bank of Peru	1,000,000	1.36
Construction and improvement of dock and shipping facilities in Callao Harbor	4,937,477	6.73
Capital expenditures for public works, accrued interest, stamp taxes, etc	20,773,272	28.34
	73,320,293	100.00

The annual service charges on the bonds retired from the proceeds of the national loan amounted to about $4,500,000, but by reason of the favorable price at which the Republic sold its national-loan bonds, the annual service charges on the amount of such bonds required to produce the funds to retire the several secured issues amounted to only $3,500,000. Thus, to the extent that the proceeds of the national-loan issues were used to refund external secured bonds, the Republic saved in excess of $1,000,000 in annual service payments. The national loan, however, provided the Government with money for other than refunding purposes. It provided about $4,600,000 for the redemption of external secured notes and the retirement of internal floating debt. It further provided approximately $26,700,000 of what may be called new money for public works and for a mortgage bank, etc. The annual service charges on the national-loan bonds which provided approximately $30,300,000 for all purposes other than refunding of external secured bonds amounted to about $2,400,000; and if from this amount is subtracted the saving of $1,000,000 in annual service charges from the refunding, a difference of $1,400,000 is obtained which represents the net increase in annual service charges as the result of the issue of $85,000,000 bonds. This net increase of $1,400,000 in annual service charges is approximately 4½ per cent per annum on the $30,300,000 obtained from the national loan for purposes other than refunding.

The mortgage bank mentioned is an institution part of whose capital stock is owned by the Government, part by the banks, and part by the public and whose bonds are guaranteed by the Republic. It was created by a law which we helped to draft after months of work in order to meet the Government's desire to provide the agriculturists with cheaper credit than they were obtaining.

After the second-series bonds were issued we devoted our energies to the consolidation of the very substantial progress that had thus far been made in carrying out the financial plan for Peru which was embodied in the national-loan agreements. In the summer of 1928 we sent to Peru as the permanent representative of the fiscal agents a man with 20 years' experience in public finance in various parts of the world, who had been a financial adviser to the government of one country and the fiscal agent of another. He lived in Peru in daily contact with Government officials, bankers, and business men and was a director of the Caja and the Reserve Bank. He and we studied carefully the Government's figures on public-works expenditures and were particularly careful to note reports of any proposed new undertakings, protesting firmly when such reports were received and in most cases succeeding in obtaining the abandonment of new projects before they were undertaken.

In the summer of 1929 the proceeds of the second series bonds allocated for public works neared exhaustion, and a member of our firm went to Peru to discuss with the President the financial measures then to be taken. During the course of his discussions he pointed out to the Government the necessity of economy of expenditure in order to balance the budget and urged the creation of a comptrollership. For the purpose of providing time for the needed retrenchment and preventing any sudden cessation of public-works construction, we arranged at that time a banking credit to the Republic. During the negotiations for this credit a schedule of expenditures and estimated revenues was drawn up and agreed to. It contemplated the issue of a third series of

national loan bonds of a moderate amount in the early part of 1930 if the financial situation warranted their issue.

In the fall of 1929 began those catastrophic events with which we are all familiar. In November we advised the Government to formulate its policies on the premise that little more, if any, foreign money would be obtainable for some time to come. The President was at first reluctant to accept this advice; he had established the comptrollership which we had urged during the summer, he was making plans for "de jure" or "legal" stabilization of the currency and he was counting on the ability to borrow more funds abroad on the strength of an improving internal financial condition. Before the year was out, however, and far sooner than the Government officials of most countries, he recognized that a world crisis of considerable magnitude was in the making, and commenced by a series of decrees to suspend work on public improvements. He proceeded with his plans for "de jure" stabilization of the currency, although we advised him to obtain budget equilibrium first, and the Peruvian Congress in February, 1930, revalued the unit of currency by abolishing the Peruvian pound and creating the gold "sol" with a par value of $0.40 United States currency (10 gold soles were declared to be the equivalent of one Peruvian pound.) However, due to disagreement between the Government and the banco de reserva, the latter being responsible for the administration of the currency, effective stabilization at the new par of 40 cents was not obtained.

During the first half of 1930, the world-wide decline in commodity prices, which had begun in 1929 and which has since reached such catastrophic proportions, continued, and the prosperity of Peru being largely dependent on the prices of four of these raw materials, namely, cotton, sugar, copper and petroleum, business conditions in the country became rapidly worse. The Government made determined efforts to adjust its finances to the crisis. More public works were suspended and a tighter grip on expenditures was taken by the comptroller. A flight of capital from Peru had commenced the latter part of 1929, and it had become very difficult to obtain foreign exchange. This difficulty was accentuated during the midsummer of 1930 by the rapidly declining prices of Peru's principal export commodities. The pound and later the sol continued to be quoted at $4 and $0.40, respectively, but the quotations were nominal, and the Government attempted to maintain the value of the currency by imposing restrictions. Its own foreign exchange requirements were obtained from banks and exporters.

Early in 1930 the fiscal agents' representative became ill and returned to New York (he died later in the year) and we sent to Peru a member of our staff who had formerly lived and done a banking business in Latin America. The reserve bank began at this time to take aggresive action to meet the exchange problem, restricting credit and for the first time since the war exporting gold to create foreign balances. Convertibility of notes into gold was not, however, adopted. The efforts of the Government and reserve bank impressed us favorably and in the spring of 1930 we arranged a banking credit to assist the Government in the completion of the Callao Harbor developments. The development is even now approaching completion and will constitute one of Peru's greatest assets. Upon the return of a normal volume of business it will undoubtedly be an enterprise profitable to the Government as well as very valuable to the country's economic life.

As mentioned above, the great decline in commodity prices began to gather momentum at about this time. Business conditions became rapidly worse, not only in Peru but elsewhere in the world. In August of that year a revolution broke out and in September Luis M. Sanchez Cerro became provisional president. Despite the confusion accompanying the revolution, the exigencies of the provisional government, the dropping off of revenues and the demoralization of the exchange market, President Sanchez Cerro succeeded in remitting to the fiscal agents of the national loan the full amounts required to pay in dollars and sterling the coupons payable on October 1 and December 1, and also to make the redemptions called for on those dates by the loan agreements.

Thereafter the economic and political crisis became more acute. In October, 1930, the largest domestic bank in Peru suspended payments. This suspension, the demoralization of the foreign exchange market, and the confusion in the Government finances were followed by several rapid changes in governments. Between March 1 and March 11 of 1931 there were four "juntas," or temporary governments, in office. Government revenues fell off precipitately, and on March

20, 1931, a governmental decree was promulgated ordering the caja to pay all revenues applicable to the national loan directly to the Government and thereupon, the caja obeying this order, the fiscal agents made a formal protest against this violation of the national loan covenants. Defaults on the two series of bonds of the national loan occurred on April 1 and June 1. A default on the tobacco loan occurred on September 1, 1931, despite a protest we had made in June against the decree law which directed the caja to pay to the Government the revenues applicable to this loan.

The confusion in the public finances and in the foreign exchange market had by the end of 1930 created a situation which prompted the reserve bank, with the Government's approval, to invite to Peru Professor Kemmerer and a commission of experts. Professor Kemmerer went to Peru in January, 1931, and submitted his recommendations in April. Immediately, in accordance with one of these, the currency was placed on a gold basis, and it is on that basis to-day. In fact, Peru is one of the two South American countries now on a free gold basis. While the currencies of several other South American countries are nominally on that basis, actually they are not, owing to the restrictions which have been imposed upon sales of foreign exchange and on the free movement of gold. General elections were held in Peru in October, 1931, and Sanchez Cerro was elected President by a substantial majority. He took office in December, and formed a cabinet in which are a number of members of the conservative landed class. The present Government appears to be earnestly attacking Peru's economic problems, and political conditions in the country appear to be more stable than at any time since 1930.

In conclusion we wish to state our belief that the fundamental cause of the default on the Peru bonds is to be found in the decline, since the bonds were issued, in the prices of its principal products, which make up 85 per cent of its exports. These prices in March, 1927, when the tobacco loan was issued, in October, 1928, when the second series bonds of the national loan were issued, and to-day are shown in the following table, in comparison with the average prices of such commodities during the period 1909–1913.

	Average, 1909-1913	March, 1927	October, 1928	To-day	Decline October, 1928, to to-day per cent
Cotton, per pound	$0.1289	$0.1433	$0.1962	$0.067	66
Sugar, per pound	.0270	.03016	.0214	.0116	46
Copper, per pound	.1411	.13	.15	.075	50
Petroleum, per barrel	1.67	3.18	3.40	1.77	48

This decline substantially reduced the foreign exchange available for external debt service. It was accompanied by a contraction in the volume of production and trade and consequently in Government revenues. It is Peru's capacity to pay which has declined, not her willingness. In this respect Peru is in essentially the same position as Boliva, Brazil, Chile, the Colombian departments and other South American borrowers in this market which are in default on their bonds. Like them she awaits a recovery in commodity prices or the completion of the adjustment to current prices to renew payments on her obligations. The fiscal agents of her external bonds have been assured by all the governments which Peru has had since the revolution of August, 1930, and which have been in office long enough to state their policies, that Peru respected its obligations and would meet them when and to the extent that she was able to do so. In a signed article in a recent issue of the New York Times President Sanchez Cerro stated: "The investments of Americans, as well as those of the nationals of other countries, will enjoy ample protection. My greatest desire is to fulfill all international obligations as soon as the economic conditions of the country permit."

Senator JOHNSON. Now, Mr. Chairman, one other thing. The object of this investigation upon my part has been not alone to disclose what has transpired in regard to our foreign loans. It has been

not only for the purpose of indicating where wrong may have existed and expose that wrong as it ought to be exposed, but in the hope that this committee might aid and that I might be of some small service in presenting legislation which would preclude the possibility of any such outrageous and shameful activities being indulged in again in this country to the detriment of our people. And as the last thing that I submit in this record for the moment, I present two bills, which are merely skeletons or forms; two bills which I want to appear as a part of the record, so that they may be studied by the appropriate committee ultimately. I shall introduce them when I have the opportunity in the Senate.

(The two bills presented by Senator Johnson for the record are here printed in full, as follows:)

A BILL Requiring publicity of certain foreign loan transactions

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter any person making, negotiating, or underwriting any foreign loan shall immediately upon the consummation of the transaction, file with the Secretary of Commerce a statement under oath containing the following information: (1) The name of the borrower, the terms of the loan or underwriting agreement and the date when such loan or agreement was consummated; (2) the security available for the loan, the contemplated method of financing the loan or underwriting agreement, including the estimated cost thereof to such person, group, or association, the estimated profit (including all fees and commissions) accruing to such person, group, or association on account of such loan or underwriting agreement, and the price at which any bonds in connection with any such loan or underwriting agreement is intended to be offered to the public; and (3) any other information relating to any such loan or underwriting agreement required by regulations of the Secretary of Commerce.

SEC. 2. Any person who knowingly fails to file any statement required by this act or who knowingly includes any false information in any statment required to be led by this act, shall, upon conviction thereof, be fined not more than $, or imprisoned for not more than —— years, or both.

SEC. 3. As used in this act—

(1) The term "foreign loan" means any loan or advance of money or credit to any foreign country or political subdivision thereof, or to any citizen, corporation, association, or municipality of any foreign country, financed by the issuance of bonds or other obligations for sale or other disposition in the United States, or any loan or advance of credit not financed by the issuance of such bonds or other obligations, if the amount of loan or advance exceeds $: and for the purpose of this act, the aggregate of all foreign loans growing out of the same transaction shall be considered a single loan;

(2) The term "person" includes any individual, partnership, corporation, or association.

A BILL To provide for the more effective supervision of foreign commercial transactions, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (*a*) for the purpose of regulating the operations of the Federal reserve banks and member banks of the Federal reserve system, establishing a more effective supervision of foreign commercial transactions, preventing interference with the harmonious relations of the United States with foreign countries, and protecting American investments abroad, there is hereby created the Foreign Loan Board (hereinafter referred to as the "board"), which shall consist of the Secretary of State, who shall be the chairman, the Secretary of Commerce, and the governor of the Federal Reserve Board.

(*b*) So far as practicable the work of the board shall be carried on by and through the expert, technical, clerical, and other personnel of the Department

of State, the Department of Commerce, and the Federal Reserve Board, but the board may employ additional personnel as provided in subdivision (*c*) of this section.

(*c*) The board may (1) appoint and fix the compensation of such experts, and, subject to the provisions of the civil service laws, appoint and, in accordance with the classification act of 1923, as amended, fix the compensation of such other officers and employees, and (2) make such expenditures (including expenditures for personal services and rent at the seat of government and elsewhere, for law books, periodicals, and books of reference, and for printing and binding), as are necessary to execute the functions vested in it by this act. Expenditures by the board shall be allowed and paid upon the presentation of itemized vouchers therefor approved by the chairman.

SEC. 2. (*a*) No Federal reserve bank or any member bank of the Federal reserve system shall—

(1) Hereafter make or negotiate any foreign loan without first obtaining the approval of the board.

(2) Accept as security for any loan, or purchase on its own account, any bond or other obligation evidencing a foreign loan hereafter made, unless such foreign loan has been approved by the board;

(3) Hereafter make any loan or advance to, or purchase for its own account the securities of, any person engaged in making foreign loans or any dealer in bonds or other obligations evidencing foreign loans, unless such foreign loans have been approved by the board.

(*b*) No person shall, directly or indirectly, make or negotiate any foreign loan without first obtaining the approval of the board.

(*c*) The board shall, upon application of any interested party, consider, and approve or disapprove, any contemplated foreign loan not of a character requiring the approval of the board under the provisions of subdivisions (*a*) or (*b*) of this section.

SEC. 3. (*a*) The board shall prescribe such rules and regulations as may be necessary for carrying out the provisions of this act, including regulations relating to the filing of applications for its approval of foreign loans.

(*b*) In arriving at its determination of the advisability of any contemplated foreign loan submitted to it for approval, the board shall take into considerations, among other things, (1) the general financial condition of the borrower, (2) the security available for the loan, (3) the remedies available for the enforcement of the obligations on the loan in case of default, (4) the proposed method of financing the loan, and (5) the existence of any circumstances which, in the opinion of the board, may affect the relations of the United States with any foreign government.

(*c*) As soon as practicable after the filing of the application, the board shall submit to the applicant a report of its findings, together with its order of approval or disapproval, and shall transmit a copy thereof to the Federal Reserve Board, to each Federal reserve bank, and to each of the following committees of the Congress: The Committee on Foreign Relations and the Committee on Banking and Currency of the Senate, and the Committee on Foreign Affairs and the Committee on Banking and Currency of the House of Representatives.

(*d*) The board shall make a detailed report to the Congress at the beginning of each regular session of any action taken under the provisions of this act.

SEC. 4. (*a*) Any bank or other person violating any provision of this act shall, upon conviction thereof, be fined not more than $———, or imprisoned not more than —— years, or both.

(*b*) Any director, officer, attorney, or agent of any bank or other corporation or association who knowingly assents to or concurs in any loan or other transaction forbidden by this act shall be subject to the penalties provided in subdivision (a) of this section.

SEC. 5. As used in this act—

(1) The term "foreign loan" means any loan or advance of money or credit to any foreign country or political subdivision thereof, or to any citizen, corporation, association, or municipality of any foreign country, financed by the issuance of bonds or other obligations for sale or other disposition in the United States;

(2) The term "person" includes any individual, partnership, corporation, or association.

Senator JOHNSON. I was informed today that the Haitian ambassador had on the way one of his most notable citizens, who is desirous of presenting from his standpoint the loan that had been made to Haiti. I leave with the chairman whether that one witness shall ultimately be heard. He is to arrive here, I am told, on Monday next.

The CHAIRMAN. No doubt he will have a brief, Senator, and we will have it printed in the record.

Senator JOHNSON. That may be. All right, sir. Personally I am through. Thank you very much for your courtesy, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Johnson. The committee will stand adjourned.

(Thereupon at 3:30 p. m., Wednesday, January 27, 1932, the committee adjourned.)

SALE OF FOREIGN BONDS OR SECURITIES IN THE UNITED STATES

WEDNESDAY, FEBRUARY 10, 1932

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met at 10 o'clock a. m., pursuant to call of the chairman, in the committee hearing room in the Senate Office Building.

Present: Senators Smoot (chairman), Couzens, Bingham, La Follette, Thomas of Idaho, and King.

Present also: Senator Johnson.

The CHAIRMAN. The committee will come to order. Is Mr. Leger here?

Mr. LEGER. Yes.

The CHAIRMAN. Be sworn.

(Thereupon Mr. Leger was duly sworn by the chairman of the committee.)

TESTIMONY OF GEORGES N. LEGER, LAWYER, PORT AU PRINCE, HAITI

The CHAIRMAN. Will you state your full name?

Mr. LEGER. Georges N. Leger.

The CHAIRMAN. Mr. Leger, where do you live?

Mr. LEGER. Port au Prince, Haiti.

The CHAIRMAN. How long have you been in this country?

Mr. LEGER. This time?

The CHAIRMAN. Yes.

Mr. LEGER. I arrived here on February 2.

The CHAIRMAN. Did you come for the purpose of testifying in this case?

Mr. LEGER. Yes. I came on business purposes also, but also to testify in this case.

The CHAIRMAN. If there is anything special you want to say, the committee will hear you at this time.

Mr. LEGER. Before going into the details of the loan that was contracted by Haiti I would like to state that my purpose is to establish that the Haitian people of their own free will and on their own initiative have never solicited or expressed the desire of making a loan on the United States market. That the State Department, through the financial adviser and American minister and high commissioner in Haiti by suggestions, recommendations, and by constant pressure upon the Haitian Government forced that loan upon the Haitian people.

The CHAIRMAN. What position do you hold in Haiti?
Mr. LEGER. Absolutely none. I am not in politics.
The CHAIRMAN. Well, why do you make that statement, then?
Mr. LEGER. Because they are the facts.
The CHAIRMAN. How do you know that they are the facts?
Mr. LEGER. I have the records.
The CHAIRMAN. Elaborate that in the record.
Mr. LEGER. Yes; I will, sir.
The CHAIRMAN. Refer to them right now.
Senator KING. Let him complete his statement, Mr. Chairman, and then we can take them up in detail.
The CHAIRMAN. Well, if he has them now I would like to have him put them in the record, and then we can discuss it.
Mr. LEGER. Senator, if you will be a little patient with me I will get to these records in time, but they are distributed in several volumes and I can pick them out as I go.
The CHAIRMAN. If you prefer to put them in at another place, well and good.
Mr. LEGER. Yes. I was stating that this loan has been forced upon the Haitian people by the American Government.
Senator COUZENS. Before you proceed, will you state what your occupation is, and what your business is in Haiti? I do not know who you are.
Mr. LEGER. I am a private citizen, Senator.
Senator COUZENS. But what is your occupation?
Mr. LEGER. I am a lawyer.
Senator COUZENS. A lawyer. How long have you been practicing law in Haiti?
Mr. LEGER. Since 1913.
Senator COUZENS. Where did you graduate?
Mr. LEGER. In France.
Senator COUZENS. You graduated in France?
Mr. LEGER. Yes, sir.
Senator COUZENS. Are you a Haitian?
Mr. LEGER. Yes, sir; Haitian born and Haitian citizen.
Senator COUZENS. And in what kind of practice were you engaged in Haiti?
Mr. LEGER. In general practice of law. We do not specialize. I may add that I do not wish this committee to think that I have any anti-American feelings. I have a very large American practice.
Senator COUZENS. And do you represent American firms and individuals in practice in Haiti?
Mr. LEGER. Mostly.
Senator COUZENS. They are mostly your clients?
Mr. LEGER. They are mostly my clients; yes, sir.
Senator COUZENS. Name some of them.
Mr. LEGER. I can give you the Haitian-American Sugar Co. I can give you the Electric Light Co., which is controlled by American interests. I can give you the Texas Co. I can give you the Panama Railroad Co. I can give you, when they were down there, the American Foreign Banking Corporation. I can give you the Haitian Pineapple Co., which is entirely an American concern. I can give you—well, I would have to think them over. The lard factory, which is financed by Americans. My practice is mostly American.

Senator KING. Mr. Leger, you presented the Haitian case in the recent Forbes committee investigation which was had in Haiti?

Mr. LEGER. I had the honor, Senator, of being the counsel for the Haitian people before the Forbes committee.

Senator KING. And you are familiar with the Haitian conditions?

Mr. LEGER. Very familiar, yes, with them.

Senator KING. And the conditions which have existed under the American occupation?

Mr. LEGER. Yes.

Senator KING. And had contacts with the people, as well as with Mr. Russell, the high commissioner, American plenipotentiary, and general all around military leader down there?

Mr. LEGER. Exactly, sir.

Senator COUZENS. Who appointed you to represent the Haitian people before this commission?

Mr. LEGER. Nobody. I have come here as a private citizen.

Senator COUZENS. No; before the commission?

Senator KING. Before the Forbes commission?

Mr. LEGER. When the Forbes commission came down there the various groups of associations which were fighting for Haiti's independence got together and formed a central committee called the committee federative—federated committee—and I was appointed by that committee to act as representative of the Haitian people with the Forbes commission.

Senator COUZENS. Did any official of the Haitian Government appoint you?

Mr. LEGER. We were fighting the Government.

Senator COUZENS. Have you any way of determining what percentage of the Haitian people you represented before this commission?

Mr. LEGER. I can give it to you in an indirect way. Following the work of the Forbes commission elections were held, general elections were held, and the groupments which I represented, out of a total of 36 deputies and 15 senators, got every seat except one, which went to the Borno group, so we can state frankly that we represent the entire nation. Of course there were divsions between these groups, but they represent the entire sentiment of public feeling in Haiti.

I was making the statement that that loan was forced upon Haiti, and I want to add that I can prove that that loan is now being used as an argument by the State Department that they must remain in Haiti; that they must keep financial control in Haiti even after the treaty expires; and the point that I want to make is that that loan is now being used apparently for the reason for which it was made, and that is for purely political reasons.

The CHAIRMAN. Who made the loan to the Government?

Mr. LEGER. The Government made it, naturally. The Haitian Government made it on the face of it.

The CHAIRMAN. I know. They were the borrowers.

Mr. LEGER. They were the borrowers.

The CHAIRMAN. Who loaned them the money?

Mr. LEGER. The National City Bank.

The CHAIRMAN. Yes.

Senator COUZENS. And how much?

Mr. LEGER. There were three series of loans, but the main loan was a loan of $16,000,000. I will come to that later, Senator.

Senator COUZENS. All right.

Mr. LEGER. Now in order to make my point that this loan has been forced upon the Haitian people I think it would be necessary, if you gentlemen will be patient with me, that I describe the background of the situation in Haiti, because otherwise it is impossible for anyone not familiar with the conditions that have existed in Haiti to understand just what happened.

You all know that in 1915 a treaty was signed between the Republic of Haiti and the United States. By that treaty the Receiver-General of the Customs was appointed. A financial adviser, who was to be a functionary attached to the Minister of Finances and who was to advise the Haitian Minister of Finances as to what reforms and what steps should be taken to put the Haitian finances on a firm basis was appointed. A constabulary was to be organized. In the minds of the Haitian people that treaty meant that they were to get cooperation from the United States Government.

In fact we have never had cooperation. We have had absolute domination of the Haitian Government by the United States Government. This domination has been effected through complete contral of all the essential departments of the Haitian Government. The military government, of course, is entirely in the hands of the American Government. The gendarmerie, which is a local constable force, is headed by American officers. But in addition to that we have had American occupation by marines, and we have had a continual state of martial law existing in Haiti, so in reality the military command and the military force of the entire nation were under the orders and took orders from the American military commander.

The CHAIRMAN. For what purpose did the marines land?

Mr. LEGER. They landed in 1915 following a sanguinary revolution that had occurred there.

Senator COUZENS. What is the population of Haiti now?

Mr. LEGER. We have no exact census, Senator, but it is estimated between 2,500,000 and 3,000,000. That is the best estimate.

Well, as I said, the military is in full control of the operations there. And we have had very strict military martial law for quite a long time. If you wish me to illustrate what I am saying I will give you just one case as to how it functioned.

In 1918, following some difficulties which had existed between the then financial adviser and the Haitian Government, one of the leading newspapers got some information that the United States Government had decided to recall the financial adviser that was then in Haiti, Mr. Addison T. Ruan, and they put a short notice of that in the leading newspaper, saying that they had just learned that Mr. Ruan had been recalled, and that this just proved once more the spirit of justice and fairness which President Wilson wanted to show to small peoples. Well, for putting that small notice in the paper, the editor of that paper, which was one of the oldest papers of Haiti, was called before martial law. He was sentenced to $300 fine and to three months of imprisonment, and his paper was closed for three months.

The CHAIRMAN. What year was that?

Mr. LEGER. That was in 1918. The Haitian Government lodged a protest with the State Department, and Secretary of State Lansing answered that in his opinion the sentence was entirely justified in view of the offense that had been committed. I am just giving you this instance to show that martial law was in effect, and that it meant business in Haiti.

Senator COUZENS. Have you any later example than that?

Mr. LEGER. Why, yes; we have had several instances of martial law. We have had other men put in jail for press offenses or for offenses to the miltary authorities. This example that I am giving you is the most notable. That is why I quoted it.

I will add, however, that in later years martial law has been less and less applied. But at that time it was in full force, and at the time that the loans were made martial law was in full force. That is the point I want to make.

Senator COUZENS. When were the loans made? What year?

The CHAIRMAN. Yes; what year were the loans made?

Mr. LEGER. I will tell you the story of these loans later. Suggestions from the American Government started in 1917, and there was not a year that went by without some proposal being made by the State Department; 1919, 1920, two or three suggestions, 1921, and finally in 1922 when they got in Mr. Borno, who was nothing else but a tool of the American Government, they got it through. I will come to that later.

Well, having shown you that the military was in control of the military end of it, we now have the financial adviser.

Senator KING. The marines are still in Haiti?

Mr. LEGER. They are still in Haiti, Senator.

Senator KING. And only recently the Haitians got rid of Mr. Russell, who was the military commander there for a great many years?

Mr. LEGER. Mr. Russell was not only military commander at that time when we got rid of him but he was also high commissioner, whatever that may be, and he absolutely ruled the destinies of the Haitian people. We only got rid of the high commissioner following the hearings of the Forbes commission in Haiti.

The financial adviser has been not only what we would understand to be financial adviser, though. He has been the absolute dictator of Haitian politics and Haitian economic and financial matters. Time and again difficulties came up between the Haitian Government and the financial adviser on account of his attitude.

When time came for the budget, the financial adviser was not then in Haiti. They would have to send messages and call him back. And the first financial adviser came back in 1918, I believe, when this instance came up—he came back to Haiti only 15 days before the legislative session was ended, and the budget was supposed to be presented at the beginning of the session. He came back after telegrams had been sent to him calling him back. And then he refused to discuss any budget that had been prepared by the Haitian Government. He just sent the lump figures without any explanation to the Haitian Government and told them that they had to get these figures voted immediately.

Senator KING. Who collects the revenues?

Mr. LEGER. The receiver general.

Senator KING. Not the Haitian Government?

Mr. LEGER. The Haitian Government's finances have been taken completely away from them. Under the treaty we had only given the collection of customs through the financial adviser to the receiver general, but following this incident about the budget, when the Haitian Government absolutely refused to just take a lump sum without discussion, without knowing what it was all about, why Mr. Ruan decided that he would stop payment of all salaries of every functionary in the country until his lump sum had been voted as dictated by him.

Following that decision General Russell, who was then military commander of the occupation, under martial law again—this is another case of martial law—wrote to the Banque National of the Republic of Haiti and forbade them to pay 1 cent to the Haitian Government. That is, he took hold, under martial law, not only of the customs duties already collected by the receiver general but of the internal taxes, which they had no jurisdiction over under the treaty. So he strangled the Haitian Government when they could not get 1 cent out of the treasury, and after a month, when the officials were not paid—the people of Haiti are not very rich—the Government of Haiti had to give in.

I am giving you this instance to show that the financial adviser is not just an adviser, he is a financial dictator, and what he says goes. There is no discussion about it.

The only independent body that was left in Haiti was the legislative body. We had a Chamber of Deputies and a Senate.

In 1917 elections were held under American supervision. A proclamation was made by the then commander in chief of the American occupation that marines would see to it that the elections would be fair. Elections were held in January, 1917, and the new Congress and the new Senate were to take office on April 15 for a period of three years, and they could not be dissolved under the Haitian constitution, no more than the President of the United States can dissolve the American Congress.

Congress met, according to the law, on April 15.

Senator COUZENS. 1918?

Mr. LEGER. 1917. On the following day, the first meeting, they received from the Haitian Government a memorandum emanating from the American Legation stating certain suggestions that the American Legation wanted embodied in the new constitution that was to be drafted. Among these suggestions was a suggestion that the article which existed in the previous constitution forbidding foreigners to own land in Haiti should be abolished. The legislative body took the position that they could not receive suggestions from a foreign embassy. That if the Haitian Government wanted to accept these suggestions from the American Legation and make them their own suggestions and come and discuss them before the chambers, why we would discuss it with the Haitian Government. But we did not feel—I am saying "we"; I am sorry. I say "we" because I was a member of that congress. The chamber did not feel that they could receive direct suggestions from a foreign legation and act upon them.

Furthermore, popular sentiment was overwhelmingly against the abolition of that clause denying the right of ownership to foreigners.

So the congress went ahead and voted the constitution. But the day it had finished—it was working on the last article of that constitution—we received a visit from Gen. Smedley Butler, of whom no doubt you gentlemen have heard, and he was accompanied by quite a lot of marine officers and soldiers, and he had a decree of dissolution of the chambers. They went through the files of the congress and got all the evidence concerning the new constitution that had been voted. Then they put us out and they padlocked the congress.

The CHAIRMAN. This was in 1917 or 1918?

Mr. LEGER. This was in 1917, Senator. Since then we have had no Congress until the Forbes commission came in 1930. They put up in place of the Congress a so-called council of state composed of 21 men, who received the legislative power, the power to make laws. But the members of this council of state were appointed and revoked by the President of the Republic. That is to say, of course, that any so-called congressman that did not vote without any discussion projects presented by the Government was immediately fired. And the point I am making is that consequently we had absolutely no independent legislative power. So that the American Government, through the military forces, through the financial adviser, and through the absolute control of the legislative branch of the Government was in absolute domination of the Haitian situation.

Senator COUZENS. When you had the election in 1917 how many voters did you have?

Mr. LEGER. I could not remember the exact figures. But the elections were held under American supervision. In Port au Prince I can give you the figures, because I ran as congressman. And as far as I can remember I was elected by around 7,000 votes in Port au Prince, for one-half of the city. I can not give you the exact figures of the number of voters, because it goes way back——

Senator COUZENS. You had an election in 1930?

Mr. LEGER. We had an election in 1930 after the work of the Forbes commission. Before then we have had the régime of the council of state. Practically, the executive power made the laws. I will show you the evidence as regards the loan. The law which authorized the loan was sent by the American Legation to the Haitian Government. It was written by the American Legation, sent to the Haitian Government, and voted by the council of state.

The CHAIRMAN. What loan have you reference to now?

Mr. LEGER. The 1922 loan.

The CHAIRMAN. The 1922 loan?

Mr. LEGER. The project of law authorizing the issuance of that loan was not drafted by the Haitian Government. It was either drafted by the State Department or its agent, the high commissioner. But in his memorandum asking that the loan be proceeded with he sent that project to the Haitian Government to be voted on.

Now that I have given you about the picture of the conditions that have existed in Haiti I will come, if you please, to the matter of the loans.

Senator COUZENS. Before you start on that. Have things been going better since the Forbes commission have been there?

Mr. LEGER. Senator, things are going better in a certain sense. The Forbes commission made out a plan by which we would get

President Borno out of the picture and by which a neutral, a man named Mr. Roy, was elected as a temporary President, and his job was to hold impartial elections. He had no political aspirations; he had no political affiliations. And we have had absolutely fair elections. In 1930 we had an independent body of men elected as congressmen and senators, and they in turn, expressing the will of the majority of the people, have elected the President of Haiti. So we now have an absolutely independent Congress and an independent Senate. But they have not done away with the financial adviser. And so we are bound to have, and we have already been having, conflicts between the financial adviser and the Haitian Government, because the office of the financial adviser can not logically function with an independent Haitian Government. The financial adviser takes the position that he can dictate what can be done.

Senator JOHNSON. That is, you have improved so far as the control of your Government is concerned?

Mr. LEGER. Yes.

Senator JOHNSON. But you have not improved at all so far as financial domination is concerned?

Mr. LEGER. No.

Senator JOHNSON. That is about the distinction, is it?

Mr. LEGER. And it is even going to make, from a practical point of view, in my opinion, matters worse, because we are bound to have conflict, constantly between the two powers. The financial adviser considers himself in power, and the Congress thinks itself in power. We are bound to come in conflict.

The CHAIRMAN. What is the total indebtedness of Haiti?

Mr. LEGER. When the loans were made there was a $16,000,000 principal loan. That was called the series A loan. Then they put a series B loan for the internal debt, of $5,000,000. That brings it up to $21,000,000. And they put another loan of $2,660,000 for the national railroad, bringing it up to a total of $23,660,000. Now since then we have reduced that debt considerably.

The CHAIRMAN. Reduced it?

Mr. LEGER. Oh, yes. We paid the sinking fund and we bought some of the bonds in the open market. Our total indebtedness now is around $14,000,000. I will give you the exact figures. And in these $14,000,000 you must count almost $2,000,000 that the Government owns, and they have not retired them. They bought them on the market. So that we really only owe around $12,000,000 now.

Senator JOHNSON. Will you go back, as you were endeavoring to do, beginning with the first loan, and then chronologically continue the story?

Mr. LEGER. Yes, sir. I would like first to submit the very first attempt that was made to get Haiti——

The CHAIRMAN. Before you leave that. Who holds the obligations against the Haitian Government?

Mr. LEGER. Well, they are supposed to have been sold on the open market.

Senator KING. In the United States?

Mr. LEGER. In the United States; yes, sir. My understanding is—I have no evidence of it—my understand is that the National City Bank holds a considerable amount of our loan. You see these bonds are registered only at the bearer's wish. I have no evidence as to

exactly who owns these loans. But I understand that the National City Bank owns a substantial amount.

Senator JOHNSON. I did not catch what you said with regard to the loans, about the bearer?

Mr. LEGER. They can be registered if the bearer wishes to have them registered.

The CHAIRMAN. If what?

Senator KING. If the bearer wishes.

Mr. LEGER. If the bearer, the holder of the bonds, wishes to have them registered in his name he can do so, but he is not obligated to do so.

Senator JOHNSON. These are bearer bonds?

Mr. LEGER. These are bearer bonds, but there is a clause in the contract saying that the bonds can be registered as to principal only.

Senator JOHNSON. Does the United States Government guarantee these loans?

Mr. LEGER. Well, we will have to explain these contracts.

Senator JOHNSON. Very well, go ahead chronologically.

Mr. LEGER. We will have to explain these contracts. They have taken the position that they do, but it is not in the contract. Made no guarantee.

Senator JOHNSON. Well, that takes you back, does it not, to the original treaty; what we call the protocol?

Mr. LEGER. No; it takes us back to the original treaty, to an additional act made in 1917 under which the treaty officials and the financial adviser are now functioning, and which the Haitian people consider is absolutely inexistent legally, and which in my opinion as a lawyer I believe is really inexistent. And I will try to show you that.

The CHAIRMAN. Do you know the length of the obligation? The date of payment?

Mr. LEGER. Yes. The obligations were 30-year loans. The $16,000,000 loan was made in 1922, and the last one will mature in 1952. Furthermore, that contract carried a clause that the Government would not have the right to repurchase that loan before 15 years, so that we are tied up according to that contract at least until 1937.

Senator THOMAS of Idaho. You say that you have purchased some of your bonds in the open market?

Mr. LEGER. Yes.

Senator THOMAS of Idaho. You mean that the Haitian Government has purchased them?

Mr. LEGER. We have had some reserves, we have been having excess surplus, and in 1926 the financial adviser, in view of the fact that the National City Bank, where the money was deposited, was only paying an interest of 2 per cent on three or four million dollars that we had there—the financial adviser advised that in his opinion we should invest money in our own bonds, and we bought about $1,500,000 at 99½.

Senator JOHNSON. Who was the financial adviser in 1926?

Mr. LEGER. It must have been Mr. Cumberland. Anyway, this financial adviser has continued the practice, and it has been a disastrous thing.

The CHAIRMAN. By having bought them?

Mr. LEGER. By having bought them. You see the stocks have gone down.

The CHAIRMAN. That would not make any difference, about the stocks having gone down.

Mr. LEGER. The bonds have gone down.

The CHAIRMAN. That is in the market, but not as to the payment by Haiti. She would have to pay the whole thing.

Mr. LEGER. But no, Senator, they did not retire these bonds. This was only bought with our surplus which was held in the Treasury. Now, here we get to the situation where we may need our money. If we sell them when they are down we can not get anywhere near what we paid for them.

The CHAIRMAN. If you bought the bonds it was because you had the money.

Mr. LEGER. Yes; but that money was supposed to be laid aside for days of need. Now, the days of need have come, and we have no money, because we bought them at 99½, and we can only sell them at 63.

The CHAIRMAN. Who had the power to redeem the bonds?

Mr. LEGER. The financial adviser.

The CHAIRMAN. And you had the money there lying idle?

Mr. LEGER. No. You do not get the picture.

The CHAIRMAN. Well, you say that you bought so many million dollars of the bonds.

Mr. LEGER. According to the contract we have a sinking fund which we must pay each year. The first year was $150,000 sinking fund, and every year that increases by $5,000. The second year we retired $155,000. That was the regular sinking fund. These bonds have been retired and canceled.

The CHAIRMAN. So you retired no more than your sinkung fund provided?

Mr. LEGER. Exactly. But the Haitian Government upon advice of the financial adviser bought bonds in the market so as to get 6½ per cent interest instead of 2 per cent interest.

The CHAIRMAN. If you had the money that was a good business transaction.

Mr. LEGER. The idea may have been good, but it turned out badly.

The CHAIRMAN. It turned out badly because you can buy your bonds now cheaply. That is the same with every individual in the world to-day.

Mr. LEGER. Because we now need the money to-day and we can not get it.

The CHAIRMAN. All other people are in the same fix. Who was responsible for that? Was it wilfully done?

Mr. LEGER. Well, I do not suppose it was wilfully done.

The CHAIRMAN. Well, it was the judgment, then, of the man there that that should be done, to redeem the bonds, was it not, under the terms——

Mr. LEGER. They are not redeeming the bonds. Their transaction was not to redeem the bonds. They thought in their judgment——

The CHAIRMAN. Well, they bought them, did they not?

Mr. LEGER. They bought them as an investment. They made the Haitian Government go into the stock market, as you might call it—they made the Haitian Government go into the stock market, that is

what the operation comes to, go into the open market to buy bonds, and now the bonds have gone down.

The CHAIRMAN. Well, that was the case with all bonds. You did not know that they would go down, did you?

Mr. LEGER. No.

The CHAIRMAN. Nor did anybody else.

Mr. LEGER. But it would be assumed, though—I am not a financier, Senator—it would be assumed that when you buy bonds at 99½ and the par is 100, that there is not much chance for them to go up.

The CHAIRMAN. There may be.

Mr. LEGER. They could only go up one-half point.

The CHAIRMAN. There was no question in the mind of anyone in Haiti at the time but what they were redeeming the bonds, taking that amount of obligation off of the country. They owed it anyhow.

Mr. LEGER. It was not the idea of taking them off, because the idea was that they would sell them eventually if they needed the money.

The CHAIRMAN. It was to redeem the bonds, as I understand, under the contract.

Senator LA FOLLETTE. If I understand you correctly, this was not a part of the contractual retirement of these bonds. As I understand it, you had a sinking fund. You were complying with the contract, the long contract, so far as the sinking fund was concerned?

Mr. LEGER. Exactly.

Senator LA FOLLETTE. But this transaction that you are now describing occurred when the Government had a surplus?

Mr. LEGER. Yes.

Senator LA FOLLETTE. A surplus of money on hand?

Mr. LEGER. Yes.

Senator LA FOLLETTE. And the financial adviser, or dictator, as you term him, told the Haitian Government to go into the market and buy its own bonds as an investment?

Mr. LEGER. Exactly.

Senator LA FOLLETTE. Instead of keeping the funds either in cash or investing them in any other way that the Government saw fit?

Mr. LEGER. Exactly, Senator. And now we need the money. The financial adviser says that he can not recommend that we sell these bonds, because we are going to lose money on them; and it is a fact that, if we sell these bonds, we are going to lose about 33 per cent on our investment.

Senator THOMAS of Idaho. Have the Haitian people defaulted in payment of interest on their bonds?

Mr. LEGER. No; we have not defaulted. And not only have we not defaulted, I think we are the only Government on God's earth that has been making payments in advance. We have been making payments in advance.

Senator THOMAS of Idaho. And yet the bonds are selling at 63?

Mr. LEGER. The bonds are selling at 65. Not only paying in advance, but the bondholders have got practically the guarantee of the United States Government, and President Hoover has made the statement, even, that he is going to run the Government until every cent of that loan is paid. So that the United States Government has taken over the administration of that loan. Yet the bonds are at 65, or at 63, so it seems that we would be as well off financially if we did not have the bonds.

The CHAIRMAN. Did you protest against the redemption of the bonds at the time?

Senator KING. They were simply purchased.

The CHAIRMAN. Did you protest against the purchase of the bonds with the money that had been collected for the retirement of the bonds?

Mr. LEGER. Senator, you will have to take two things in that picture. In the first place——

The CHAIRMAN. No; I asked you, did you protest at the time?

Mr. LEGER. The only people that could have protested would have been the Haitian Government, and we had no Haitian Government.

The CHAIRMAN. Well, you are here protesting now. You are not the Haitian Government. Did you protest as a citizen of Haiti?

Mr. LEGER. We had no knowledge of it. The Haitian people had no knowledge of it. There are many things even now——

The CHAIRMAN. In other words, your foresight is not quite as good as your backsight in this matter.

Senator KING. That is not a fair statement, Mr. Chairman. They knew nothing about it. They had a government down there under martial law, under dictatorship.

Mr. LEGER. If you would like to explain what you mean by my foresight and my backsight I might be able to explain. I do not understand what you mean.

The CHAIRMAN. In other words, there are a great many people in the world to-day that thought years ago that bonds selling at par were worth all they paid for them, and the Haitian Government thought the same identical thing, and many of the bonds that were purchased then have decreased much more than the Haitian bonds have decreased in the market to-day. Now that is brought about by the condition existing in the world to-day, you know.

Mr. LEGER. Yes.

The CHAIRMAN. Now you are complaining of that very thing now. Nobody in Haiti knew anything about whether this market would be in the condition that it is, and nobody anticipated that the bonds would be lower than par.

Mr. LEGER. Naturally.

The CHAIRMAN. You can not make the people outside buy the bonds if they do not want to.

Mr. LEGER. Naturally.

The CHAIRMAN. And anybody could have purchased the bonds at the time, and they had the money that was paid for them at the time they redeemed them.

Mr. LEGER. That is not contested, Senator. The point I am making, Senator, is in fact that the operation turned out to be a bad operation for the Haitian Government.

The CHAIRMAN. The operation turned out to be a bad operation for the Haitian Government, certainly, and it is true not only of your country, but it is true of every country in the world.

Mr. LEGER. And there was no necessity for the Haitian Government going into the stock market.

The CHAIRMAN. You did not protest at all at the time?

Mr. LEGER. How could I protest at the time? I knew nothing about it.

The CHAIRMAN. Lots of people look back now and wish they had not done this or that they had done that. It is all right as a critic, you know, to look back and say, "Well, this is the result," when the critic himself may have done exactly the same thing.

Mr. LEGER. I think so. But if he could have done the same thing, at least he would have the satisfaction of doing it himself, Senator.

The CHAIRMAN. They did not consult you on it?

Mr. LEGER. I beg your pardon?

The CHAIRMAN. They did not consult you on it?

Mr. LEGER. No. I am not personally engaged in the thing. It is the Haitian people I am talking about. The Haitian people had nothing to do with this thing. It was all done by the financial adviser. You have got to keep that in your mind to understand the picture. Every step that was taken in Haiti was the act of the financial adviser and of the United States Government.

The CHAIRMAN. Well, do you have any information that the financial adviser at the time was purchasing those bonds with the view of defrauding Haiti in any way?

Mr. LEGER. I have made no such statement.

The CHAIRMAN. No.

Mr. LEGER. I have just said that he went into the stock market for the Haitian Government and that the Haitian Government stood a loss there. That is all I said.

The CHAIRMAN. Your statement seemed to imply that that was a thing that——

Mr. LEGER. We went into the stock market and we took a loss, I said. And there is an exchange of letters about it between the Minister of Finances and the financial adviser concerning this operation, and the financial adviser has to admit that we can not sell these bonds now because it is going to mean a loss. I do not mean to say that the financial adviser bought these bonds at the time with the idea that he was going to cause a loss to the Haitian Government, certainly not.

The CHAIRMAN. But he does not have to sell the bonds.

Mr. LEGER. Well, his letter says that he has either got to sell these bonds eventually or make a new loan. Our reserves have gone down. Supposing we have a deficit; how are we going to meet it?

The CHAIRMAN. That is the same as with the reserves of the Government of the United States and every other government in the world.

Mr. LEGER. But we have now come to the place where we have to sell these bonds and make a loss, or make another loan, and that would be worse.

Senator LA FOLLETTE. That would be extending the domination over your country for another period.

Mr. LEGER. Every time we borrow money we get more financial adviser.

Senator THOMAS of Idaho. You may be going to develop this point. What I was interested in particularly was the condition of these bonds now. They are selling at 63?

Mr. LEGER. They are selling at 63.

Senator THOMAS of Idaho. And you say they are not in default. Now are provisions made for keeping up the interest and going ahead so that they will not default?

Mr. LEGER. Senator, for this year the sinking fund and the interest have been deposited in New York in advance. Now in view of the existing conditions, the revenues of every country on God's earth now are decreasing, and the only eventuality that is foreseen for the year 1933 is that perhaps we will not be able to pay the sinking fund and the interest in advance. But there is no doubt in anybody's mind but that we will meet our obligations, for the good reason that apart from the salaries of the financial adviser and the receiver general, which come first, those loans have a second mortgage; they come after the salary of the receiver general and the financial adviser on all our customs duties, and it is a first mortgage on all our internal taxes. It takes about $1,500,000 a year to meet the sinking fund and the interest, and our revenues have never been lower down than four to five million dollars.

Senator THOMAS of Idaho. And in addition to that the Government of the United tates has an indirect obligation in connection with the loan?

Mr. LEGER. They have no financial obligation; no.

Senator THOMAS of Idaho. Well, an indirect obligation?

Mr. LEGER. If they wish to call it that, but they have no pecuniary obligation to the bondholders. But they get our first money. If there is only a million dollars in our treasury they get it first.

The CHAIRMAN. You think those bonds are worth dollar for dollar, do you not?

Mr. LEGER. Yes; I do.

The CHAIRMAN. Because of the fact that the Government will not buy it or there is no demand for it, whom are you blaming for that?

Mr. LEGER. I am just saying that this operation has resulted in a loss to the Republic of Haiti.

The CHAIRMAN. Yes.

Mr. LEGER. And the only person that can take the blame is the man that is responsible for that operation.

The CHAIRMAN. That is just like every other concern in the world. You ought to know different.

Mr. LEGER. Naturally, the man who makes the mistake has to support the blame in every organization.

The CHAIRMAN. Before this committee we have had evidence here that bonds are being met under the agreement, dollar for dollar, they are worth it to-day, just the same as the bonds in Haiti are to-day, and some of them are selling as low as 20 cents on the dollar. Now, Haiti is 63?

Mr. LEGER. Sixty-three.

The CHAIRMAN. She is three times much better off than some of the other governments are as far as the price of her bonds is concerned on the market to-day.

Mr. LEGER. May I proceed now with the story?

The CHAIRMAN. Yes; proceed.

Mr. LEGER. The first attempt that was made to induce the Haitian Government to make a loan in the United States is linked very closely with a political condition. In 1917 we had as financial adviser—it was the first financial adviser appointed under the treaty—a gentleman by the name of Mr. Addison T. Ruan. Mr. Ruan was the man that had been sent by the American Government to help us

organize our finances, put them on a sound basis, organize our system of accounting, and in a general way get our country on the road to financial recovery.

Senator KING. Had your country up to that time failed to meet any of its obligations?

Mr. LEGER. Our country had never defaulted on any of its obligations.

Senator KING. What were your outstanding obligations?

Mr. LEGER. We had three loans. One was the 1875, one was the 1896, and the other 1910. All were in France. They amounted to, roughly, 120,000,000 francs at that time. And interest and amortization funds had been paid or had been remitted for payment up to July 15, 1915. That is, up to a very few days before the American matter came up. We were not in default on any loans.

Senator KING. Your contention is that the treaty, as well as the protocol, were forced by the military power of the United States upon the Government?

Mr. LEGER. Yes. I am coming to that directly.

Senator KING. Excuse me.

Mr. LEGER. I am not so much insisting on the treaty, but I want to say that the loan was not the willful act of the Haitian people.

The CHAIRMAN. Could the Haitian Government have got along without the loan?

Mr. LEGER. Why, they might have had a year or two, perhaps just a year, of hard times, but they would have been much better off, undoubtedly, if that loan had not been made, and I am going to tell you why. In the first place we had enough surplus accumulated in 1922 to pay off almost entirely the 1875 and 1896 loans without touching a dollar of the American loan, due to the depreciation of the franc. That would have left us only the 1910 loan, which amounted to 87,000,000 francs. Now, that 1910 French loan was only a 5 per cent loan, paying only 5 per cent interest. And, as you know, the franc has gone down considerably.

Senator THOMAS of Idaho. That loan was payable in francs but not in gold?

Mr. LEGER. Well, we have a controversy. When I say "we"—we should not be having it. It is the American Government. Because when they made that American loan apparently they had had no contacts or negotiations of any kind with the French Government or the French people. And that 1922 loan was made primarily with the object of reimbursing the French loan on the depreciated franc basis. But a great many of the French bondholders, however, refused to accept that. And now we are having a controversy with the French Government. The money is over there in France. I believe there are 30,000,000 of these bonds outstanding, and the French Government is having a controversy with the Haitian Government, claiming that that should be paid in gold.

The CHAIRMAN. Do you remember what the bonds called for? Were they made payable in gold?

Mr. LEGER. The contract did not mention at any moment gold. It just said francs. But we had given as guarantees of these loans customs duties affecting the loans. The guarantee that was given was a gold guarantee. But the loan itself was a franc loan. However, up to now the matter is not settled, and the 1910 loan is not yet

refunded entirely. There is a fight going on with the Haitian Government which has absolutely nothing to do with the operation, and the French Government is claiming payment in gold.

The CHAIRMAN. Has the Haitian Government set aside reserves to retire that in the event they have to pay it eventually?

Mr. LEGER. The only time was that six or seven millions which was transferred at the rate of 6 francs to the dollar by the American adviser, with the idea of paying off the French loan, but he never got away with it. So we have a disturbing condition, and it affects our credit in France if we want to borrow money to-day. We can never get any credit in France until we settle that with the French Government. So our credit with France is directly impaired by that operation.

Well, in 1917, as I stated, Mr. Ruan had been appointed financial adviser. We have never known just what was the financial background of Mr. Ruan; whether he had had experience as a financier. The only information we have ever had, to my understanding, was that he was just a clerk in the Navy Department before being appointed financial adviser to Haiti. And he came down there, and he had quite a series of difficulties with the Government about budget matters, but in 1917 he wrote a letter embodying his suggestions for putting Haitian finances on a sound basis. And that letter is a very important document, because it has had a bearing on the very life of the treaty. And also it shows just how the thing worked as regards the loans. If it is not imposing too much on the patience of this committee I would like to read this letter, or part of it anyway, because it is a very important document.

The CHAIRMAN. You have an hour and five minutes. We would like to get through by 12, but of course if you can not, why, we will give you more time this afternoon, maybe.

Mr. LEGER. I have made a translation of this letter.

Senator THOMAS of Idaho. Are you going to read all the letter?

Mr. LEGER. Well, I will if you wish. Or I will read just the essential passages.

Senator THOMAS of Idaho. May I make the suggestion that after having read the part that you want to for the information of the committee, that you have the letter made a part of the record of the testimony?

Mr. LEGER. I have this letter in the official exposé of the situation made by the Haitian Government in 1917.

Senator THOMAS of Idaho. That will be a part of the record.

Mr. LEGER. But that letter is in French. I believe that the original was written in French. I have made the translation. In case that letter was written in French, then of course my translation can go. But I have made an English translation myself. The point I make is that if it was written first in English and then translated by the French Government, and in their records, and I made a translation of the French document, my translation may have a difference of a word or two in the English translation.

The CHAIRMAN. Would it make any difference?

Mr. LEGER. No; the meaning, the passages are absolutely identical.

The CHAIRMAN. Well, why did you make any change at all?

Mr. LEGER. I did not make any change at all, Senator. I have only made a translation from the copy of the French letter. The

letter is written in French in the book. Whether he wrote it in French or English I do not know.

Senator THOMAS of Idaho. I see.

The CHAIRMAN. Put the whole letter in so there will not be any question about it.

Mr. LEGER. Here are the essential parts of that letter, written to the Secretary of State for Finance and Commerce. He states:

Article 1 of the treaty of September 16, 1915, creates for the Government of the United States the obligation of assisting the Government to put its finances upon a sound basis. I have consequently made a careful study of the existing conditions and have arrived at the conclusion that it is advisable to effect a loan of $30,000,000 in order to reimburse all the existing and valid obligations of Haiti, and in order to procure funds for public works and ameliorations destined to develop the resources of the island that is so powerfully rich.

And then he goes on and says that the conversion would be a good thing. He keeps on by saying:

By reason of the conditions now existing in Europe the present moment offers circumstances that are exceptionally favorable for the reimbursement of the exterior debts having a nominal value of 120,000,000 francs, not including arrears in interest. We could buy the bonds with a discount and to reimburse them at the rate of 6 francs for $1, while the normal rate is 5 francs for $1. This difference alone in the rate of exchange will constitute, by itself, an economy of $4,000,000 in gold for the Government.

Then comes the vital point:

As to the possibilities of effecting the new proposed loan of $30,000,000, I have made painstaking inquiries and have convinced myself that same can not be negotiated for a period of time longer than the term of the treaty. And it is certain that Haiti could not bind itself to reimburse such a loan within the nine years that the treaty has still to run. In order that the banks and the capitalists agree to put their money in the loans, they must be assured that the conditions of the treaty will continue in force for the maximum period foreseen in article 16.

Then he keeps on and says that he has been taking money away and paying the Government, and further states, which is another vital point:

Now that, after careful—

and the word in French is "painful"—

after careful and painstaking studies of the needs of Haiti, I have formulated and presented a plan for the establishment of its finances on a firm and solid basis.

That is the $30,000,000 loan. [Continuing:]

a plan which has had the honor of approval by your Government. I believe it is my duty to indicate to you the necessity of taking immediately measures that will be essential for the application of this plan. These measures are that your Government, in order to bring the capitalists to subscribe to the proposed loan of $30,000,000, must inform the Government of the United States that Haiti desires that article 16 of the treaty receive all the extensions foreseen, and requests of it, in conformity with article 1 of the treaty, that it lend its good offices in order to induce the American syndicates to submit their offers to your Government.

That means that the financial adviser nine months after the treaty had been ratified told the Haitian Government:

You must make a loan, and in order to make that loan you must tell the American Government that you desire that the treaty be from now on extended for 10 years more, making a 20-year treaty.

And he adds:

The impossibility of obtaining this loan without these conditions is established by numerous researches.

And he continues by making a very distinct threat:

Present circumstances offer to Haiti an exceptional occasion to place its debt on a favorable footing, and there is every reason for your Government to take advantage immediately of the opportunity offered and to put its finances on a solid basis. And, in view of the existence of this opportunity, I do not believe that I can conscientiously prejudice the rights of the creditors of the Government by continuing to make advances to the Government for its current expenses in the absence of a definite plan for their restitution.

The CHAIRMAN. Who is it signed by?

Mr. LEGER. It is signed by Addison T. Ruan, financial adviser.

The CHAIRMAN. Of the United States?

Mr. LEGER. Yes; of the United States.

(The letter from Addison T. Ruan, financial adviser, to the Secretary of State for Finance and Commerce, is here printed in the record in full as follows:)

PORT AU PRINCE, *February 15, 1917.*

TO THE HONORABLE SECRETARY OF STATE FOR FINANCE AND COMMERCE,
Port au Prince.

SIR: At the date of September 26, 1916, I had the honor of submitting to you the following memorandum:

Article 1 of the treaty of September 16, 1915 creates for the Government of the United States the obligation of assisting the Government to put its finances upon a sound basis. I have consequently made a careful study of the existing conditions, and have arrived at the conclusion that it is advisable to effect a loan of $30,000,000 in order to reimburse all the existing and valid obligations of Haiti, and in order to procure funds for public works and ameliorations destined to develop the resources of the island that is so powerfully rich. Such a conversion of the existing debt will free the present affectations of the customs revenues, and consequently will permit the revision of the customs tariff asked by our commerce, present and future, and will, at the same time, allow the Government to increase its income for the current expenses by decreasing by approximately $2,500 per annum the fixed charges which now arise to the exorbitant sum of $4,000,000. By reason of the conditions now existing in Europe the present moment offers circumstances that are exceptionally favorable for the reimbursement of the exterior debts having a nominal value of Frs. 120,000,000, not including arrears in interest. We could buy the bonds with a discount and to reimburse them at the rate of Frs. 6 for $1, while the normal rate is Frs. 5 for $1. This difference alone in the rate of exchange will constitute, by itself, an economy of $4,000,000 in gold for the Government.

As to the possibilities of effecting the new proposed loan of $30,000,000, I have made painstaking inquiries and have convinced myself that same can not be negotiated for a period of time longer than the term of the treaty. And it is certain that Haiti could not bind itself to reimburse such a loan within the nine years that the treaty has still to run. In order that the banks and the capitalists agree to put their money in the loans, they must be assured that the conditions of the treaty will continue in force for the maximum period foreseen in article 16.

The advantages for Haiti reimbursing its finances as has been indicated, are so manifest that I hasten to submit for your consideration the utility of seizing the present opportunity before any changes in conditions occur.

Realizing the difficulties which would face your Government if the present affectations for the public debt were paid, this office has assumed the responsibility of advancing temporarily to your Government out of the proceeds of this affectation the monthly sums now required for the proper administration of the affairs of the country until it should be found possible to make a minute study of the existing financial problems and to submit a plan for a permanent solution. During this period of time necessary for a careful study and for wise con-

clusions, I have been subject to pressing importunities of the creditors in need, both foreigners and Haitians, and these importunities have become more pressing and more clamorous as the days gradually go by without bringing any comfort to them.

Now that, after careful and painstaking studies of the needs of Haiti, I have formulated and presented a plan for the establishment of its finances on a firm and solid basis, a plan which has had the honor of approval by your Government, I believe it is my duty to indicate to you the necessity of taking immediately measures that will be essential for the application of this plan. These measures are that your Government, in order to bring the capitalists to subscribe to the proposed loan of $30,000,000. must inform the Government of the Unted States that Haiti desires that article 16 of the treaty receives all the extensions foreseen, and requests of it, in conformity with article 1 of the treaty, that it lends its good offices in order to induce the American syndicates to submit their offers to your Government, indicating the terms upon which they would accept to make Haiti a loan of $30,000,000, to be reimbursed during the extended life of the treaty. The impossibility of obtaining this loan without these conditions is established by numerous researches.

Present circumstances offer to Haiti an exceptional occasion to place its debt on a favorable footing, and there is every reason for your Government to take advantage immediately of the opportunity offered and to put its finances on a solid basis. And, in view of the existence of this opportunity, I do not believe that I can conscientiously prejudice the rights of the creditors of the Government by continuing to make advances to the Government for its current expenses in the absence of a definite plan for their restitution.

With the assurance of my high esteem, I have the honor of being, sir,

Very respectfully,

ADDISON T. RUAN, *Financial Adviser.*

Mr. LEGER. Now that document is a very important document. This man who was our financial adviser tells the Haitian Government that he has made painful and painstaking studies of the needs of Haiti.

The CHAIRMAN. He was your financial adviser?

Mr. LEGER. Oh, do not call him ours, Senator. Call him yours.

The CHAIRMAN. Well, I do not know why you should say that. Now why?

Mr. LEGER. Well, the records will show that. Every time we had a fight with him the American Government was right back of him.

The CHAIRMAN. No; I do not mean you. I mean the Haitian Government.

Mr. LEGER. No; the Haitian Government. I am not talking of myself. I have no personal interest in the matter.

Senator KING. He was sent there by the American Government?

Mr. LEGER. He was sent there by the American Government.

Senator KING. He was a Naval officer?

Mr. LEGER. No, sir; he was not. He was a Navy clerk.

Senator KING. He was a Navy clerk?

Mr. LEGER. Yes.

Senator KING. And our Government made him official adviser?

Mr. LEGER. Yes.

Senator KING. And put him in charge?

Mr. LEGER. Yes. And he took his orders and had the support of the State Department.

Senator KING. What were the obligations of Haiti at that time? When he wanted to force a $30,000,000 loan on the Government?

Mr. LEGER. Well, as you see, it was to pay off the French debt, according to what he said.

Senator KING. What was that?

Mr. LEGER. The French debt amounted at that time to about 120,000,000 francs. That is a little less than $25,000,000.

Senator KING. In gold?

Mr. LEGER. No; in francs.

Senator KING. In francs I mean.

Mr. LEGER. But he considered that was a very good operation, because the franc was 6 to 1. He said it was wonderful.

Senator KING. Proceed.

Mr. LEGER. I was saying that this document is very important, because this man, who was supposed to be our adviser and to tell us what to do, tells us the first thing that we must do is to extend that treaty, which was made for 10 years; we must extend it for a period of 10 additional years. Now we have to go back to the treaty.

Senator LA FOLLETTE. And, as I understand it, he threatens in that letter that if you do not extend it he will cut off the revenue?

Mr. LEGER. He says he will cut off our revenues. We have got to make that loan to put our finances on a firm basis or he is going to cut off the revenues. And he tells us: You can only make that loan by extending the treaty. And although he does not say what researches were made, or what inquiries, the facts show conclusively that he had not been in touch with the bankers, because after we signed that paper he could not make that loan, so that evidently he must not have been in close contact with the bankers in New York, but he stated that he had made inquiries and researches, and he says that we could only get that loan if that treaty was extended. Now with regard to that treaty.

I will have to read to you the passage of that treaty. It is in English. Article 16 states that—

> The present treaty shall remain in full force and virtue for the term of 10 years, to be counted from the day of exchange of ratifications—

That was in May 1916. [Continuing reading:]

> and further for another term of 10 years if, for specific reasons presented by either of the high contracting parties, the purpose of this treaty has not been fully accomplished.

Now evidently to know whether the purposes of the treaty had been accomplished you would have to give the treaty a chance to run. That is to say, that the intent of the parties was that at the end of the treaty they should see if all the purposes had been fulfilled, and if they had not been fulfilled you could prolong it. But it certainly seemed very strange that after only 11 months they would know beforehand that the treaty had not accomplished its purposes.

Furthermore, when this treaty was voted it was voted by the Haitian chambers with what we call an interpretation, and that interpretation stated very clearly that the treaty could not be renewed until the end of the 10 years, and provided the Haitian Government was satisfied that there were sufficient reasons to prolong it. This interpretation, of course, would not bind the American Government, because it was not voted by your Senate, but it was certainly binding upon the Haitian Government, since it had been voted at the time of the treaty by the Haitian chambers.

Notwithstanding that they went ahead and they signed in 1917 the deed known as additional act to the treaty of 1916, which extends that treaty for a period of 10 years, and it is on the strength of that document that the financial adviser is now functioning in Haiti.

That document has been protested as being absolutely null by the recent chambers, and for the following reasons. In the first place it was made to a certain extent as an accessory of this proposed loan of $30,000,000 which never materialized. In the second place that additional act stated that it should be ratified by the established procedures of the two countries, and that ratifications thereof should be exchanged between the two Governments.

The CHAIRMAN. Were you sent here to testify by any authority in Haiti?

Mr. LEGER. No, sir; I was not.

The CHAIRMAN. You are coming here as a private individual?

Mr. LEGER. As a private citizen, having at heart the welfare of my country.

The CHAIRMAN. Who is paying your expenses?

Mr. LEGER. I am paying them myself, Senator.

The CHAIRMAN. Did you ask the Haitian Government for an appointment here?

Mr. LEGER. No, sir; I did not. I did not. The Haitian Government knows that I am coming here, but I have not been sent by the Haitian Government. I have not come at their request. I have not received any pay of any kind from them.

The CHAIRMAN. It seems to me that we had better confine ourselves to American loans, American finances, rather than to take up the question of France and the loans in France. I do not think that that is any of our business.

Mr. LEGER. Well, this is not a French loan. This is an American loan I am coming to.

The CHAIRMAN. Well, you are coming to it, I know that, but I wanted to know what authority you had.

Mr. LEGER. I have no official authority of any kind.

The CHAIRMAN. That is all right. I haven't anything more to say. Just go on with the other. Although I think this hearing ought to be confined to American finances.

Mr. LEGER. Yes. Well, that is what I am coming to.

The CHAIRMAN. Yes.

Mr. LEGER. I am just showing you how that loan was made. My purpose is to establish that that loan was a political loan made by the State Department, and I have to read you these documents to show you that.

The CHAIRMAN. Well, I do not think there is any question about that.

Mr. LEGER. I beg your pardon?

The CHAIRMAN. I do not think there is any question but what the loan was made by the American Government; that is, I mean perhaps made by the consent of the American Government. Now let us confine ourselves to that.

Mr. LEGER. Well, my point is not that it was made by the consent of the American Government. My point is that it was made by the will of the American Government.

The CHAIRMAN. Well, put it any way you want to. Let us confine ourselves to that.

Mr. LEGER. I am coming to it. May I proceed with this treaty?

The CHAIRMAN. If it has anything to do with the loan.

Mr. LEGER. It has, because it dominates the entire financial loan made in 1922. The additional act. It dominates the entire financial situation, as the loan was made between the United States bankers and the Government of Haiti, by the State Department. It dominates the entire situation.

As I stated, this additional act should have been, according to its own terms, submitted to the established procedures of both countries and ratified. Now that act was never published in any Haitian paper, official or not, until 1922. It was never passed upon by any Haitian chambers, and it was never ratified in any form or shape to my knowledge. And to my knowledge it was never ratified either by the United States Senate. No ratifications, consequently, have ever been exchanged by the Governments. The only thing was a statement that it had been ratified by the Constitution of 1918. That was a constitutional act voted by a plebiscite. But I do not see how a people could have ratified an act which they had no knowledge of.

This 1917 act, by virtue of which the American financial adviser acts now, and which was invoked as a guarantee of the loan made in 1922, was never published in Haiti, and was not known to the Haitian people until 1922.

After the 1917 act was signed Mr. Ruan went to the United States, and it is apparent at that time that he negotiated or made efforts to make that $30,000,000 loan. His efforts were unsuccessful. His efforts were entirely unsuccessful. And the loan was not concluded. In fact Haiti managed to get along without the loan.

But in 1919 another effort was made by the American Government to get the Republic of Haiti to make another loan. A protocol was signed on October 3, 1919, in execution of one of the articles of the treaty, which said that the Governments would sign a protocol for the liquidation of certain claims that were outstanding against Haiti. In that protocol it was stated that Haiti agreed to make a loan of $40,000,000, to be made not later than two years after the date of the protocol. And the protocol which was rendered public made absolutely no mention of the 1917 additional act.

I will have to read the essential passage of the protocol to you. article 4 of the protocol says:

> In order to make possible the settlement of the awards rendered by the claims commisison and the refunding of those obligations specifically mentioned in Nos. 1, 2, 3, and 4 in Article III above, and otherwise to establish the finances of Haiti on a firm and solid basis, the Republic of Haiti agrees to issue, upon the terms and at a time to be fixed in accord with the financial adviser, but not later than two years after the date of the signature of this protocol a national loan of 40,000,000 dollars gold ($40,000,000) payable in 30 years by annual drawings at par, or by purchase below par in the open market.

Then article 8 gives this first mortgage on our revenues as guarantee of the loan. But there is a clause which is a very important clause in this protocol, which says:

> It is clearly understood that this protocol does not in fact or by implication extend the provisions of the treaty of September 16, 1915, hereinbefore mentioned.

Now, this protocol is the only document that the Haitian people knew at that time. They had no knowledge of the existence of the additional treaty of 1917, and consequently——

The CHAIRMAN. You mean of 1915?

Mr. LEGER. No. I am talking about that additional act that was signed in 1917 extending the treaty. This protocol of 1919 makes no mention of that but states very clearly that this protocol—

does not in fact or by implication extend the provisions of the treaty of September 16, 1915, hereinbefore mentioned.

And it goes on to say:

It is agreed that the payment of interest and the amortization of this loan will constitute a first charge upon all the internal revenues of Haiti, and a second charge upon the customs revenues of Haiti next in order, until the expiration of the treaty of September 16, 1915, after payment of salaries, allowances, and expenses of the general receiver, and the financial adviser and their assistants; and it is further agreed that the control by an officer or officers duly appointed by the President of Haiti, upon nomination by the President of the United States, of the collection and allocation of the hypothecated revenues, will be provided for during the life of the loan after the expiration of the aforesaid treaty * * *.

So that for all Haitians who read this thing it meant clearly that, if this loan of $40,000,000 was made, as long as the financial adviser and the receiver general remained, in virtue of the treaty they were to control the revenues and apply them first to the payment of that loan, but that at the expiration of the treaty there was to be only an officer appointed whose sole duty would be to see that sufficient funds would be allocated in order to meet the payments; but there was never any intention of continuing the treaty or the financial adviser after the expiration of the treaty of 1916.

I want to make this point very clear, because it is the whole controversy that is existing now between the Haitian Government and the United States, who claim that in virtue of the loan they have the right to continue the financial adviser until every cent is paid.

We then at that moment had as financial adviser Mr. MacIlhenny. When conditions had gotten so bad between Mr. Ruan and the Government that it was impossible to do business with him, he had stopped salaries and gotten into fight after fight; finally the United States Government recalled Mr. Ruan.

The CHAIRMAN. What year was that in?

Mr. LEGER. Late in 1918. And the Secretary of State of Haiti requested the American Government, if they had to do these things that they send a financial adviser who could talk French, because it was essential for him to carry on the business of the Haitian Government, and they requested that the State Department before making the nomination should confer with the Haitian Government so we would know whom we were going to have and what were the qualifications of the financial expert. We had had Mr. Ruan, who was a Navy clerk, who had scant knowledge of financial conditions. It was a wise move on the part of the Haitian Government to request this. No answer was made by the State Department, but they sent down Mr. John MacIlhenny as the financial adviser. We have never had any specific information as to what were his qualifications as a financial expert, and it was our understanding that he had manufactured some sort of sauce.

Senator KING. What?

Mr. LEGER. It was our understanding that he had manufactured some kind of sauce before he had been appointed as financial adviser. He was occupying the position of the president of the Civil

Service Commission when he was taken out of that job and sent to Haiti. So here we had another man coming down here who apparently, to the best of our knowledge, had no apparent qualifications of any kind, financial qualifications. And this was the man that was given full control, full sway over the Haitian finances, and who was going to make that $40,000,000 loan.

Senator JOHNSON. When was he sent?

Mr. LEGER. He was sent in 1919. He had some very sorry experiences with Mr. MacIlhenny. He first came down there, and after the protocol was signed he went up to the States to make that $40,000,000 loan, and he could not get any loan. And on January 8, 1920, came a letter from him proposing that instead of making a $40,000,000 loan we should make a $25,000,000 short-term loan, to be guaranteed by $3,000,000 collateral notes bearing 6 per cent interest over a period of 30 years. Pressure was brought upon the Haitian Government, and they authorized MacIlhenny to make that $25,000,000 loan. He went back to the States, and he could not make that loan.

In November, 1920, he came back and made another proposal that we should this time borrow $15,000,000 short-term loans at 7½ per cent, with $25,000,000 collateral long-term notes as security. This time the Haitian Government put its back to the wall and said, "We will not borrow $15,000,000. We do not need $15,000,000. And if you insist upon making a loan we will make a counterproject." And they made a counterproject to MacIlhenny, saying, "We will only borrow $11,000,000, with $15,000,000 long-term notes as collateral." But the Haitian Government made the point and said: "If we make this short-term loan of $11,000,000, and guarantee it by $15,000,000 long-term notes, what about the difference if the $15,000,000 of notes are sold? We will just receive the $11,000,000, but who will get eventually the $4,000,000 difference between the $11,000,000 and the $15,000,000?" We have never got any answer upon that point from the financial adviser. However, there was a memorandum from the State Department accepting that proposition of the Haitian Government, and stressing the point that it was very urgent that that loan should be made immediately. I will read you the memorandum later.

The financial adviser went back, and he never was able to get that loan.

Then the Haitian Government really started the fight to get rid of that loan.

The CHAIRMAN. To what?

Mr. LEGER. Then the Haitian Government really started the fight to get rid of that loan. They had come to the conclusion that it was a bad thing for the country. And they did everything they could on God's earth to stop that loan being made. They raised the point that the loan could not be made under the protocol any more, because that protocol had foreseen that the loan should be made two years after its date. Not later than two years.

Senator KING. Not later than two years?

Mr. LEGER. Not later than two years. And the protocol having been made on October 3, 1919, naturally on October 3, 1921, the two years were over. They had at least 10 or 15 exchanges of notes trying to get away from that protocol and that loan, and the State Department every time came back and said, "We do not consider

that your arguments are worth "—I do not know how to express that—not to use a strong word—they did not consider that our arguments had any value, you see. "And we insist upon the protocol as being valid."

On November 3, 1921, the State Department submitted another project, this time for a loan of $14,000,000. And they submitted for the first time two concrete proposals. One was by the National City Bank and one was by the Speyer-Blair Syndicate. The National City Bank loan was a loan of 8 per cent, and the Speyer-Blair loan was a loan of about 8 per cent.

The Haitian Government refused to consider these loans, stating that in their opinion there was a question of the protocol that should be threshed out. That if any loan should be made there should be a new protocol.

There is a letter of January 18, 1922, from the chargé d'affaires, which is a typical letter, a very short one, that I would like to read for the record just to show you how these things were handled. Here is the letter in answer to the memorandum by which the Haitian Government stated that they considered that the protocol was not in force. Here is the only answer we got from the American Government:

LEGATION OF THE UNITED STATES OF AMERICA,
January 18, 1922.

MR. MINISTER: In reply to the memorandum of your excellency's Government under date of December 30, 1921, I am instructed by the Department of State to inform your excellency's Government that the Department of State can not take into consideration any suggestion questioning the validity of the protocol which my Government considers to be in full force and effect, and must stand upon its suggestion that authorization be sent to the financial adviser to undertake formal negotiations for a loan.

Senator KING. Who was the chargé?

Mr. LEGER. That was Curtis C. Jordan, American chargé d'affaires. So here you have a very curt note from the American chargé d'affairs replying, by authority of the Department of State, stating that the Government of the United States stands upon its suggestion that authorization be sent to the financial adviser to undertake formal negotiations for a loan. That is no longer a suggestion. It is an order.

The Haitian Government wrote back and stated that they might consider accepting the protocol providing certain modifications were put in the loan law, and on January 28, 1922, the same chargé d' affaires wrote back this letter:

LEGATION OF THE UNITED STATES OF AMERICA,
January 28, 1922.

MR. MINISTER: In a note dated January 19, instant, your excellency informed me that your excellency's Government is disposed to authorize the financial adviser to enter into formal negotiations for a loan of the nature of the proposition of Messers. Lee Higginson & Co. with certain modifications that are indicated in its memorandum of December 30.

I have the honor to inform your excellency that I communicated this note to my Government and in reply I am instructed to state to your excellency's Government that the Department of State does not discover in this note any departure from the position taken by your excellency's Government in its memorandum of December 30, last.

I am further instructed to state that a loan negotiated by the financial adviser on any basis not recognizing the protocol as being in full force and effect would not receive the sanction of my Government under the treaty.

Well, notwithstanding that pressure the Haitian Government still refused to make that loan. They played for time; they discussed about the protocol, and finally it got to the point where the year 1922 arrived without any loan having been made.

Now in 1922 the end of the presidential term of President Dartiguenave arrived, and there was consequently a new presidential election to be held. Very great pressure was brought upon President Dartiguenave. Of course the records do not show it, but it is matter of current knowledge in Haiti that President Dartiguenave could have been elected if he had promised to make that loan. President Dartiguenave refused to take any engagement concerning that loan, and consequently General Russell, who had come down as American high commissioner, withdrew his support from him, and President Dartiguenave fell out of the picture. Mr. Borno, who was the man who signed the convention of 1915 and who is also the man who signed the additional act of 1917 extending that treaty for 10 years, was elected as President of Haiti.

Senator KING. By whom?

Mr. LEGER. By the Council of State. And the Council of State, as I have already told you, was under the full domination of the Americans, because they held their job only by virtue of the will of the high commissioner. So that practically it can be said that he was elected by the Council of State and by the American Government.

Furthermore, it developed that Mr. Borno, under the Haitian Constitution, was not eligible, because he was born of a French father, and there is no doubt in any Haitian's mind that that thing was held over his head as a club by the American high commissioner. And the bargain that was made was that if Borno did not undertake to do what he was told, especially as regards the loan, he would not be recognized as the President of the Republic of Haiti.

Mr. Borno undertook to do what he was told, and he was acknowledged as President of the Republic of Haiti. He was inducted into office on May 15, and on June 1, that is, 15 days after, only, he published a long memorandum stating that the loan had practically been agreed to already by the government; that his government felt obliged to carry on the obligations, and that it was a good thing for the country, and that they were going to proceed with that loan.

On June 3 or 4—I do not know which—the American high commissioner submitted a memorandum to the Haitian Government embodying a project of law which was to be voted by the Council of State authorizing that loan, and on June 22, less than a month after Mr. Borno took office, that law was voted authorizing a total loan of $40,000,000, to be issued in series as the financial adviser was to see fit. That is how that law of 1922 was voted.

Up to then there had been three offers made by bankers in the United States. One had been the Speyer-Blair Syndicate, one had been the National City Bank, and the third had been Lee-Higginson. And the State Department had always stated that in their opinion the Lee-Higginson project was the best project, and should have been accepted.

But once this loan was voted there was a prospectus put out, and in that prospectus for the first time came up that question of the additional act of 1917. That is when it was brought out. And it was stated that this loan would be made by virtue of the treaty, having as guarantee of the treaty the protocol of 1919 and the additional act of 1917. That is really when the Haitian people got to know that that act existed; an act which had never been ratified.

Anyway, the prospectus was gotten out, and whether there were several sealed bids or not, I do not know. But what I do know is that the National City Bank got the loan. They got it on the basis of an offer of 92 and a fraction. In other words, for a $16,000,000 loan the Haitian Government got $14,700,000. Which brings the loan to over 30 years to yield an interest of approximately 7 per cent and a fraction.

That loan was supposed to be used primarily to reimburse the French loans. Then to pay of certain debts of the Republic. And was supposed to be used for constructive purposes. And the State Department had consistently urged upon the Haitian Government that one of the main reasons that this loan should be made was that it would enable the Republic of Haiti to remove or reduce considerably the very high export duty on coffee.

There is a memorandum of the State Department that insists particularly on this clause, and certainly it was one of the considerations that urged to a certain degree the Haitian Government to accede to the suggestions and to the pressure of the American Government.

I will read you that memorandum if you will allow me to do so, or that part of it anyway.

It must be said, before I read this thing, that in 1920 the commercial situation in Haiti was very bad. Coffee prices had dropped considerably, and the Haitian Government made a desperate effort to relieve temporarily the situation by reducing even for a short period the export duty on coffee so as to enable the Haitian peasant to get a better price on their coffee. They made repeated efforts to do that. But the American Government constantly refused, and they used as argument that if—here is one of the arguments they used, in a letter from the Legation of the United States, on January 4, 1921, in which they said:

> The Department states that the continuance of the present export duty on coffee is the prime factor upon which the loan for Haiti is to be computed. Therefore, to diminish this duty temporarily would necessarily militate materially against the success of the negotiations for such a loan which are now in progress, and the achievement of which my Government considers of vital importance for the establishment of the finances of Haiti on a firm and solid basis, as well as for the proper and efficient economic development of the country.

So that the American Government said "We will not allow you to remove that export duty, because we want you to use that as a guarantee for the loan." But it was also said that when the loan was made it would enable us to reduce the export duty. And in this connection here is a passage from a memorandum dated November 3, 1921, from the American chargé d' affaires, which begins this way:

> During the time which has elapsed since the receipt by the Department of State of the memorandum of the Haitian Government dated November 12,

1920, in which the Government of Haiti advised the Government of the United States of the conditions under which it was willing to authorize the flotation of a loan for the Haitian Government in the United States, the Government of the United States, in spite of the obstacles interposed, has not been unmindful of its treaty obligation to assist the Haitian Government in the realization of this desire and has continued its efforts to interest American bankers in a loan for Haiti.

Then it goes on to say:

The department feels certain that the Haitian Government is still of the opinion that a loan is a necessity for the welfare of Haiti—

Mind the term.

The department feels certain that the Haitian Government is still of the opinion * * *.

Well the Haitian Government was not very certain about that. [Continuing reading:]

The department feels certain that the Haitian Government is still of the opinion that a loan is a necessity for the welfare of Haiti for the following reasons:

And it gives two or three reasons. And it says:

Finally, but most important of all for the welfare of Haiti, the opportunity the loan will present to remove at an early date all export taxes on the products of the soil which have been referred to.

And it continues:

It is therefore earnestly hoped and urgently recommended by the Government of the United States that, after due consideration has been given to the above tentative loan offers, concerning which further details will be given if requested, the Haitian Government will cause no further delay to occur in transmitting to the Financial Adviser of Haiti, now in Washington, the necessary full powers in order that he may initiate formal negotiations * * *.

Now every time we have a communication with the State Department it is that urgent demand for negotiation of a loan. And the reason it gives was that not only we would pay off our French franc loan but we would get rid of our export duty on coffee. That loan was made in 1922, and there was still no reduction in coffee duty. There has been no reduction in the duty on coffee.

Well, as I was saying, that loan was made in 1922, and went to the National City Bank. The amount of profit made by the National City Bank has been testified to here, I understand, by Mr. Mitchell, and was a gross profit of $444,000, giving, I think, a spread of four points, whatever it was.

Then right again here we have an unfortunate experience with the financial adviser. I am not impugning his good faith, but it is a fact that every time the financial adviser in Haiti had made a transaction outside of the few collections of taxes for Haiti, the transaction has been unfortunate for the Republic of Haiti.

In 1919, when Mr. MacIlhenny was financial adviser, authorization was given to him to convert a sum of $3,000,000 which we had on deposit, into francs, and he was told to use his judgment as to the best rate and best time possible to make that conversion. Mr. MacIlhenny made that conversion and gave no notice of it to the Haitian Government. They only knew that the transaction had been made. They got notice of it through the French newspapers. He was financial adviser, and he had such power that he took our money,

our $3,000,000, and converted it into francs, and gave no notice to the Haitian Government. And they made a complaint, saying that they had learned of it through the French newspapers. That transaction, it turned out later, was made on a certain date on which the rate was 9 francs for a dollar, and about 10 or 15 days later it showed that the franc had gone down to 17 or 18 francs to the dollar. So that we made a loss of several million francs on that transaction. The transaction was made through the National City Bank. Whether they made a profit on it or whether they did not is a thing I can not testify about, because I have no evidence, but everybody in Haiti has the impression that there was a big profit made on it by somebody.

In 1922 the same thing happens again. In 1922 there is a portion of approximately $6,000,000 to $7,000,000 of that loan which was affected by the payment of the French loan. The financial adviser converted that at the rate of 12 francs to the dollar. And shortly afterwards the bottom fell out of the franc, and it went way down. So there again the Haitian people took another and a very severe loss. If we had kept that money in gold we would have gained more. But not only did we take that loss, but we got into a controversy due to the fact that no negotiations had been initiated with the French Government or with the bondholders as to how that French loan was to be paid. And I understand that about twenty-five millions of these bonds are still outstanding.

Senator KING. 25,000,000 francs?

Mr. LEGER. 25,000,000 francs; yes, sir.

Now, after the loan of 1922 was made there was a report by Mr. De Larue, I think made in 1930, which states that practically a very small part of that 1922 loan was used for constructive purposes. It was used to pay off debts, and part of it to settle French debts, but a very small part of that loan went into constructive purposes and for new enterprises in Haiti.

Then in 1925 they made a second loan with the National City Bank. That was to settle the obligations of the National Railroad Co. The National Railroad Co. is a company that has been operating in Haiti under a charter granted to it way back by one of the Haitian governments, under which the Haitian Government undertook to guarantee the interest on a certain amount of their outstanding bonds. I think it was around $3,400,000. And we guaranteed the interest on that.

Well, in fact the railroad has been a failure from the beginning to the end, and we were in arrears on the guarantee of interest. And when the financial adviser came in and they stopped making payments on all our debts, naturally they did on the bonds of the National Railroad, too. So that in 1922–23 these bonds had dropped to a ridiculously low sum on the French market. They were quoting around 60 francs for a 500 obligation. And if you take into account that the franc itself was very low, the entire issue of these entire things could have been paid back at a ridiculously small price and a great saving could have been made for the Republic of Haiti. In spite of that the only person who got the benefit of the transactions, so far as I can make out, was the National City Bank. Instead of the Haitian Government making a substantial saving, the National City Bank made a profit on it—I have no evidence of it, but it has

been stated as being two or three million dollars. In the book "Occupied Haiti" Mr. Douglas speaks concerning that.

Here is how the thing works. The Government of Haiti, having as fiscal agent the National City Bank, undertook to exchange these obligations of the railroad by direct obligations of the Haitian Government on the basis of $72 for every $96 nominal value of the outstanding bonds, and an issue of a loan was voted of $2,660,000 to be exchanged against the outstanding bonds of the National Railroad. And in addition to that I think the sum of approximately $2,000,000 was paid as past interest in cash. Now it is quite certain that the National City Bank bought up almost all those bonds on the French market at a very low rate, and they got the interest which was paid in cash, and they got the $2,660,000 worth of bonds. So that they made a very enormous profit on that transaction, which could have been saved for the Haitian Government, undoubtedly.

Furthermore, in the statement made by Mr. Mitchell there is another transaction that we Haitians do not exactly know what it means. He is giving this statement of the loans and issues that were made by his bank.

Senator KING. Referring to Mr. Mitchell's statement before this committee?

Mr. LEGER. Exactly. And you see he figures two loans made for account of Haiti by his bank. One of them is the October 9, 1922, loan of $16,000,000 which I have talked about. The other loan I just talked about of $2,660,000, was not a loan precisely, because it was just an exchange of obligations. But he mentions also another loan of $1,743,000 on which his bank got an enormous spread, a spread of 15 points. Now we do not know exactly what that transaction means. In the contract it was stated that the Haitian Government——

Senator JOHNSON. What date was that?

Mr. LEGER. That is June 30, 1925. Evidently there has been some transaction made by the National City Bank around the National Railroad in which they have made an enormous profit. Now what the transaction is we can not know exactly. The Government of Haiti had agreed that it would put up $1,740,000 new money for construction purposes of the National Railroad. But as the construction work has not been carried out it is not to my knowledge that that issue has been made.

Senator JOHNSON. Do you mean to say that nobody connected with the Government, so far as you are aware, knew anything about this particular transaction until the record here was produced?

Mr. LEGER. I would not want to make a statement as strong as that, Senator, because my information on that point is not very strong. I, personally, as a private citizen, knew nothing about it. To my knowledge there are now outstanding only three Haitian loans. In the report of the financial adviser, which is an official document, there is a mention made of only three Haitian loans.

Senator JOHNSON. Are you able to say whether or not anything in relation to that particular loan appears in any official document?

Mr. LEGER. I have never seen it. In the latest report of the financial adviser, dated November 30, 1931, all he mentions of the outstanding loans are Series A, B, and C, but he does not make any

mention of this. What this transaction exactly calls for I do not know.

Senator JOHNSON. Since you have seen it have you made any inquiry concerning it?

Mr. LEGER. I have.

Senator JOHNSON. Have you made any inquiry of the Haitian officials?

Mr. LEGER. I have talked with our minister, here, Mr. Bellegarde, and he does not seem to know anything about it either. I have talked unofficially with one of the officials of the Department of State—I would not like the name quoted—who is handling Haitian affairs, and he seems to think that it is through a mistake of the National City Bank that that was put in. He seems to think that it was not a loan made to the Republic of Haiti, but that the National City Bank knowing that bonds were going to be paid by the Haitian Government on exchange, went on the market and bought bonds from French bondholders, and it was just a big profit made by the Bank. But the way it has come here it has come under the form of a loan made, the date of issue, date it was bought, date it was sold out, the spread and the profit made. I can not understand it. But the only thing that is clear is that there again the National City Bank has made, to the detriment of the Republic of Haiti, a very strong profit.

These loans having been made under direct pressure of the American Government, the American Government has now taken the position that financial control of Haiti through the form of the financial adviser, must continue until every cent of that loan is repaid. And that is where the political aspect of this loan comes in.

Senator JOHNSON. Has that position been taken officially or in writing?

Mr. LEGER. It has been taken officially, Senator.

Senator JOHNSON. When?

Mr. LEGER. I understand that President Hoover in his message to Congress made a statement to that effect that was very clear. And a statement against which the Secretary of State of Haiti protested to the American Legation in an official letter. And in a recent controversy which has just developed in Haiti—I have newspapers concerning it—the financial adviser has now taken the position that his office is functioning by virtue of the treaty and by the loan. So that he is now taking the position, and it is a position evidently suggested to him by the State Department, that his office functions not only by virtue of the treaty, but also by virtue of the loan. He has stated that, and the Minister of Finance has protested, of course, very energetically against that.

Senator JOHNSON. Have you examined the terms of the loan agreements?

Mr. LEGER. Yes, sir.

Senator JOHNSON. Do they not refer to the protocol and say that they are executed pursuant to the protocol?

Mr. LEGER. They say that they are executed pursuant to the protocol, but the protocol does not foresee that the financial adviser is going to stay in office. The protocol, on the contrary, foresees the

end of the treaty and states that at that time the President of Haiti will appoint an officer—here are the very terms of it:

It is further agreed that the control by an officer or officers duly appointed by the President of Haiti, upon nomination by the President of the United States, of the collection and allocation of the hypothecated revenues will be provided for during the life of the loan after the expiration of the aforesaid treaty.

We recognize that we have assumed the obligation, although it was under constant pressure, to accept a fiscal agent or fiscal controller as regards the allocation of necessary funds to meet the loans and the sinking fund. But we certainly have never expected that the financial adviser's office will extend after the loan. The fiscal agent and the financial adviser are two different things.

Senator JOHNSON. Do you recall the language in that regard?

Mr. LEGER. The loans themselves refer to the protocol. You see this is the language that governs the contract.

Senator KING. That is to say, there is nothing in the bonds which have been issued which indicates or claims that the Government of the United States shall maintain the financial adviser there until 1956, the date of the maturity of those bonds?

Mr. LEGER. Absolutely nothing. And there was never any question of that. When the Forbes commission was down there there was absolutely no question about that. On the contrary, only a question of liquidating this thing. And when the Haitianization started they first got the public works into Haitian hands, and on October 21, 1931, the Secretary of Foreign Affairs of Haiti presented a complete memorandum to the American Legation stating that in view of this Haitianization, and in view of the relations that went before between the two Governments, he would suggest that they put in effect immediately the fiscal agent alluded to in this protocol, and he has proposed that they give full powers to collect the revenues of every source possible of the Republic of Haiti to the Banque National; that the Banque National will be authorized out of the revenues collected to lay aside first all sums necessary for the sinking fund and for payment of interest on the loan. That it is only after these sums have been set aside by the Banque National that the surplus will be turned over to the Haitian Government.

He has gone further. He has offered that the President of Haiti will appoint, upon designation by the President of the United States, an officer to be controller, and to have two assistants, and that he is to have a reasonable staff, to be paid by the Haitian Government, and these officers to remain and function until every cent of the loan is paid off. And their function will be to control the operations of the bank, and to see to it that the funds are allocated and put aside for the payment of the sinking fund and the interest on the loan.

He has further stated that before doing that the Haitian Government will undertake to keep the actual Haitians in the service of the Bureau de Contribution already familiar with the collections, as they are now in office, and that the Haitian Government would also undertake to keep the preferred rank to the payment of the constabulary, which comes immediately after the loan, you see, so

there would be no danger of the police force going to pieces until the loan has been paid.

That proposition has been lying before the State Department since October 1, 1931, and to my knowledge there has been no reply made yet, except this message to Congress stating that the financial control must be kept until every cent is paid. And against that the Haitian Government has protested very energetically.

Senator KING. Just for my own information, what are the functions of the bank in Haiti?

Mr. LEGER. The bank has a contract which authorizes it to effect all collections and make all payments for account of the Haitian Government. They get a small percentage of the collections. And they have the right to issue currency.

Senator KING. It is a bank of issue?

Mr. LEGER. It is a bank of issue.

Senator KING. Who owns the stock?

Mr. LEGER. It is a subsidiary of the National City Bank. The Haitian country is a territory of the National City Bank. You have got to get that clear in mind.

Senator KING. It controls your bank, which is a bank of issue?

Mr. LEGER. Yes. Collecting. It is our fiscal agent. Made our loan, and made all the arrangements that were to be made. There is no bank that has got such a hold on the life of Haiti as the National City Bank.

Senator KING. You have no voice in it?

Mr. LEGER. No; the only thing that the Haitian Government has is we have what they call a commissar, but his work is to check up the business that is done. But he has no influence on the bank of any kind.

Senator KING. A sort of a bookkeeper?

Mr. LEGER. He is a sort of a controller. For accounting operation. But he has no influence on the bank of any kind.

The CHAIRMAN. Was there anything else that you wanted to say? It is now 12 o'clock.

Mr. LEGER. I wanted to make it very clear, Senator, that, as I said before, the Haitian people feel that that loan that has been put upon them is a purely political loan made by the Government of the United States mainly for the purpose of maintaining political control over Haiti. And that that loan is now being used for that purpose. We have every respect for the American Nation, but the Haitian people will not accept that. They are absolutely determined—we may have our little quarrels among ourselves in local politics, but as to this matter they are united. They are willing to make every undertaking that is necessary to guarantee that that loan will be paid. They have always paid their debts in the past, and they are going to keep on undertaking it. But they will not stand for financial and political control of their country until 1953 just to satisfy a group of New York bankers.

There is a controversy going on between the two Governments now on that point. The situation which exists, if it is to continue, is bound to lead to trouble, because the financial adviser is taking the position that he is there in virtue of the loan—not only in virtue

of the treaty, but in virtue of the loan. And he eventually will want to continue dictating Haitian policies.

Now we have Haitain deputies, a Haitian Congress, and a Haitain Senate. They are going to want, as it is their absolute right, to do what they think is the right thing for the country. To vote such laws as they see fit. It is impossible that they do not come sooner or later into open conflict with the financial adviser. The Minister of Finances, who has his own duties to do under the constitution, who is bound by the laws voted by the chambers, he is bound sooner or later to get into open conflict with the financial adviser.

That is why we think that the only solution in conformity with the suggestion that has been made by the Forbes Commission, is that the nations get together and work out a reasonable plan for the liquidation of this financial adviser's office, leaving full guarantees for the bondholders for their money. We are willing to give every guarantee on God's earth that can be needed, but we want to do away with that financial adviser's office as it now functions.

And I wish to add, because it is fair, that when I make that statement there is no personal animus in Haiti against the present financial adviser. I think it is fair to him to state that he is one of the best men we have had down there for some time. He is not trying to ride over the Haitian Government and impose his views. But, by the very nature of his function, he is brought into controvery with the Haitian Government. They had a row over the last budget, and they are now having a very acid exchange of notes over the next budget for the coming year. So that is a solution, that is a point I wanted to make before the committee.

I would bring out another point, though, if you would permit. It might be thought that since the Forbes Commission and the Haitianization that the financial adviser would not still be looking to the State Department but would consider himself more of a Haitian functionary. That is not the situation. The financial adviser still considers himself as an American officer appointed by the American Government. I can illustrate that by one example.

There was a controversy came up between his office and the Royal Bank of Canada. The financial adviser's office claim that the Royal Bank of Canada had omitted paying a tax of $400 in stamps, and the Royal Bank of Canada claimed that they had complied with the law. When the thing came up, fearing that they would have trouble, they took it up with the Haitian Government and submitted a memorandum, and the Haitian Government, after examining the question, judged that the Royal Bank of Canada had complied with the law and was not subject to any fine. The financial adviser notified the Haitian Government that he was about to put a fine of three hundred thousand and some dollars against the Royal Bank of Canada, and was instructed not to do it because the Haitian Government was of the opinion that the Royal Bank of Canada was within the law. Well, notwithstanding the formal instructions of the Haitian Government, that order was issued. Over $300,000 fine for a matter of $400.

Naturally the Royal Bank of Canada went to its legation. The legation made a strong protest to the Government, saying that if

this thing was to go on the only thing to do was to close its bank and go out. The Government wrote to the Bank of Canada that it had been done without their approval and without their sanction, and a letter was written to the financial adviser, and the letter that he writes back is typical of the relations. He writes back to the Secretary of State of Finances the following letter:

SECRETARY OF STATE OF FINANCES:

MR. SECRETARY OF STATE: I have just received your letter of December 4, 1931, No. S-96, relating to the issuing of a bordereau against the Royal Bank of Canada for violation of the law on stamps.

In view of the fact that the Haitian Government is opposed to the action of the administration of the contributions in the present case, I have no other alternative but to submit officially the question to the American Legation in order to receive the instructions of the American Government.

Accept, Mr. Secretary of State, the assurance of my distinguished consideration.

S. DE LA RUE.

So that for a purely local thing, considering the application of a tax in which he does not agree with the Haitian Government, he comes right back and tells us that he is going to get instructions from the American Government. So I think that it clearly shows that even to-day the financial adviser is looking for his instructions not from his own authority, not from the Haitian Government, but directly to the State Department.

The CHAIRMAN. If there is nothing further, Mr. Leger, or if there are no further questions from any of the Senators present, that will be all. The committee will adjourn.

(Thereupon, at 12 o'clock noon, Wednesday, February 10, 1932, the hearing was concluded and the committee adjourned.)

(Letter received by the chairman from the National Association for the Advancement of Colored People:)

FEBRUARY 9, 1932.

HON. REED SMOOT,
Chairman Senate Finance Committee, United States Senate,
Washington, D. C.

MY DEAR SENATOR SMOOT: I have just wired you as follows:

"We have just learned that the Senate Finance Committee will reopen hearings to permit representative of the Haitian people, M. George Leger, to testify. May we urge upon the committee that it consider at the same time two memoranda from the National Association for the Advancement of Colored People which express the wishes of 12,000,000 American Negroes and many fair-minded American whites who are opposed to the throttling of Haiti by financial interests. We heartily indorse M. Leger and wish to express the hope that as a result of his testimony there will be strong recommendations by the Senate Finance Committee to end financial control by the American Government and American financial interests of Haiti, and that sovereignty may be restored to that Republic. Copies of our memoranda are being forwarded to you by air mail."

Inclosed are copies of the memoranda relative to the matter of loans forced upon the Haitian people, which we trust will be considered carefully by the committee and made a part of the official hearings.

May we express our appreciation to you as chairman and to the other members of the Senate Finance Committee for your courtesy in considering these matters.

Ever sincerely,

WALTER WHITE, *Secretary.*

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE SUBMITTED DECEMBER, 1931, BY THE NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE, 69 FIFTH AVENUE, NEW YORK CITY

HAITIAN LOANS IN THE UNITED STATES

The National Association for the Advancement of Colored People respectfully asks leave to call the attention of your committee to the flotation and the holding of loans made in this country in behalf of the Republic of Haiti, constituting virtually the entire foreign debt of the country. We request that your committee thoroughly investigate this financing, particularly the part played by the National City Bank, and the use of armed forces of the United States to enforce the provisions of treaty extensions and financial supervision governing this financing, over the protests of an unwilling neighboring republic.

In his message to Congress of December 10, 1931, the President noted that "investors have supplied capital desired by Haiti and that securities have been issued to them on the faith and credit of the provisions" of a treaty between this country and Haiti, "and the American financial control which it provided during the life of the bonds."

It has been publicly charged that both the treaty and the loans in their present form were forced upon the Republic of Haiti despite the protests of the Haitian people.

THE TREATY

In the Information Service of the Foreign Policy Association, 18 East Forty-first Street, New York, N. Y., Volume V, Nos. 19–20, dated November 27–December 12, 1929, on page 349, it is stated that "American control over Haiti, established through the convention of 1915, was maintained by the suppression of the Haitian legislature and the adoption of a new constitution. Moreover, the American authorities maintained a system of martial law and provost courts in the country, whereby any Haitian challenging the authority of the American occupation could be summarily tried. Finally, the American authorities exercised control over the press."

The "convention" of 1915 which was to run for 10 years, renewable upon its expiration for another 10-year period, was extended within two years—that is, in 1917—for an additional 10-year period to run until 1936. This extension was forced upon Haiti without the sanction of Congress or of any constituted Haitian Legislature.

The newly constituted Haitian Legislature in formal resolutions has repudiated as void the illegal treaty and protocol extensions.

In October, 1919, a "protocol" was signed (p. 369) in which Haiti agreed to establish a claims commission and to contract within two years a national loan not exceeding $40,000,000. The American customs receivership under the protocol was to continue during the period of the loan, fixed at 30 years.

The Haitian Government opposed the contraction of a foreign loan as large as that contemplated by the United States. It opposed the conversion of the internal debt into foreign obligations. It asked, in a memorandum of November 22, 1920, that the protocol be amended. It later opposed the negotiation of the loan by an American financial adviser, Mr. McIlhenny, who had previously, in 1919, suspended payment of Haitian salaries. In November, 1921, the Haitian Government informed the United States that the 2-year period appointed by the 1919 protocol for loan negotiations had come to an end, and that the protocol had therefore lapsed. But the United States insisted that this point be "waived."

It is charged that the election of President Borno, in 1922, was procured by the American authorities and it is a fact that with his election the opposition of the Haitian Government to demands of American authorities came to an end. The Borno government transferred the National Bank of Haiti to American interests—that is, the National City Bank and affiliates—and contracted a foreign loan.

THE LOAN

In the following two years three loans were contracted as follows:

Series A	$16,000,000
Series B	5,000,000
Series C	2,660,000
	23,660,000

The series A loan refunded the French debt. There was no demand on the part of French holders of this loan for refunding. The Haitian Government wished to limit the amount of the entire loan to approximately $6,000,000, the sum necessary to refund the French loan, but was obliged to convert its internal debt into a foreign debt as well. Part of the holders (said to be about one-half) of the French loan accepted reimbursement in paper. The remainder are demanding reimbursement in gold. We are informed that it is being charged that the National City Bank of New York holds 25,000,000 francs of the French loan of 1910. If these bonds were to be reimbursed in gold, an enormous profit would accrue to the present holders, at the expense of the Haitian people.

In the case of series C of the loan, this was "to liquidate the difficulties with the Haitian National Railway," of which the president was Mr. Roger L. Farnham, a vice president of the National City Bank of New York. Mr. Farnham, when the road went into receivership in 1920, was appointed receiver and his compensation from 1911 on was fixed at $100,000. Haitian railway bonds were exchanged for Haitian Government bonds thereby converting a contingent into an absolute obligation. The Haitian people are now paying interest on obligations of a railroad which is said to be virtually extinct.

Prof. Paul H. Douglas in Occupied Haiti (p. 46) stated that "It is not denied by anyone that the National City Bank now holds approximately 70 per cent of the railway bond issue."

SUMMARY

Enough has been presented to your committee to indicate that in the case of Haitian loans floated and held in the United States:

1. The treaty under which the loans were made was forced upon Haiti and the extension of the protocol under which the loans were made, as well as the treaty extension, were forced upon Haiti without ratification by any duly constituted Haitian Legislature.

2. The armed forces of the United States have been employed to enforce provisions of conventions and loan agreements accruing to the advantage of private American banks, especially the National City Bank, rather than to the benefit of the Haitian people.

3. It is charged that the proceeds of the Haitian loans were used in American financial manipulations, and that by the admission of the American financial adviser in his report for 1930, a comparatively small portion of the funds obtained from the three bond issues has been used for public works or productive enterprises.

4. For the first time in history, so far as we know, a treaty between nations was extended, not by the treaty-making bodies,—namely, in the United States, the President and the Senate—but by bankers dealing with themselves in Haiti and operating through the United States Department of State.

NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE,
New York, January 11, 1932.

Senator REED SMOOT,
Chairman Finance Committee, United States Senate,
Washington, D. C.

MY DEAR SENATOR SMOOT: Supplementing its recent memorandum asking an investigation by your committee of the imposition by force of loans upon Haiti for the benefit of private bankers in the United States, the National

Association for the Advancement of Colored People desires to call to your attention certain further facts.

On the 8th of January, 1932, in reply to criticisms from Senator Glass, the Department of State replied that "in fact it may be said no foreign loan ever has been made which purported to have the approval of the American Government as to the intrinsic value of the loan." This declaration of the Department of State seems to be in direct contradiction with the implied and expressed conditions governing the Haitian loan of 1922, floated in this country. Of this loan, President Hoover, in his message of December 10, 1931, said "The accord makes appropriate provision for the continuance of adequate financial control and assistance on the part of our Government. The liberty of action, both of the Government of the United States and the Government of Haiti with respect to questions of financial administration, is, of course, limited. In this connection it must be borne in mind that investors have supplied capital desired by Haiti and that securities have been issued to them on the faith and credit of the provisions of that treaty and the American control which it provided during the life of the bonds." This statement of the President acknowledges that for the protection of purely private interests the United States Government has forced the independent Haitian people to submit to financial and political control, which is the absolute negation of its sovereignty.

As to the assertion of the President that this loan was "desired by Haiti" this is a misstatement of fact. The loan of 1922 was imposed by the Department of State through pressure upon an unwilling government in Haiti. Part of the eventual loan of twenty-three millions were used to assume contested obligations of an American-owned company, the National Railways of Haiti. On August 5, 1930, the Haitian Chamber of Deputies voted a resolution inviting the executives to inaugurate discussions with the American Legation for the eventual suppression of the financial advisor and for his replacement by a fiscal agent authorized by the loan contract of October 9, 1922. The Haitian Government, in the latter part of October, submitted to the American Legation a project for the cessation of the American financial dictatorship in Haiti and a replacement by a fiscal agency which would guarantee American holders of the Haitian loan regular interest and amortization payments. The Department of State, up to the present, has been silent on this subject.

President Hoover has been misinformed when he states that "securities have been issued to them (investors) on the faith and credit of the provisions of that treaty and the American financial control which it provided during the life of the bonds." The treaty of 1915, imposed by force on the Haitian people, was to expire in 1926, having been ratified in May, 1916. It was renewed in 1917 in view of a loan of thirty millions which the American Legation proposed and which was not made. This additional act was an amplification of the treaty of 1915. It therefore constituted a new treaty which should have had the legislative sanction of both countries. It did in fact engage the responsibility of the United States Government in placing the obligation on the President of the United States to name an American official, namely, the fiscal agent, at a foreign government to supervise private interests. Such a clause should have been submitted to the Senate under article 2, section 2, paragraph 2 of the Constitution of the United States, the more so as this clause established a new and important innovation in American foreign policy, namely, the direct participation of the Government of the United States in the conclusion of foreign loans made by private bankers. This clause was not sanctioned by the Senate of the United States nor by the Haitian legislative chambers. The Haitian legislature, reconstituted in 1930 after having been dissolved in 1917 by the American occupation, declared in two resolutions that this additional clause was null and void for lack of legislative sanction.

Even if this additional clause had been valid, the office of the financial adviser must have lapsed with the treaty in 1936, not to continue as the President erroneously states "during the life of the bonds," that is, until 1952. On the contrary, in the protocol of 1919 the two governments and the holders of the obligations in the loan contracts especially foresaw the end of the treaty, and in view of this end provided for the organization of a control of receipts and allocations in accordance with the pledges "so as to assure adequately the amortization and all interest of the loan."

The National Association for the Advancement of Colored People desires solemnly to call to the attention of the Finance Committee of the United States Senate that the dealings involved in the arbitrary acts committed upon a neighboring and independent republic are a challenge to international law and a violation of the rudimentary dictates of political morality. The National Association for the Advancement of Colored People believes it the duty of the members of your committee to bring to light the facts in the situation and to see to it that public answer is made to the following questions:

(1) Did the Department of State take the initiative in proposing to the Haitian Government a loan floated by private interests in the United States? If it was the Haitian Government which proposed this loan, by what agent did it express its "desire"?

(2) What are the powers of the American financial adviser in Haiti under the treaty of 1915? Who appoints him? From whom does he receive instructions?

(3) Who proposed the additional act of 1917? What conditions were necessary to validate it?

(4) This act was to serve as a guarantee for a loan of $30,000,000. What American capitalists demanded, according to the declaration of the financial adviser, Allison T. Ruan, the renewal of the treaty of 1915 providing for military occupation of the Haitian republic as a guarantee of this loan of thirty millions? Why was the loan not made despite the additional act which was to serve as accessory to it?

(5) Who proposed the protocol of October 31, 1917, for the conclusion of a loan of $40,000,000?

(6) Who proposed on the 5th of November, 1920, a loan of twenty millions and to what discussions did this proposal give rise between the Department of State and the Haitian Government? Why was this loan not made?

(7) Who proposed the loan of October 9, 1922?

(8) What part did the Department of State have in the choice of the person charged with negotiating the loan in the United States? Did the Haitian Government make objection to the choice of this person, and did the Department of State impose this person on the Haitian Government as negotiator of the Haitian loan?

(9) What were the conditions of this loan?

(10) What has been the profit of the National City Bank in this operation?

(11) Were commissions paid to persons who participated in the negotiation of the loan? Who are these persons? The New York Times of January 9, page 6, quotes Mr. Breck of the firm of J. & W. Seligman, repiying to a question of Senator Johnson on the 8th of January before the Senate Finance Committee as saying, "It is customary for South American governments to entrust to some local resident the responsibility of coming to New York to see about loans." Were there such people in the case of Haiti?

(12) On what conditions has the National City Bank custody of the funds of the Haitian Government? In whose names are these funds deposited? Who gives the orders for their use?

(13) What use was made of the funds realized through the flotation of the three series of Haitian bonds, A, B, and C?

(14) What were the relations between Mr. Rogers Farnham, president of the National Railways of Haiti, and the National City Bank at the time when the loan was made?

(15) What is the situation of the National City Bank with regard to the National Railways of Haiti? Has it marketed the bonds of this company in the United States, or does the National City Bank retain these bonds?

(16) What is the responsibility of the National City Bank in the operations of the refunding of the Haitian foreign debt of 1910? Is the National City Bank involved in legal proceedings instituted at Paris by the holders of obligations of the 1910 Haitian loan who demand to be paid in gold francs refund of their bonds having been imposed upon them? Does the National City Bank holds bonds of this issue of 1910? If so, in what amount?

(17) What is the responsibility of the United States Government toward Haiti in this question of the refunding of the French loan of Haiti?

(18) What responsibilities does the Government of the United States assume with regard to foreign powers and their relations with Haiti in virtue of the

absolute financial control exercised by the United States Government over Haiti? For example, the American financial adviser has imposed a penalty of $304,000 on the Royal Bank of Canada at Port au Prince against which the British Legation has protested to the Haitian Government. The Haitian Government replied that this imposition was not in conformity with Haitian law. The American financial adviser applied to the United States Department of State for instructions. Does this mean that the United States Government is directing the foreign relations of Haiti as it directs Haitian finances?

Finally, the National Association for the Advancement of Colored People learns that the Haitian Government, through its accredited minister, Abel Leger, has offered to refund the entire amount of the loan of 1922 and to "repurchase" its freedom from the financial and military dictation imposed upon it by force of arms. We respectfully inquire of the Finance Committee of the United States Senate whether their primary interest is in the loss of American investors and whether they are willing to ignore the complete loss of independence to a neighboring foreign power due to the financial operations initiated and backed by the United States Department of State in the interest of private bankers. We respectfully urge that unless the charges made against the United States financial operations in the black Republic of Haiti are thoroughly investigated imputations of the gravest international malfeasance against the United States Government will continue to be made.

Respectfully submitted in behalf of the National Association for the Advancement of Colored People.

WALTER WHITE, *Secretary.*

HAITIAN LEGATION'S LETTER

TRANSMITTED BY

THE SECRETARY OF STATE

SECRETARY OF STATE'S LETTER

RE: HAITIAN LOANS

SECRETARY OF STATE'S LETTER RE HAITIAN LOANS

DEPARTMENT OF STATE,
Washington, February 1, 1932.

Hon. REED SMOOT,
Chairman Senate Committee on Finance,
United States Senate.

MY DEAR SENATOR SMOOT: I have received a note dated January 29, 1932, from the Haitian minister to the United States, in which he makes reference to his note of January 15 on the subject of Haitian financing in the United States. A copy of this note, in accordance with his request, was forwarded to you with my letter of January 20.

The Haitian minister now informs me that Mr. Georges N. Léger, a Haitian attorney, is coming to Washington, on the suggestion of the Haitian minister, for the purpose of testifying concerning the conditions under which Haitian loans were floated in the United States. The minister requests the Senate Finance Committee to allow Mr. Léger to testify before the committee. I am therefore, transmitting his request for the consideration of the Senate Finance Committee. I inclose a copy of the minister's letter, with a translation.

Sincerely yours,

HENRY L. STIMSON.

[Translation]

LEGATION OF THE REPUBLIC OF HAITI,
Washington, January 29, 1932.

Hon. HENRY L. STIMSON,
Secretary of State, Washington, D. C.

MR. SECRETARY OF STATE: In continuation of my communication of January 15 relative to the Senate investigation into the foreign loans contracted in the United States, I have the honor to inform your excellency of the arrival in Washington, soon, of Mr. Georges N. Léger, a Haitian attorney.

My official position preventing me from appearing before the Senate Finance Committee, Mr. Léger has kindly consented, on my suggestion, to come and testify on the conditions in which the Haitian loans of 1922 and 1925 were placed in the United States. He will be at Washington Monday evening, February 1.

I will appreciate it if the Senate Finance Committee will be good enough to arrange to hear Mr. Léger at one of its early sessions, on and after Tuesday, February 2.

Knowing the spirit of justice which distinguishes its members, I am sure that the committee will act favorably on this request of mine, which I beg that your excellency will be good enough to transmit to the honorable Senator Reed Smoot.

I avail myself of this opportunity to renew to you, Mr. Secretary of State, the assurances, etc., etc.

DANTÈS BELLEGARDE.

FEBRUARY 1, 1932.

Hon. REED SMOOT,
Chairman Senate Committee on Finance,
United States Senate.

MY DEAR SENATOR SMOOT: I have received a note dated January 29, 1932, from the Haitian minister to the United States in which he makes reference to his note of January 15, on the subject of Haitian financing in the United States. A copy of this note, in accordance with his request, was forwarded to you with my letter of January 20.

The Haitian minister now informs me that Mr. Georges N. Léger, a Haitian attorney, is coming to Washington, on the suggestion of the Haitian minister, for the purpose of testifying concerning the conditions under which Haitian loans were floated in the United States. The minister requests the Senate Finance Committee to allow Mr. Léger to testify before the committee. I am, therefore, transmitting his request for the consideration of the Senate Finance Committee.

I inclose a copy of the minister's letter, with a translation.

Sincerely yours,

DEPARTMENT OF STATE,
Washington, February 15, 1932.

Hon. REED SMOOT.
Chairman of the Committee on Finance,
United States Senate.

MY DEAR SENATOR SMOOT: A copy of the testimony of Georges N. Léger, of Haiti, before the Senate Finance Committee on February 10, which you were good enough to have sent to the department, has been read through and, while it would require an excessively long letter to answer all the points and misstatements which occur in his testimony, I do desire to make certain observations as to the facts disclosed by the department's records with respect to some of the principal points which he raised and which I will ask you to be so good as to have incorporated in the record.

On January 20 I transmitted to you a letter dated January 15 from the minister of Haiti, in which he said in substance that in the course of the inquiry being conducted by your committee a statement of extreme gravity was made by the representative of an important New York banking house to the effect that commissions are generally paid to the governments of Latin America contracting loans in the United States and that the exorbitant profits allotted to the syndicates which make these loans thus serve to cover in part these illicit commissions. The minister stated that this is an attack on the honor of all governments that have contracted loans in the United States and it is in particular an attack on the Republic of Haiti. He accordingly asked that the most complete light be thrown on the conditions under which the Haitian loan of 1922 was contracted in the United States and the profits which were made on this occasion by the National City Bank of New York and commissions which may have been paid to persons who participated in the negotiation of this loan. In a subsequent letter dated January 29, which I had the honor to forward to you on February 1, the minister stated that as he himself could not testify he had asked Mr. Léger to come to Washington for this purpose and he would like to have arrangements made for him to testify.

A reading of the testimony fails to show that Mr. Leger was concerned with the phase of the matter which was apparently troubling the Haitian minister, as he did not go into the matter of commissions other than to say that Mr. Mitchell of the National City Bank testified of the profit made by his bank. He apparently was not interested in finding out whether any Haitian officials had received commissions which appeared to be the motive behind the minister's two letters under reference.

Mr. Leger asserted at very considerable length that the Haitian people had never desired to make a loan in the United States market; that the loan was forced on Haiti by the American Government "for purely political reasons." He also charged the various financial advisers with using bad judgment in connection with the pur-

chase of Haitian bonds and did not scruple to say that they "made the Haitian Government go into the stock market." This charge is repeated a number of times. He also charges the financial advisers with bad judgment in the purchase of francs for retiring the French debt, and he makes a number of other assertions regarding martial law, the election of President Borno, etc., which will be covered later on in this letter.

With reference to Mr. Leger's statement that the loan of 1922 was forced on a reluctant Haiti for political motives, I will set forth the position of Haiti when the American financial reorganization took place, after the signing of the treaty of 1915.

The external debt of Haiti in 1915 amounted to 120,912,062 francs, or approximately, in the exchange of that time, to some $24,182,000. The internal debt at the same time was estimated at $7,514,686, or an estimated total debt of $31,696,686.

The foreign debt of Haiti arose from three loan issues made in 1875, 1896, and 1910. The issue of 1875 was a 5 per cent loan and the department has no record of the price which the Haitian Government received therefor. It was offered to the public at 86; 19,252,560 francs were outstanding in 1915. The loan of 1896 was a 6 per cent loan, which was offered to the public at 80. Again the department's figures do not show the amount that Haiti received therefor. Of this loan 37,638,500 francs were outstanding in 1915. The 1910 loan was a 5 per cent loan, 64,021,000 francs of which were outstanding in 1915. This loan was sold to the public for 88½. The Republic of Haiti received 72.3, less gratuities, etc.

Mr. Leger states that, up to the time of the American financial supervision, interest and amortization funds had been paid on all these loans. On page 2141 of his testimony, the following appears:

Senator KING. Had your country up to that time failed to meet any of its obligations?

Mr. LEGER. Our country had never defaulted on any of its obligations.

Senator KING. What were your outstanding obligations?

Mr. LEGER. We had three loans. One was the 1875, one was the 1896, and the other 1910. All were in France. They amounted to, roughly, 120,000,000 francs at that time. And interest and amortization funds had been paid or had been remitted for payment up to July 15, 1915. That is, up to a very few days before the American matter came up. We were not in default on any loans.

The facts, according to the information in the department's possession are that in 1915 Haiti was in default as follows: On the loan of 1875, the amortization was 12 years in default. In this connection it may also be noted that the interest on this loan, which was originally 8 per cent was adjusted in 1880 to 5 per cent. On the loan of 1896, the amortization was one year in default. Interest guaranteed on the national railway bonds had been in default since August, 1914. The interest guaranteed on the bonds of the P. C. S. Railway was also in default.

In this connection I should like to quote from page 8 of the report of the Senate Select Committee Investigating Haitian Affairs (Rept. No. 794, 67th Cong., 2d sess.), submitted on June 26, 1922. It is as follows:

It has been stated that the Haitian Government had never defaulted on the service of its foreign debts prior to the American occupation. This statement is not exactly correct, but it is undoubtedly true that it had exerted itself to an extraordinary degree to maintain the service of its foreign debts. Your

committee is informed that to do this the Haitian Government had, during the three years immediately preceding the occupation, floated internal loans at the rates of 59, 56, and 47, to a gold value of $2,868,131, had defaulted on salaries, pensions, etc., to the extent of $1,111,280, had borrowed from the Bank of Haiti $1,733,000, had issued fiat paper money, and had borrowed to a very large amount from private individuals at enormous discounts on treasury notes. The Haitian Government had, at the time of the American intervention, totally exhausted its credit both at home and abroad. The amortization of the loan of 1875 was in arrears. A great deal has been made of the fact that after the naval forces took over the administration of the customhouses and after the outbreak of the Great War, there was a time when, despite careful administration, both interest and amortization due on the Haitian debt were unpaid. This is true, but the inability of the Haitian Government and its American advisers to pay was due to the state of anarchy into which the country had fallen and to the inestimable injury to Haitian trade with Europe consequent upon the outbreak of the Great War.

There was thus in addition to the defaults mentioned above the further floating indebtedness incurred as set forth in the Senate select committee's report which has just been quoted.

Mr. Leger stated that Haiti could have got along without the loan of 1922. The above financial position, as well as the facts brought out in the letter inserted in the record by Mr. Leger of February 15, 1917, from Mr. Ruan, show that the Government was existing merely because the financial adviser was permitting the Haitian Government to use for operating expenses certain of the customs revenues which were allotted to the payment of the outstanding foreign loans and the floating indebtedness above mentioned. Haiti's credit, as stated by the Senate select committee, was exhausted both at home and abroad when our administration took over and the financial adviser could no longer leave unheeded the just demands of Haiti's creditors.

Under the American administration a claims commission was set up to adjudicate all outstanding claims and the floating indebtedness against the Government. On January 1, 1922, the financial adviser completely amortized the loan of 1875, and on December 31, 1922, the loan of 1896. The total outstanding indebtedness of Haiti had been increased from 1915 through the nonpayment of interest charges of the 1910 loan and an increase in the floating indebtedness. Haiti's total indebtedness, however, was refunded and consolidated by the issuance of three loans—series A, on October 1, 1922, for $16,000,000; series B, for $5,000,000, of which nearly $756,000 were never issued; and series C, for $2,660,000, or a gross total of $23,660,000.

The series A loan was bought from the Haitian Government at 92.137, which it will be noted is 20 points higher than Haiti's last previous foreign loan, namely, the loan of 1910, which was bought at 72.3 less gratuities, etc. This series A issue of 1922 was sold to the public at 96½. The department is advised that all these bonds have been distributed to the public. Haiti received from this loan $14,755,253.33. This money was used to retire the 1910 loan, to pay the interest guaranty of the National Railway bonds, the sinking fund guaranty of the National Railway bonds, to pay the indebtedness to the Banque Nationale, and such amounts of the awards of the claims commission as were to be paid in cash. The balance was used for public works. On December 31, 1931, there was outstanding on this loan $10,859,981.52.

The series B loan for $5,000,000 was not placed in the American market, but the bonds were used for refunding the internal debt of Haiti and for the partial payment of awards made by the claims

commission. In other words, the claims were paid partly in cash and partly in these B bonds. There were outstanding on December 31, 1931, B bonds to the value of gourdes 8,369,572.92, or $1,673,914.58.

The C bonds were issued in exchange for the guaranteed National Railway bonds. $2,660,000 was authorized and $2,658,160.80 was actually issued, and there were outstanding on December 31, 1931, of this issue, gourdes 8,976,328.30, or $1,795,265.66.

In contrast to Haiti's financial condition in 1915, as set forth above, its position on December 31, 1931, under American financial supervision shows that Haiti has no internal debt, no floating debt, and that its outstanding funded debt had been reduced to $14,329,161.76, and in addition there was an unobligated treasury surplus, including both cash and securities, of gourdes 16,462,841.50, equal to $3,292,568.30, of which sum $1,323,768.30 is in cash. I think you will agree with me that in view of this showing no fair-minded person would say that the United States foisted a loan on Haiti for political purposes. The truth is that the Senate Select Committee Investigating Haitian Affairs recommended in 1922 that this loan should be floated. Their recommendation is as follows:

> The Republic of Haiti owes, largely in France, some $14,000,000, part of which could have been paid when the franc was at a discount of 17 to the dollar and which can now be paid while exchange stands at about 10 francs to the dollar. The Haitian Government has lost something over a million dollars by delaying the refunding of the debt. It is still to the patent advantage of the Haitian Government to refund the debt by borrowing in dollars and paying in francs, when the francs are worth not 5 for a dollar, as formerly, but 10 for a dollar. Apart from this, in the opinion of your committee, it is of primary importance that the proposed loan should be made without delay, partly because it will afford a sum of money necessary to finish certain public works including the highway to Jacmel and that from Las Caholbas to Hinche, but also because under the proposed terms of the loan, the debt will be a general charge upon the revenues of the country and those revenues which are now specifically and irrevocably hypothecated to the service of certain loans will be freed from such rigid hypothecation and the onerous and inequitable revenue system of the country can be revised. There is appended to this report a table showing the contractual charges upon revenues in Haiti. A student of the Haitian financial system will be struck first by the charges upon exports (indirect and direct) and especially by the fact that they bear very heavily upon the poorest element of the population. If the debt be refunded as proposed, the revenue system can be revised and at one and the same time the burden upon the poor can be lightened and the export trade can be freed of uneconomic taxes.
>
> It may be added that the new refunding loan, if consummated, will be made upon better terms than those recently made in the American market by European and South American Governments.

This Government assisted Haiti to obtain such a loan to straighten out the financial chaos that then existed and its efforts since that time have been directed solely to helping Haiti and to doing what appeared to be to the best interests of the Haitian people. I use the words "Haitian people" advisedly because the policies of the United States under the high commissioner were directed to the best interests of the Haitian people as a whole instead of in the selfish interests of a privileged few.

I should like to point out, at this point, that when Mr. Leger was criticizing the purchase of bonds of the Haitian Government by the financial adviser he tried to make out a case of culpable responsibility and attempted to do this also in connection with the purchase of francs to repay the French loan. When he talks of paying off the

loans of 1875 and 1896 in 1922 he says "we," the Haitian Government, did it; that "we," the Haitians, have reduced our external debt to some $14,000,000, and that "we" have an unobligated treasury balance of three million two hundred and odd thousand dollars. In other parts of his testimony he states that the American financial control is absolute and dictatorial and that Haiti has nothing to do with it. The facts are that Haiti's finances were in a chaotic condition when the American control took them over and that the wiping out of the internal and floating debt, the reduction of the foreign debt from $23,660,000 to $14,000,000 and the accumulation of an unobligated treasury surplus of three million two hundred ninety-two and odd thousand dollars, is the result of the work of the American financial advisers. It is due to them that Haiti is now on such a uniquely solid financial basis.

Mr. Leger charges that the financial adviser of Haiti used bad judgment in purchasing Haitian Government bonds with the surplus funds which were earning 2 per cent at that time and states that the financial adviser "made the Haitian Government go into the stock market." This latter charge is wholly baseless and misleading. Several times in his testimony he talks about the financial adviser having the Haitian Government go into the stock market. The financial adviser did not purchase a single stock for the Haitian Government nor did he purchase a single bond for the Haitian Government except Haitian Government bonds. Had he purchased the obligations of others on behalf of the Haitian Government he could have been charged with going into the stock or bond market, but when he purchased obligations of the Haitian Government itself, for the account of the Haitian Government, such a charge is absolutely unfounded. Mr. Leger overlooks the fact that from the time of the purchase of these bonds the Haitian Government has been receiving 6 per cent instead of 2 per cent on its investment.

With regard to the charge that the financial adviser made unfortunate purchases of francs, it can only be said that he bought francs to retire the French loans as and when he had Haitian funds available. Had he waited on the chance that the franc would go lower, and the franc did go lower he would have been applauded. If, on the other hand, they had gone higher, he would have been condemned. He could not afford to speculate with the Haitian Government's money and as and when the funds were available he purchased the francs to retire the obligation. The 1875 and the 1896 loans retired in 1922, could have been retired at a lower figure had he waited several years longer. In the meantime Haiti would have had to purchase francs for amortization and interest charges and would have had to pay for the francs at the rate current at that time. Mr. Leger makes reference to a particular transaction in which the financial adviser was authorized in 1919 to convert $3,000,000 into francs. In this connection I should like to quote from a report by the financial adviser, Mr. McIlhenny, in 1920 regarding this transaction. He says:

> I can not agree that by reason of the delay in placing the loan the advantage has been lost to the Haitian Government of the low rate of exchange on French francs. The franc is even lower than it was when the protocol was signed and is now worth less than 7 cents gold as compared with 19.3 cents normally. When I converted the $3,000,000 during the month of November

into francs the average rate which I obtained was 9.20¼, and this average rate was considered by me and by the people who advised me as eminently satisfactory. It was supposed at that time that the rate would hold at 9 or a little better, but no one believed that the rate would fall to such an extent as it did in the next few months. The rate obtained gave a very handsome profit to the Haitian Government in the settlement of its past due interest, and to have failed to take advantage of the opportunity to make that profit on the possibility that the rate of exchange would go lower would have been to speculate with the funds of the Government intrusted to me and would have been indefensible.

Eighty-three million five hundred thousand francs for the retirement of the 1896 and 1910 loans were purchased for $6,037,425, or at an average rate of 1 franc equal to $0.072304. On page 2142 of his testimony Mr. Leger states that these francs were bought at the rate of 6 francs to the dollar. The statistics above quoted show they were bought at the rate of approximately 14 to the dollar.

Mr. Leger also makes the charge in connection with the retiring of the loan of 1910 that the American financial adviser brought about a disturbing condition which affects Haiti's credit in France; that if they want to borrow money to-day they can never get any credit in France until they settle with the French Government the dispute over the payment of the 1910 loan in gold rather than in paper francs.

The department, of course, is not informed whether the French Government will prohibit a Haitian loan in the French market until this loan is paid in gold or not, but the facts regarding that matter as shown by the records of the department are as follows:

The only place in which the word gold appears in connection with this loan is in the caption. There is no obligation in the loan contract or in the bonds issued thereunder to pay in gold, and the presence of the word in the caption is properly explainable by the fact that the revenues hypothecated for the service of the loan are to be collected in gold. The French Government asked the Haitian Government to pay this loan in gold francs and the Haitian Government, through the financial adviser, declined to do so because it was not an obligation of Haiti to pay other than current francs. As the financial adviser, although a Haitian official is an American citizen, the French Government asked the United States Government to support it in its contention that this loan should be paid in gold francs. After a very careful investigation of the merits of the matter, the Department of State advised the French Government that it did not feel that this was a gold loan or that the Haitian Government was obligated to pay in other than the current francs already deposited in 1922.

Thereafter this question was dormant from 1927 until quite recently. Apparently borrowing is now suggested in the French market because those who now control the Haitian Government are anxious, as Mr. Leger states, to get rid of American financial control—American control which has refunded and paid off advantageously their outstanding obligations, liquidated the internal and floating indebtedness, reduced very materially their foreign indebtedness, and built up a treasury surplus.

In connection with the suggestion that the payment of this loan in gold would be a condition of further borrowing in the French

market, it need only be observed that this condition would be based upon a claim which in the department's opinion is without foundation and which, had it been conceded by the financial adviser in the past, or if it should be conceded in the future, would cost the Haitian Government approximately $6,000,000 more than the amount it has already expended to purchase francs to retire bonds of that issue still not presented for redemption. The above will clearly set forth who has the real interests of the Haitian people in consideration in connection with Haitian finances.

Mr. Leger in his testimony speaks about martial law in Haiti. On page 2130 of his testimony he states: "We have had a continual state of martial law existing in Haiti." On the following page he states: "The military is in full control of the operations there. And we have had very strict military martial law for quite a long time." He gives as instances the arrest of newspapermen and the closing of their newspapers, and states that they were tried by military courts of the United States. The facts appear to be as follows: Martial law was declared on September 3, 1915, when the American occupation commenced. It was necessary to establish martial law at that time on account of the chaotic conditions that then existed. Just before the American troops were landed, the President of Haiti had caused to be murdered in cold blood about 200 political prisoners whom he had imprisoned to stamp out the opposition against his régime. These men belonged to prominent families in Port au Prince. A revolutionary movement was developing to bring about their release and in order to forestall this they were murdered in cold blood in jail. Just after that the President was forced to flee and took refuge in the French Legation. A few hours before the American forces arrived in Port au Prince and were landed to take control of the situation the mob broke into the French Legation, took the President out into the garden, where he was murdered; his body was thrown over the wall to the mob outside, who actually tore it limb from limb and carried pieces of the remains in triumphal procession through the streets. That was the political situation at the time of the American occupation.

After the country was pacified and order restored out of chaos, the use of military courts was limited to cases of attacks against the members of the forces of occupation. In 1922, it is true that in compliance with a letter from President Borno, received in August of that year, certain agitators were tried by provost court and sentenced for attacking the President in articles published in their paper. The Department of State disapproved this action and stated in a telegram of August 29 that Haitians should be subjected to trial by provost courts only in cases where the safety of the members of the occupation was at stake or possibly in cases of open rebellion, and directed the American high commissioner to rescind the order for the trial of these individuals. As the sentences had been pronounced when the department's instruction was received, their sentences were remitted and the men were at once released. In a further instruction, dated September 29, 1923, the Department of State informed the high commissioner that it felt that the punishment of persons committing abuses through the press should be undertaken exclusively by the Haitian Government through its own

courts, and that it did not desire that provost courts should be used in matters of this kind except where such action was urgently required in preserving public order and then only upon specific instructions from the department. The department added that the provost courts should not be called upon to act simply because the Haitian courts failed to deal properly with offenders. Since that date no newspaper editors have been tried by provost courts and there have been no trials by military courts of any sort whatsoever since 1926. As a matter of fact, there were none in 1924, but two in 1925, and four in 1926. On August 5, 1931, the commander of the American marines in Haiti issued a proclamation repealing martial law in Haiti. It is therefore a misstatement to say that martial law now exists in Haiti.

In this connection it may be stated that in 1924 the American marine forces in Haiti were concentrated in the cities of Port au Prince and Cape Haitien and the patrolling and policing of the entire Republic was turned over to the native constabulary. The marine forces have been reduced to about 800 men and they are kept there merely to support the American officers who are off in the interior training the native Haitian constabulary. As quickly as Haitian officers are trained to take their place, the American officers are withdrawn from the constabulary. This process is now ahead of the schedule suggested by the Forbes Commission.

On page 2146 of the testimony, Senator La Follette, referring to Mr. Ruan's letter of February 15, 1917, says that as he understood it Mr. Ruan threatened in that letter to cut off the revenue of the Government if the treaty was not extended. Mr. Leger replied:

> He says he will cut off our revenues. We have got to make that loan to put our finances on a firm basis or he is going to cut off the revenues.

In this connection I should like to point out that what Mr. Ruan said was that the circumstances at that time offered Haiti an exceptional occasion to place its debt on a favorable footing and that he could no longer, in view of the fact, continue paying to the Haitian Government for its current expenses funds which it had allocated to its creditors for the payment of its unliquidated indebtedness. In other words, these creditors were entitled to receive the funds which the Haitian Government had pledged to them. While market conditions were unfavorable the financial adviser had permitted the use of certain of these funds for the necessary current running expenses of the Government. He could not continue to do that as a definite policy and now that a chance had come when Haiti could place its debt on a favorable footing he would no longer have a valid reason for denying to the creditors the funds which the Haitian Government had allocated to them.

On page 2152 of his testimony, Mr. Leger states that President Dartiguenave could have been elected in 1922 had he promised to make the loan, but the Council of State, which he alleges was under the full domination of the Americans, "because they held their job only by virtue of the will of the high commissioner," elected Mr. Borno. In this connection it may be stated that it was President Dartiguenave who appointed the Council of State and he had the power to remove and replace any of the members thereof. The American high commissioner had nothing whatsoever to do with

the appointment of the members of the Council of State, and General Russell, who was high commissioner, has definitely said that he scrupulously avoided any connection with that election whatsoever.

Mr. Leger goes on to say further:

> It developed that Mr. Borno, under the Haitian Constitution, was not eligible, because he was born of a French father, and there is no doubt in any Haitian's mind that that thing was held over his head as a club by the American high commissioner.

I am advised that the latter statement is unfounded and that the American high commissioner never held any question of his eligibility over President Borno's head as a club.

In one place in his testimony Mr. Leger states that the United States Government has taken the position that they guaranteed the Haitian loans of 1922, although such a provision is not in the contract. Later on he states that the United States had no financial obligation regarding these loans. This latter statement is correct. The United States has never taken the position that it had any financial obligation or that it guaranteed these loans in any way whatsoever.

Without going into detail I wish to say that many of the statements made by Mr. Leger with respect to the protocol of 1919 and the extension of the treaty and the legal basis under which the financial adviser-general receiver is now functioning are not correct.

Very sincerely yours,

HENRY L. STIMSON.