

Office Memorandum • UNITED STATES GOVERNMENT

TO : S - Mr. ~~Hanes~~

DATE: August 14, 1953

FROM : MID - Mr. Leddy

SUBJECT: Expropriation of United Fruit Company Property in GuatemalaBegin Unclassified

1. The Guatemalan Agrarian Reform Law, Decree No. 900, was passed by the Guatemalan Congress on June 17, 1952. It was signed by President Arbenz and went into effect on the same day.

2. The law provides for the expropriation by the Government and distribution to the small farmers and workers of certain property, primarily uncultivated and rented land. Payment is made in the form of Government "agrarian bonds" on the basis of the declared tax valuation, a figure generally well below market value of the land. The bonds mature in periods up to 25 years and have little or no market themselves.

3. Property specifically exempted from expropriation by the law includes farms of less than 221 acres whether or not cultivated, farms of from 221 to 664 acres if at least two-thirds of the land is cultivated, land used for certain specified purposes, and other categories of land.

4. Expropriation of lands under the law is carried out by a newly created agency within the Executive branch of the Government. Applications for the expropriation of lands are received and acted upon by local committees, from which the applications pass to a national committee and thence to the President, who signs the expropriation decrees and beyond whom there is no appeal.

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5. The National Agrarian Department is headed by a close associate of President Arbenz. Communists and pro-Communists had important roles in the preparation and passage of the Agrarian Law, and occupy important subordinate posts in the Agrarian Department.

6. During the first seven months after promulgation of the Agrarian Reform Law, only Government owned lands were distributed to the peasants. On January 5, 1953, President Arbenz signed the first decree expropriating private land. By this time increasingly heavy pressure was being exerted by Communist-dominated and Communist-influenced labor organizations for more rapid distribution of private lands, exploiting the impatience of the landless to occupy property at hand regardless of whether the specific pieces of land were exempt from expropriation under the law. As the pressures increased after the mid-January elections, the administration adopted

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an accommodating attitude and refused to use the police power against disorderly occupation of properties which occurred in scattered localities, and recognized the squatters' actions under a "forced rental" decree adopted prior to the Agrarian Reform Law.

7. The most serious potential obstacle to the Communist-oriented drive for the precipitous distribution of land in Guatemala lay in possible recourses to the courts by property owners claiming unjust application of the law.

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8. Article 98 of the Agrarian Reform Law provides specifically, however, that there shall be no appeal beyond the final administrative decision made by the President, and further provides for punishment of any authority who permits any appeal other than that established in the Agrarian Law.

9. On February 9, 1953 Communist elements in Congress led that body in summarily dismissing the Supreme Court of Guatemala for their "demonstrated ignorance and incapacity to administer justice" for having voted to hear an appeal for an injunction against an agrarian expropriation order lodged by a Guatemalan landowner. The Court was replaced by one expected to follow Administration policy on agrarian reform matters.

10. In March 1953, following unsuccessful appeals to the President, approximately 234,000 acres of the 304,000 acres of land owned by the United Fruit Company at Tiquisate, on the Pacific slope of Guatemala, were expropriated by the Guatemalan Government on the grounds that they were uncultivated and otherwise subject to the Agrarian Reform Law. An attempt was made to obtain an injunction against the order in the Supreme Court, but without success. The agrarian bonds offered in compensation have a face value of \$594,000, which the company contends is but a fraction of the value of the property taken.

11. The National Agrarian Department on August 12 made notification of its order to expropriate 174,000 acres of the company's 263,000 acres at Bananera, on the Atlantic slope of Guatemala. It is understood that the company will appeal the order to higher authority.

12. Although the expropriations did not affect the company's land planted in bananas, they deprived the company of the reserve land it considers necessary for maintaining permanent operation, since new ground must be available to replace land thrown out of production by the steady inroads of Panama Disease, a soil fungus for which no locally effective cure is known.

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13. The Department of State has already taken up with the Guatemalan Government the expropriation of lands in Guatemala belonging to the United Fruit Company, and expects to follow up with the normal and accepted procedures for protecting the interests of citizens abroad.

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14. We have informed the Guatemalan Government that we expect to discuss with it the matter of adequate, prompt and effective compensation for the land taken. We have also requested the Guatemalan Government's views concerning the requirement for reserve lands in order for the United Fruit Company to continue operating in Guatemala.

15. In reply, the Guatemalan Government declared that its agrarian law fixed the amount of compensation for land expropriated in perfect fairness, and that application of the law constituted an act of sovereignty, for which reason the Guatemalan Government would not consider making the case a matter for international discussion. It further said that the question of the Panama Disease had no bearing on the Application of the agrarian law, but observed that it was known that effective means of controlling and eradicating the disease had been put into practice. The Department of State is preparing a further reply to the Guatemalan Government.

16. Communist-dominated labor has constantly harassed the United Fruit Company and other United States-owned enterprises in Guatemala since 1946, with the evident intent of eventually bringing about the nationalization of their assets and the ignominious expulsion of the companies from the country. The heavy blow dealt the United Fruit Company in the March 1953 expropriation order is a measure of the Communists' success in fanning nationalistic resentment against United States companies into grave acts of national policy.

17. The Department recognizes that lasting improvement of conditions for American business enterprise in Guatemala is unattainable without removal of the important Communist influence in the country. The Department is taking all feasible steps within the limitations of this Government's solemn commitments within the inter-American system to bring the Guatemalan Government to effectively oppose Communist influence in that country.

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