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SUMMARY

The concept of economic power groups or pressure groups common in the United States hardly applies to Argentina at the present time. The large land owning class, which formerly dominated a large sector of the country's economic and political policy, is no longer of much influence.

During the past ten years Argentina has become a clear-cut case of managed economy. The Government itself comprises by far the outstanding power group and has developed an elaborate system for implementing its plans for guiding industrial or other economic developments into desired paths.

The laboring classes have been organized under the General Confederation of Labor (CGT). The various employers' organizations have been organized into the General Confederation of Economy, which is independent in a sense, but, like the CGT, is also connected in some ways with the Ministry of Labor. Agricultural producers are gradually being organized into cooperatives which, together with others, are to be guided by the National Direction of Cooperatives.

The Government has acquired ownership of the country's railway system, the telephones, ocean and river shipping lines, airlines, grain elevators, and various other enterprises. It has also tried in many ways to stimulate the development of new manufacturing industries; granting various privileges to the entrepreneurs and often excluding competing imports until they become established.

These privileges, within the relatively limited Argentine market, have fostered development of many monopolistic or semi-monopolistic situations in industry. Several fields are dominated by only three or four large firms each, and it is not uncommon for important products to be produced by only one or two firms. In spite of the extensive controls over prices and business operations, wide profit margins tend to prevail. Sometimes compounded through several stages of production, these commonly lead to high prices to consumers.

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ARGENTINE ECONOMIC POWER GROUPS AND MONOPOLIES

I. INTRODUCTION

Argentina, especially during the last decade, has gradually become dominantly a state-managed economy. An extensive system of permits and controls ultimately determines the relative economic advantages of the various industries; what products they shall make, what wages they shall pay, and their general rates of earnings. Under these circumstances the private businessman must fit himself and his activities into the government's control system and conform to its plans if he is to stay in business.

This does not mean that the spontaneous incentives of free economy have ceased to exist. The skillful businessman can still better his position by discovering and exploiting promising business opportunities. But he must be especially attentive to government regulations and to the wishes of controlling officials in order to induce them to grant him necessary permits. A corollary of the system is that there are also advantages in inducing the Government to maintain controls at points which will restrict imports or even competing production within the country itself.

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Background

Before discussing the principal pressure groups and the economic controls exercised by the Argentine Government something should be said briefly about the background against which they operate.

The natural resources of Argentina are largely agricultural, and these lie chiefly within about one-fourth of the nation's area. The population, now approaching 19 million, is increasing at a rate of 300,000 or 350,000 per year. About one-third of the population is found on farms and in small villages, and the rest in towns or cities. Between 4.5 and 5 million are concentrated within the area of greater Buenos Aires.

Mineral resources, as far as is known, are relatively limited. The most important consists of deposits of petroleum which now yield slightly less than half of the country's consumption. Additional oilfields are known to exist, however, and their exploitation would do much to relieve the drain on foreign exchange required to supply the country with fuel.

Agriculture is not able to absorb any great part of the growth of population without a sharp decline in its margin of productivity. Of course, application of more labor in Argentine rural districts, even under present methods, would increase aggregate output. But output per worker could hardly be maintained. For one thing, labor efficiency on the typical Argentine farm or estancia is already relatively high. The greater part of the increase in farm production in Argentina over the next decade is likely to come from improved methods, rather than from intensified use of labor. Most of these improved methods require but little additional labor, as in the case of application of fertilizer, or use of higher yielding crop varieties. Further "mechanization", now a popular subject in Argentina, will of course displace labor directly.

Natural growth of population on farms in Argentina is probably well above the rate for the cities as is true in other countries. In past years excess rural growth has drifted to the cities to swell urban employment. Partly to provide employment for this growing population and partly to reduce the country's dependence on imported goods, the Government has made a strong effort during the past decade to stimulate the development of urban industry.

Until about a decade ago, Argentina was dependent to a large degree not only on imports, but also on facilities of many kinds furnished by foreign capital and foreign talent. These included virtually the entire railway system of the country, the subways in Buenos Aires, telephone and telegraph systems, power plants, and many banks and factories. In addition, much of the best agricultural land was owned and operated in the interest of foreigners. When the present regime came into power it found a strong resentment against foreign economic control. "Economic Independence" became a widely accepted watchword. Political sentiment required that as many of these foreign-owned enterprises as possible be brought under Argentine control.

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At the end of World War II Argentina held foreign exchange and gold equivalent to some 1.7 billion dollars. The new Government immediately began to purchase foreign-owned properties and used a large part of these funds in the process. Within four or five years it acquired ownership of the country's railroad system, Buenos Aires subways, the telephone system, port facilities, grain elevators, and a large part of the merchant marine and air services. A government petroleum agency (YPF), which was already in existence, continued to dominate that field. A number of manufacturing facilities previously owned by German interests were taken over by the Government. A government-owned factory for military airplanes extended its activities into other products, including trucks and tractors. A government sponsored corporation has begun the construction of a steel plant. In addition, the banking system has been nationalized and all deposits are held for the account of the Central Bank. This Bank, likewise, determines loan policies and controls imports, exports, and international financial transfers. A more detailed description of some of the Government's economic activity will be given below. It is, however, apparent that the Government's economic intervention is far greater in Argentina than in most other countries. The bureaucracy which controls this activity is by far the principal economic power group of the country.

There has recently been a shift in the attitude of political leaders toward government participation in economic activity. President Perón and his principal economic advisors have stated on more than one occasion during the past two years that they consider a government to be relatively inefficient as an economic producer and that private enterprise is preferable. Consequently, the Government has begun to divest itself of some economic units, though this is a slow process, once they have been acquired.

Two types of activity seem destined for continued government control, at least during the near future. These both depend on Article 40 which was incorporated in the federal constitution in 1949 (see Enclosure 1). This Article reserves to the Government the ownership of minerals and water power. It also states that public utilities "belong, ab origine to the State, and in no event may they be alienated or conceded for operation". Numerous public utilities, especially electric power utilities were taken over by provincial or municipal authorities during the 1940's and early 1950's. But the Government now seems disinclined to expropriate any more, notwithstanding Article 40.

In the realm of manufacturing, although there are a number of enterprises in the hands of the Government, the great bulk of this branch of the economy is still operated by private entrepreneurs. The same is true of agriculture, even though the Government exercises close controls over some strategically selected phases of these activities.

As suggested above, the Government has taken strong steps to stimulate the development of manufacturing industries. On the one hand, the procurement of capital equipment and raw materials has been facilitated. On the other, imports competing with Argentine products have been restricted. In some cases, controls of prices have limited or shifted the direction of industrial activity.

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Disapproval of monopoly, which has been one of the principal tenets of United States economic policy for many years, scarcely exists in Argentina. It is true that the expression "foreign monopolies" has been used in many political speeches during the past ten years. This, however, was more as an epithet to arouse political disapproval of foreign influence than as any expression of disapproval of monopoly.

It is by no means uncommon for the Government to grant monopoly privileges for a limited time to private enterprisers who promise to establish new industries in Argentina. As an example, importation of very few automobiles has been permitted for the last three or four years except by an Argentine company which is the agent for a German auto manufacturing firm. This company is permitted to make such imports because it has promised to erect an automobile factory in Argentina. Similar restrictions exist in imports of tractors. At the end of 1953 it was announced that manufacturers who presented and obtained approval of plans to construct factories to make tractors in Argentina would receive preference over others in permits to import such equipment. Local manufacture of many other products is likewise stimulated by import restrictions and the granting of virtual monopolies to specified firms.

The effect of this policy on the Argentine price structure can easily be imagined. Prices of automobiles, tractors, and many other articles in Argentina have risen sharply where such monopolies have been granted. Since the Argentine market is relatively limited for many products, there are many cases where the country's entire supply depends on the output of a single firm. It is probable that few persons in Argentina realize the full effect of this monopoly situation on the Argentine economy. Where it is understood it is often defended as a temporary phase necessary to the growth of Argentine industry and the achievement of "economic independence". The subject will be discussed at greater length later in this report.

From the discussion up to this point it may be concluded that the bulk of the Argentine economy, comprising agriculture, manufacturing, and commerce are in the hands of private enterprisers. Over this structure of private economy, however, there exists, as a sort of overlay, an extensive and highly organized bureaucratic system which controls commercial contacts with the rest of the world, and also determines many of the strategic price relationships within the country itself.

II. GOVERNMENTAL INTERVENTION AND CONTROL 1/

The Government and Its Personnel

The field of private competition and the role of the individual businessman in Argentina have been greatly circumscribed, especially since the war, by the great extension of government ownership in commercial and industrial undertakings and its elaborate economic and financial controls. Government enterprises and controls have tended to become fixed institutions to which private business must adjust itself. The most advantageous adjustments are achieved by using

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governmental institutions as a foundation on which to build special privilege and monopoly. Thus, a local manufacturer seeks to have exchange controls applied in a manner to supply his requirements. In addition it will be to his advantage if these can be denied to others. This system entails burdens and penalties but they may be outweighed by monopolistic advantages. In any event this is the only profitable adjustment to make since governmental institutions are thoroughly and rigidly established and pervade the whole social organization.

Once adjusted to this system, private business must thenceforth support it. Any sudden change would threaten economic catastrophe, while gradual surrender of privileges would be opposed by the persons who profit from them. Moreover, tens of thousands of persons in governmental employment derive their livelihood from working the controls as well as satisfaction from their careers in this kind of public administration. Most of them live in Buenos Aires where also are concentrated most of the other commercial and industrial beneficiaries of the Argentine system. There is, therefore, considerable community of interest between the controllers and planners on the one hand, and the businesses they control on the other.

Exchange Control

Controls of foreign exchange and the complementary regulations on imports and exports are probably the most important devices through which favor or encouragement is granted to some industries and firms or withheld from others. In nearly all instances the way these controls are applied means a difference between profit or loss; in some instances they mean life or death to an enterprise or industry.

Exchange control was first introduced in Argentina at the beginning of the great depression of the 1930's. It became well established before World War II and its use has been intensified since the war. Its prolonged and elaborate use over the course of more than 20 years, together with the development of related import and export controls, has caused this institution to become deeply imbedded in the economic and political system. The advantages of a free market in exchange (like the establishment of prices in free commodity markets) or of a single exchange rate for the peso, are hardly recognized in Argentina. Instead, regulation of far-reaching effect by the Government is accepted as a permanent institution, and now benefits many kinds of vested interests.

Exchange control has been rigorously applied, particularly since 1947 because of fundamental disequilibrium in the balance of payments. This disequilibrium arose because of the wage-price inflationary policies which began under the Perón regime after the war and which have continued since, except for a brief period during 1952-53. The most recent general wage increases in May and June 1954 promise to be a main factor renewing the inflationary process.

While the domestic purchasing power of the peso has depreciated rapidly, the official foreign exchange rates were never altered to a commensurate extent and have usually remained unchanged over long periods of time. Consequently, the amount of foreign exchange demanded has always exceeded the supply. The Central Bank has exercised the function of control, denying some applicants

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for exchange and allocating to others the limited supply available.

Under the Argentine exchange control system there are two official fixed rates and an officially controlled "free market" rate. The basic buying rate for exchange arising from a large part of exports is 5 pesos to the dollar, with rates for other foreign currencies equivalent to their value in terms of dollars. The Central Bank's basic selling rate for exchange to pay for most imports is 7.50 pesos per dollar or its equivalent. Thus the basic exchange rates give the Central Bank a profit of 50 percent on its operations to which these rates are applicable. However, there is a preferential buying rate of 7.50 pesos to the dollar applicable to exports of numerous commodities, and a preferential selling rate of 5 pesos applicable to imports of petroleum and coal, which to the extent transactions are carried on at these rates, reverses the Central Bank's profit inherent in the basic rates. The officially controlled free market has been kept near 14 pesos to the dollar, with only a narrow spread of a few centavos between buying and selling rates. This rate structure was established at the time of the general devaluation of August 1950.

A series of piecemeal devaluations began early in 1952 and have continued through 1954. The first of these, applicable to buying rates, was brought on by the necessity of allowing private enterprises a larger amount of peso proceeds from their exports to cover domestic costs and make sales abroad remunerative. Devaluation of buying rates was carried out by granting mixed rates for certain commodities or by shifting the classification of a commodity from one rate group to another having a higher rate. For example, a mixed rate of 6.25 was established in 1952 on wool exports paid for in sterling or dollars, 50 percent of the exchange being bought at the 5 peso rate and 50 percent at the 7.50 rate. More recently, rates have been devaluated by shifting the classification of commodities. For example, the rate at which exchange is sold to pay for some 90 items, including raw materials and some manufactured goods, was changed in 1954 from 7.50 to 14 through an extensive commodity reclassification.

The black market rate, which is established in Montevideo, is currently (January 1955) around 27.50 pesos to the dollar. This rate had fluctuated between 19 and 28 pesos during the last three years. A substantial volume of business is carried on in the black market. The annual turnover, excluding inter-brokers' transactions, is estimated at \$50 million a year.

Overvaluation of the peso at the official rates, results in an intensified demand for imports. Bargain rates for the dollar, at something like 30 percent of the black market rate, coupled with great scarcity of foreign goods, make nearly every importation an opportunity for exorbitant profit.

The Central Bank establishes the amounts of foreign exchange that can be allocated for the purchase of different commodities. These may be further classified according to the countries from which the goods will be bought. Permits are then issued to individual importers. These importers almost invariably represent a few established businesses; to the operators of these, a new firm would be an interloper to be excluded.

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In a number of import and export trades there are associations which seek to protect their specific trades against demands of other trades, which work for larger quotas or more favorable exchange rates for themselves. Individual importers in the same trade or industry tend to bury conflicts between themselves in the interest of greater individual gain from cooperation with each other and their association.

Credit Controls

The Federal Government owns and operates three major banks that finance indirectly commerce, agriculture, and construction. These are the Banco de la Nación, Banco de Crédito Industrial, and the Banco Hipotecario. Besides those there are nearly a hundred provincial and private banks. All these institutions operate under the same control system administered by the Minister of Finance.

Under the Argentine banking system all deposits are the liability of the Central Bank; commercial banks merely act as agents receiving deposits. As a counterpart of this arrangement, all loans made by commercial banks, except those made from their own capital and reserves, must be rediscounted at the Central Bank. Furthermore, each commercial bank loan, including those made from capital and reserves, must meet Government requirements as to the financial responsibility of the borrower. Out of this system there arise three principles of control; first, a limitation on aggregate amount of credit, second, regulation of the purpose for which credit is used, and third, determination of the eligibility of individual borrowers.

Credit controls have not been used to any significant extent for the purpose of denying bank financing to any industry or firm that would be entitled to loans on the basis of usual banking standards intended to limit risks or control inflation.

The Central Bank fixes an overall limit on the amount of bank credit that can be outstanding at any time through maximum amounts of discounts allowed for each commercial bank. This overall limit has been restrictive in relation to demand for credit during nearly all of the period from the end of the war through the first half of 1953. From the end of the war until the end of 1949, credit was especially "tight", and the demand for bank loans tended to exceed the amounts that banks could lend. This condition was due to an expansion in the physical production of Argentine industry and trade and to rapid inflation, which had its genesis in large successive wage increases. The physical volume of production and trade tended downward while inflation continued from 1949 until mid-1952. Central Bank's actions in raising rediscount limits tended to lag behind the rise in prices and increases in working capital needs, so that banks could not completely satisfy all credit demands.

Inflation halted temporarily in the latter part of 1952, accompanied by a marked recession in consumer demand and growing unemployment. At first this intensified the demand for credit by private firms encountering difficulty in adjusting to harder times. But in 1953 a moderate reduction occurred in the rate of expansion of credit to private borrowers because of reduced trade volume. Thus the aggregate limit for discounts fixed by the Central Bank, which by then

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had been further raised, came to exceed the demand for credit. Since mid-1953 commercial banks have had excess capacity to lend, but they are now much more selective than formerly in choosing borrowers with the least credit risk.

The Central Bank imposes certain restrictions on the purpose of commercial bank loans but these affect only a minor part of the total. Prohibited purposes are certain types of speculation, such as on real estate or shares of stock and the manufacture or trade in certain commodities classes as luxuries such as automobiles and cosmetics. There are, however, various exceptions even to those prohibitions. For example a bank can lend to a securities dealer against his holdings of stocks, this not being regarded as financing speculation. As another example, refrigerators for domestic use were formerly treated as a luxury, although the manufacture or sale of refrigerators for commercial or industrial purposes was not. Now refrigerators even for domestic use have been removed from the luxury list.

The Ministry of Finance has established a maximum size for an individual loan and safety standards which they must meet. These standards are based in part on the relationship of current assets to current liabilities and on the relationship of invested capital to the size of the loan.

State Trading

Wheat, corn, and other cereals and numerous agricultural and animal products which comprise the major part of Argentina's export and domestic trade are bought from producers by the Instituto Argentino para la Promoción del Intercambio (IAPI). This state trading agency then sells for domestic use in Argentina or to exporters for sales abroad. Producers receive fixed prices from IAPI which are announced annually before the planting season. Domestic sales are also made at fixed prices which remain unchanged for long periods. Sales to exporters are made at prices set by IAPI, but vary with conditions of demand in importing countries. IAPI usually does not take physical possession of the commodities and in some cases it performs no marketing function other than to determine prices and approving sales.

IAPI also plays an important role in the import trade, purchasing various equipment, agricultural machinery and other goods from abroad. Its role with respect to imports, however, is less pronounced than as an exporting agency. An original objective underlining IAPI's operations was that it should take as much of a profit as possible from high export prices, and return no more to Argentine agricultural producers than was deemed necessary to maintain production. This policy, however, discouraged production. Since 1952 increases in domestic farm prices were found necessary in order to encourage agricultural production. These increases, combined with declines of prices abroad, resulted in heavy losses for the organization and the financing of these recent losses has been an important inflationary factor. A substantial loss was reported for 1952 and this greatly increased in 1953 and 1954. The primary cause of the recent losses may be illustrated as follows: The domestic price which IAPI paid for wheat in 1952, 1953, and 1954 was 50 pesos per quintal (100 kilos). To this was added at least 10 pesos to cover the cost of marketing and delivery

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at the port and other charges. At a world price of say \$2.00 a bushel, a quintal would bring \$7.35 in foreign exchange. At the rate of 5 pesos to the dollar the Central Bank pays approximately 37 pesos for \$7.35 of exchange. Thus the peso loss on an export sale would be in the neighborhood of 23 pesos or about 38 percent of the cost of each quintal of wheat exported. An attempt is being made to recuperate through charging some trade agreement countries more than the world price. But these countries usually retaliate either through an export tax or through high prices charged on commodities sold to Argentina.

Formerly the Central Bank made large profits on foreign exchange because of the spread between its buying and selling foreign exchange rates. Consequently a reduction in IAPI's profits because of the low foreign exchange rate on its export sales was partially offset in some years by the foreign exchange profits made by the Central Bank. Recently, however, the Central Bank margin of profit on foreign exchange has dwindled because it has had to increase its buying rates for the exchange arising from many commodities not exported by IAPI.

IAPI's prices combined with differential exchange rates have imposed a gross tax on most agricultural exports. Formerly this was reflected in a high monopoly profit of the state trading agency. Now, however, the immediate gain goes to the importers in various industrial and commercial fields to whom dollars or other foreign exchange is sold at the rate of 7.50 pesos to the dollar (5.00 for fuel imports). The favored industries or groups of importers are thereby enabled to obtain foreign equipment or materials much more advantageously than if they were required to import at the "free market" rate of 14 or the black market rate of 28 pesos to the dollar.

Miscellaneous State Owned Industries

German assets in Argentina, including commercial and industrial enterprises, patents, and trademarks, as well as various other forms of private property were seized by the Government when Argentina declared war in 1945. These assets were administered by a board of control until 1947.

By decree No. 18,991 of July 1, 1947, the Dirección Nacional de Industrias del Estado (DiNIE) was created to coordinate and supervise about 30 former German companies and some of the patents which the Government had acquired. A few other enterprises, some started by the Government itself, were also turned over to DiNIE bringing the total up to 35. These include enterprises in the chemical, pharmaceutical, metallurgical, electrical, construction, and textile fields. Among them are the Bayer and Merck pharmaceutical plants producing various kinds of medicinals and veterinarian products; plants producing dyes, alcohol, and other chemicals; a variety of plants manufacturing electric motors, diesel engines, iron and steel semi-fabrications, farm machinery, and electric and telecommunications equipment.

At the time of DiNIE's creation, extension of Government ownership in commercial and industrial enterprises was accepted policy. By 1954, however, the Government had indicated a desire to divest itself of numerous undertakings and to return them to private ownership. So far the problem of how

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to accomplish this new objective has not been solved. The former German owners would apparently be glad to have their businesses returned to them, but to return many such enterprises without retaining Argentine control would probably be difficult from a political standpoint.

The Instituto Mixto de Inversiones Mobiliarias (IMIM), created in 1947, is owned primarily by the Central Bank, the Banco de la Nación, and the Banco de Crédito Industrial all of which are wholly owned by the Government. The remainder is held by such commercial banks as subscribed to its stock. It was created by Decree No. 15,625 of June 4, 1947, to direct the purpose of investments, add to the incentive of private capital, and regulate the stock market.

Since its formation, it has gradually bought stock of private companies on the Buenos Aires stock exchange until it has become an important owner of industrial equities as well as a factor in the stock market. The Institute does not publish a balance sheet or a report on all its operations from which complete information on its activities could be obtained. However, the nominal value of 274 issues listed on the stock exchange was 5,096 million pesos at the end of 1953. The aggregate market value of these stocks would have been substantially greater, possibly as high as 12,000 million pesos, although nominal quotations and inactive trading in some issues prevents precise determination.

An agency called Empresas Nacionales de Energía (ENDE) was created in 1950 by Decree No. 17,371 to take over the control of all commercial and industrial activities of the Government related to energy. A similar function had been performed since 1945, under Decree No. 22,389 by the National Bureau of Energy. The enterprises under ENDE are: Yacimientos Petrolíferos Fiscales (YPF); Agua y Energía Eléctrica; Gas del Estado; Combustibles Vegetales y Derivados; and Combustibles Sólidos Minerales, which are the government-owned branches of the petroleum, electric power and water, gas vegetable fuel, and coal industries, respectively. A further discussion of YPF will be found under Petroleum.

ENDE is an action agency charged with the development of the country's energy resources. The Dirección Nacional de la Energía is the national regulatory agency with powers over the activities of ENDE as well as of private firms. These include the power to fix prices for each type of commercially used energy (electricity, petroleum products, etc.), establish price differentials according to the use to which the energy is to be put; regulate the installation of energy producing equipment; require the interconnection of private and/or public power plants, and otherwise to assure the rational use of available energy.

III. INTEGRATION OF ECONOMIC GROUPS WITH THE GOVERNMENT

The present Argentine Government has been highly skillful in organizing principal economic groups in such a way that they facilitate the execution of its plans. The laboring classes have been organized under the CGT (Confederación General de Trabajo) which, while in a sense independent, has its legal recognition from and a certain integration with the Government through the

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Ministry of Labor and Welfare. The various employers organizations which formerly represented branches of commerce and industry, have been organized into the CGE (Confederación General de Economía), which is also independent in a sense, but is in some ways connected with the Ministry of Labor. The agricultural entrepreneurs are more isolated and individualistic than either of the groups just mentioned and are harder to organize. In addition, they formerly had at least three strong associations of their own. Two of these are now adhering to the Government's plans, while the third has been dissolved. At present the interests of farm operators are being organized chiefly through cooperatives, which are to be guided by the Dirección Nacional de Cooperativas in the Ministry of Industry and Commerce. It is intended that the cooperatives shall form a single confederation, which will, incidentally, have a voice in the CGE.

General Confederation of Labor 1/

Organization - It is generally agreed that the basic support of the current Argentine Government rests with the working class. This is due in considerable part to the sponsorship by Perón of various labor-social reforms, which have been very welcome to both rural and urban Argentine workers. These reforms have often been economic in nature, but fully as important, have given the worker a sense of status. Day-to-day protection of the workers' new rights comes both from sympathetic administration of pertinent laws and also from the comparatively high degree of union organization which the Government has fostered. Organized labor, headed by the Confederación General del Trabajo (CGT) claims the affiliation of 6 million of the nation's 7 million odd workers. (See Enclosure No. 2)

The labor organization is closely associated with the Government. A dozen or so of the members of the national Congress are from the unions. Twenty-five or 30 union men are serving as Labor Attachés abroad. The head of the CGT attends presidential cabinet meetings. CGT was given control of the newspaper La Prensa, and is heavily represented on the Board of the Eva Perón Foundation and the National Apprenticeship Commission. In addition the unions enjoy the exclusive right to present applications for individual retirement pensions and small loans under the national social security system.

Relationship to the Government - Since labor is very closely linked to the Government and consistently adheres to administration policy, it forms a pressure group of a type very different from that in some other countries. The Peronist party appears to have been a major factor in obtaining the election of union officers who are responsive to Perón in virtually every case. On the other hand, the CGT and its affiliated unions operate without government interference; all matters of discipline and administration are left in the hands of the trade union officials. There are no unions outside the framework of the CGT.

The unions make known to the Government the attitudes and desires of the

1/ Prepared by Hugh C. Reichard, Labor Attaché

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workers. They supply day-to-day representation for workers on grievances and other problems affecting their rights. In the 1954 labor contract negotiations (all contracts take effect and expire at the same time) individual national labor unions were able to exert genuine influence upon the amount of wage increase which they were to receive, there being fairly wide variations in these amounts from one industry to another. Labor sentiment is undoubtedly one important reason for the fact that a single contract usually covers an entire industry, with uniform wage rates throughout the country.

Considerable government emphasis has been laid upon job security. There is no unemployment insurance system, but indemnities are payable upon separation, and the Government has occasionally prohibited employers from making lay-offs. In scattered activities it is observed that adult personnel is not very productive, but this may sometimes be for need of capital or because of poor management practices. The Government seems to be gradually moving toward the elimination of less desirable labor practices and the increase of productivity.

Strikes and slowdowns of some importance occurred at the time of the 1954 contract negotiations. In general, however, strikes are not numerous in Argentina. They are permitted by law if approved by the Ministry of Labor. The Ministry's support on disputed questions is crucial to the outcome, so the settlements which it proposes are usually accepted by both parties, and strikes are thereby averted.

Participation in Economic Control - The participation of labor in economic control and in the formation of policy is perhaps greater than in the U.S. In addition to providing manpower, labor is involved in the operation of about 200 consumer cooperatives and is soon to take over the former Bemberg breweries, which had been under State operation since their expropriation several years ago. Labor is considered to control the Buenos Aires daily newspapers La Prensa and El Lider. Labor is heavily represented on the boards which administer the pension funds, these being the buyers of billions of pesos worth of government bonds annually.

Perón has suggested the desirability of worker ownership of the government railroads and of the street transportation system of the Federal Capital. He recognizes, however, that heavy operating deficits impede such transfers at the present time. He does not necessarily hold worker ownership to be a goal in itself; he may be looking to the possibility of inducing workers, through such ownership, to devote themselves fully to making the enterprises more efficient. Argentine labor is also an important contributor to public revenue through the social security tax which amounts to 25 percent of payrolls, with the worker paying 10 percent and the employer 15 percent. More than two-thirds of this revenue goes for the purchase of government bonds. Because Argentine progressive income taxation does not reach as high a percentage of the population nor involve as high rates as in such countries as the U.S. and Great Britain, Argentina may, in this respect, be in a favorable position for the accumulation of capital.

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Confederation of Employers 2/

The General Economic Confederation (Confederación General Económica) was provided for by Law 14,295 of December 17, 1953. The Minister of Labor and Welfare is "the authority through which the --- law will be applied". An organization of employers is thus set up as a counterweight to the labor confederation, CGT, and enjoys legal recognition through the Ministry of Labor. In the main, CGE comprises the instrument through which the Government keeps contact with and exercises a considerable degree of control over entrepreneurs.

The primary units of the new organization consist of chambers or groups of employers organized by specific trades or industries. These various chambers, or professional groups, of CGE are organized into territorial (provincial aggregates), combining all trades. Within each province there are to be organizations comprised respectively of the chambers related to commerce, those related to industry or manufacturing, and those concerned with "production". The latter represents primary producers such as the livestock producers, sugar cane growers, olive growers, etc. At the national level there are three corresponding confederations for commerce, industry, and primary production.

The various trade chambers and federations are designed to represent the interests of their members before the federal government and otherwise. They are expected to provide legal and accounting advice to members, to provide various social services, to assist in the formation of trade policy, to promote activity in underdeveloped economic fields, and to set up laboratories and institutes to study subjects related to their respective fields of activity.

One strong incentive to membership is that Law 14,295 ~~XXXXXXXXXXXX~~ provides that dues and assessments are to be paid to CGE (at the national level) by all employers, whether they are members or not. A Labor Ministry resolution of December 1954 made it mandatory that each employer or company make a one-time contribution to CGE of 1/10 of one percent of paid-in capital, with a minimum of 50 pesos. It is estimated that this will amount to some 100 million pesos. In addition, annual dues in industry and commerce will amount to 5 percent of one average month's outlay for wages and salaries, with a minimum of 100 pesos. Primary producers are to pay dues amounting to 1/10 of one percent of the total amount of sales invoiced, with a minimum of 100 pesos. There are various estimates of the sum of these contributions from annual dues. It should yield at least 120 million pesos per year, assuming 2,350,000 persons employed at an average of 1,000 pesos per month (which is probably a low estimate). CGE has indicated that it will treat the foregoing obligations as voluntary contributions, not invoking the force of law immediately.

Of the sums received; 35 percent of the single, non-recurring contributions will be allocated to the confederations of Commerce, Industry, and Primary Production; 35 percent will be allocated to the provincial federations; and the remaining 30 percent will be retained by CGE. Of the annual recurring contributions; 20 percent will be allocated to the confederations of Commerce,

2/ Prepared by Harold L. Henrikson.

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Industry, and Primary Production; 20 percent to the provincial federations; 20 percent to the local trade federations; and 40 percent will be retained by CGE.

The importance which the Government attributes to CGE is shown by the participation assigned to its officers in various governmental activities. The President of CGE has virtual status of minister without portfolio; and attends cabinet meetings. CGE officials have been named to the Boards of Directors of the Central Bank, the Bank of the Argentine Nation, the National Mortgage and Industrial Bank, DINIE, the National Meat Institute, the National Institute of Grain Elevators, and to other governmental enterprises. In an address in late 1954 President Perón was quoted as saying, "In the same manner we will aid national industry with all the protection it is possible to give---In this area we will act very much in agreement with the CGE. We will have such protectionism as the CGE advises us to have. We wish to rely on the fairness and the sincerity of the Economic Confederation. Let it tell us where we should increase the protection and where we should decrease it for the purpose of continuing to perfect our industry, making a more finished product of better quality and lower cost, a matter which we are not able to evaluate and in which we shall have to follow, insofar as Government and State assistance are concerned, the advice which the CGE gives us in that respect, following in many other aspects the same orientation".

In April 1954 CGE sent a mission, composed of its leading members to the United States to study commercial relations between the two countries and to make recommendations for the improvement of trade. The conclusions by this mission, upon its return to Argentina, are of special interest as indicating the point of view of the leaders of Argentine private industry. They may be summarized as follows:

1. It is recommended that foreign capital which was in the country prior to the appearance of the new law on capital investment be granted facilities for the transfer of dividends.
2. That earnings by foreign capital in excess of the 8 percent, whose remittance is authorized to the country of origin, may be capitalized with rights to the benefits established by the law.
3. To promote possible investments of "North American" capital for the exploitation of Argentine petroleum reserves and other mineral resources.
4. That private economy should be stimulated by a reduction of state intervention transferring to the private economy enterprises now administered by the State.
5. Permit rates of exchange to be flexible and gradually to find their normal level, in order to make possible an increase of exports and provide stable exchange conditions.
6. Provide facilities for the increase of tourism by creating a rate of exchange for tourists, speeding up customs and police procedures, improvement of transportation, and promotion of the hotel industry.

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7. Permit the remittance of royalties payments, authors' fees, and other emoluments connected with technical, intellectual, or scientific processes.

The establishment of CGE apparently represents some shift in orientation of Argentine economic policy. It constitutes an increased recognition of the important role played by private entrepreneurship. It provides a means of keeping the Government in touch with the opinion of businessmen and of communicating its plans to them. In addition, CGE forms a sort of counterbalance to the political and economic importance of CGT. Although publications by CGE and speeches by its officers contain an admixture of peronista doctrine, they contain also a relatively clear statement of the interests of the entrepreneurs and an orientation toward an enlightened capitalism.

The relationship between CGE and the Government is not altogether one-sided. CGE must function within a framework laid down for it by the Government and is subject to a certain amount of guidance and supervision of a general type. On the other hand, the Government is undoubtedly influenced by CGE's recommendations, which reflect the interests of the businessmen who comprise its membership.

The Economic Influence of Argentine Cooperatives 3/

While the cooperative movement in Argentina is nearly 100 years old, its legal status was not defined until late in 1926 when the basic law No. 11,388, under which it still operates, was passed. With some modifications in the late Thirties and early Forties, that law remains the basis for cooperative operations, even though it is considered to be outmoded under the present regime.

The 1926 law was patterned after those of other countries and provides for such basic provisions as one vote to each member regardless of his size of business or shares of stock owned; no special advantages to management, old members, or directors; annual meetings; limitations on use of profits; dividends in proportion to patronage; and prohibitions on use of the organization for political or religious purposes. By law all cooperatives are independent organizations, subject only to fiscal review and control, which is exercised by the National Direction of Cooperatives, a unit of the Ministry of Industry and Commerce.

A large part of the earlier development of cooperation in Argentina developed in agriculture and was fostered by the three or four principal agricultural associations. One of the most important groups of cooperatives was developed under the Rural Society. It was said of this important organization by Carl Taylor 4/, circa 1942-43, "...a very small percent of the people who live on the land are members..." and "...its membership is composed of large producers of livestock and other large land owners". The influence of this group was, however, very great until recent years, since it included a large part of the

3/ Prepared by Robert C. Tetro, Agricultural Attaché.

4/ Carl Taylor, Rural Life in Argentina, University of Louisiana Press, 1948.

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wealth and many of the politically dominant figures. Members frequently held important government positions and had an influential voice in determining the country's economic policy for several decades.

Recently the Rural Society has cooperated closely with the Government, but has exercised much less influence than formerly. In January 1955 it held a special meeting to elect new directors because "the incumbents had been unable to maintain the National Stud Book, or to keep Cattle Show rights to the Palermo exposition grounds until other facilities could be made available." A second influential agricultural organization was the Confederation of Rural Associations of Buenos Aires and the Pampa organized in 1932. This organization, during recent years, however, found itself in opposition to various government policies; and in January 1955 its charter was revoked by the National Government. The reasons given were that the organization had obstructed the Government's work related to social and economic policies, had carried on a carping criticism of the present regime, and, "furthermore, the said institution when invited to join the economic organization which is in charge of all agricultural and livestock institutions, refused to do so, or intentionally delayed joining..."

A third organization, at present with more influence than either of the two just mentioned, is the Federación Agraria Argentina. It represents small farmers, especially tenants. It claims upward of 40,000 members and has organized cooperatives in marketing and processing many lines of agricultural products. It cooperates closely with the Government.

The cooperative movement during the last few years has been greatly stimulated by the Government and on various occasions President Perón has spoken warmly in its praise and has indicated that he wishes cooperatives to carry on a large part, perhaps the bulk, of the country's commerce.

From 1946-47 to 1951-52, subscribed capital in cooperative organizations quadrupled, reserves increased from 17 to 72 million pesos, and business transacted increased from 582 million to 2,305 million pesos. The number of cooperatives increased during this period from 1,009 to 1,760, and members from 544,064 to 871,088. The distribution of this membership by kind of cooperative in these two years is shown in Table 1. The distribution of membership by area is about in line with that of population and resources.

There have, however, been some interesting changes in numbers and types of cooperatives during the last few years. The consumer cooperatives, sponsored by the Eva Perón Foundation, nearly doubled in membership, and the agricultural cooperatives nearly trebled. Those classified as "various" were the only ones to decline, and this probably results from a reclassification of the groups. There are, of course, reasons for this development which bear on any qualitative analysis of the cooperatives as an economic power group.

At present, the three outstanding cooperative groups are: The Argentine Cooperative Association, the Federation of Argentine Cooperatives, and the Association of Argentine Cooperatives in Buenos Aires. These are the greatest of the 17 cooperative federations operative today, all of which are about to be organized into one grand confederation which will represent Cooperatives in the General Economic Confederation.

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under a heavy disadvantage the old-line grain and seed dealers who had a considerable social and political influence in some areas. In addition, the cooperative's officers acquire strength as farmers' representatives in some branches of policy formation and implementation.

It is difficult in this brief discussion to assess thoroughly the influence which cooperatives wield as an economic and political group. There has been criticism among farmers of the commercial efficiency of some of the newer cooperatives. However, when one considers that much of their present operation is closely integrated with various governmental agencies and cooperatives are being fostered as a part of the Government's program, one is forced to the conclusion that the Argentine cooperatives form an important segment of the country's politico-economic structure.

IV. PUBLIC UTILITIES AND PETROLEUM

Under Article 40 of the Constitution mineral resources and petroleum deposits are declared to be the "imprescriptible and inalienable property of the Nation". Consequently, these branches of the national economy are closely controlled by the Government. All railroad lines are owned and operated by the Government under the Ministry of Transport. The same is true of the transportation system of the City of Buenos Aires, of the airlines, and of most of the ocean and river shipping. In production of electric current, the great bulk of the power plants are still in the hands of private companies but an appreciable number of such properties have been taken over by municipal or provincial authorities, and there is some production by ENDE, a government agency.

Petroleum production is dominated by YPF, another government agency. A small part of the national petroleum production, however, is still in the hands of oil companies which were established in Argentina three or four decades ago, and at the date of this report the Government is negotiating with several private oil companies in an effort to get them to re-enter this field and develop the country's petroleum resources more rapidly than has been possible under YPF.

Railroads 1/

Argentine railroads are entirely government-owned and operated at the present time, their total length being about 26,500 miles. Prior to nationalization, two-thirds of the railroads had been owned and operated by British and French companies and the balance by the Federal Government or the provinces. The Argentine Government purchased the 2,575 miles of French railways in one transaction in 1946 for 183 million pesos and in 1947 bought the 15,600 miles of British lines for 2,482 million pesos. The Central of Buenos Aires railway was taken over in 1949; the port railways in 1948; the Correntino Railway and the Provincial of Buenos Aires in 1951.

Before nationalization, official supervision of the privately owned railroads came under a Directory General of Railroads which was part of the Ministry of Public Works. After 1938 this Ministry also operated the Transandean and the Central Cordoba lines which had been acquired by the State. When the

1/ Prepared by Richard M. Connell, Commercial Attaché

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remaining lines had been nationalized, the eighteen separate railroad companies were formed into nine government railroad operating groups under the Ministry of Transport. For a while each group operated autonomously but in 1952 a super management organization called the National Transport Enterprise was established under the Ministry of Transport to control the railroads as well as other forms of transportation.

One of the accomplishments of the National Transport Enterprise has been the improvement of connections between the formerly independent railroad systems. Freight and passenger rates have been kept relatively low in relation to the general cost of commodities and rates to some outlying sections of the country have been reduced so as to encourage regional economic and agricultural development.

The British and French railroads were badly run down before purchase by the Argentine Government and the foreign exchange shortages and difficulties of obtaining supplies aggravated the difficulties of operation. The National Transport Enterprise, in seeking to coordinate purchasing, restricted the authority of each separate railway management to buy supplies or to make repairs up to a maximum amount, beyond which it was done by the Enterprise. Equipment purchases, for the most part, were centralized in the Enterprise. This division of authority and responsibility, however, has caused serious operational complications. The Government publishes no figures on the railways except total annual tonnage and passenger volume handled (which has not increased since nationalization), but it is well known that deterioration of the railway system has continued.

There are two railway workers' organizations, one for the bulk of railway workers, and another for locomotive engineers and firemen. On labor questions union representatives are supposed to deal with individual railway managements, but after the formation of the Transport Enterprise there has been a tendency for the unions to go over their heads. The railroads now reportedly have fifty percent more employees than before nationalization. So serious has the railroad situation become that government leaders have declared that they would be willing to turn the roads back to private hands if interested operators could be found.

The operation of the railways by the Government is consistent with Article 40 of the Constitution, which was mentioned previously (Enclosure 1). Under the condition of inflation prevailing in Argentina during the past several years, however, freight and passenger rates have not advanced as rapidly as costs. This fact, added to the difficulties just enumerated, has resulted in large annual losses. An appreciable part of the cost of operating the system has consequently been shifted from the users of the railroads to the public treasury.

Electric Power 2/

As of the end of 1953, there were in Argentina 1,039 power plants

2/ Prepared by Howard R. Brandon, Second Secretary.

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(exclusive of those owned by industrialists or others for their own use) serving 1,384 communities. During the year these plants, with some 28,000 employees, produced and distributed almost five billion kilowatt-hours of electric current valued at 2,850 million pesos. The value added by the producers--sales value of the current less the cost of fuel--was some 2,200 million pesos.

In keeping with industry generally, and largely to serve its needs, there is a concentration of power production in the Greater Buenos Aires area. In that restricted area, two firms, with about 18,300 employees produced in 1953 some 3,500 million kilowatt-hours of electricity. This amounted to 65 percent of total employment in the industry and 71 percent of total power production for the country. While plans are afoot for limited interconnection of power sources, there is almost no such interconnection at present, which means that, when a break-down occurs, a community may be without power for a relatively extended period.

Although private companies have, through expropriation and other means, been divested of some of their public utilities properties in recent years, a small group of firms largely owned and controlled by United States, Swiss, and Belgian interests, with a combined capital of about 1,220 million pesos ^{3/}, account for the total production in the Greater Buenos Aires area and well over 80 percent for the entire country. The remaining production is divided more or less evenly between Empresas Nacionales de Energía (ENDE) and all other producers (privately owned public utilities, municipalities, cooperatives, etc.)

In terms of capital, production, and number of employees, half or more of the total industry is concentrated in the hands of a single firm. The following table shows the relative importance of the three largest companies, two of which are really groups of firms with common ownership and management.

	<u>Quantity</u>	<u>Percentage of Country's Total</u>
Capital, in pesos	1,002,000,000	82 %
Number of employees	25,000	89 %
Production in KWH	3,964,000,000	79 %
Value of Production, pesos	1,982,000,000	69 %

Net profit for the three firms was 35 million pesos, equivalent to 3.5 percent of their capital. Regardless of the concentration of ownership or management, electric power companies are, by their very nature, geographic monopolies. While it is true that the two companies serving Greater Buenos Aires compete in certain areas, charges are the same, and there is no

^{3/} Figures on capital have not been adjusted to compensate for currency depreciation and are, consequently, much below current values. Profits, therefore, are exceedingly modest in terms of the replacement value of power equipment and property.

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incentive for a consumer to change from one to the other. Public utilities are strictly controlled in Argentina as in most other countries. In keeping with Article 40 of the Constitution, which says that public services belong ab origine to the State and that those in private possession shall be transferred to the State, the Government has constituted ENDE the agency to produce, transmit, distribute, and sell electric current. ENDE's power in this respect and the threat of expropriation inherent in Article 40 have tended to discourage the expansion and development of power facilities by private companies. ENDE has actually done relatively little in the way of power development to date, however, and there have been indications that the Government is now inclined to leave this field to private industry to the greatest extent possible.

The Dirección Nacional de la Energía is charged, among other things, with the control of power rates. Some concessions, however, contain provisions allowing rate adjustment to compensate for changes in the cost of fuel and labor. Rates themselves vary with the category of the consumer and the locality, ranging from a minimum of about .06 pesos to 2.00 pesos per kilowatt-hour. The average is close to .50 pesos, which compares favorably with rates obtaining in the United States. Fuel, however, the most important item in the production of electric power, is imported at the very favorable rate of five pesos per dollar. This may be compared with a rate of 7.50 for most "essential" items, 14 for most others, and a black market rate of about 28.

As has been shown, ownership and business management in the electric power industry is highly concentrated. Real control, however, is exercised by the Government through ENDE and the Dirección Nacional de la Energía. The private companies are in a comparatively weak position to exercise economic or other pressures on these agencies. They have had relatively little success in obtaining concessions of any kind in recent years.

Petroleum ^{4/}

The petroleum industry is completely dominated by the Government both through its over-all regulation of the industry and as the predominant participant in actual production, refining, and marketing. The industry is also subject to the provisions of Article 40 of the 1949 Constitution which declares all petroleum deposits to be the "imprescriptible and inalienable" property of the Nation.

The Government participates in the industry through the entity Yacimientos Petrolíferos Fiscales (State Oil Fields), a dependency of the Ministry of Industry. YPF, first established in 1922, is one of five official entities operating in various fields of fuel and power, such as solid fuels,

^{4/} Prepared by Viren P. Vaky, Second Secretary

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gas, hydroelectric power, etc. 5/ These five companies, of which YPF is the petroleum entity, are supervised, controlled and coordinated by the Empresas Nacionales de Energía (ENDE), a body set up within the Ministry of Industry.

A second Government entity also operates in the field of production and refining. This body, Petroquímica EN, is the successor to the former British railroad company, Cia Ferrocarrilera, which exploited petroleum fields in the south of Argentina. When the railroads were taken over by the Government, this company was reformed as Petroquímica and transferred to the National Bureau of State Industries (DINIE), also a dependency of the Ministry of Industry. Its operations are small, however, and it does not market. For all practical purposes YPF may be considered as the Government's chosen instrument in petroleum exploitation.

In addition to the official entities, there are four private companies producing petroleum. Two of these are foreign owned and two domestically owned. The two foreign companies refine, market, and distribute in competition with YPF. Several very small refineries are also owned by other private groups.

The predominance of YPF as an operating entity in the petroleum field may be judged from the following data:

	<u>Total for country</u>	<u>% controlled by YPF</u>	<u>% controlled by Petroquímica</u>
Estimated proven and semi-proven reserves, barrels	991,447,485	97	0.4
1953 average daily production, barrels	78,086	82	2
1953 refining capacity, barrels per day	193,450	70	3
1953 annual production refined products, 1000's of barrels	55,378	66	3
Wells producing, 12/31/53	4,646	74	6

The dominance of YPF is even greater than the above figures indicate, however. As a State institution it receives preferential treatment. It is, for example, exempt from all taxes, although it is supposed to contribute a

5/ These five are:

Yacimientos Petrolíferos Fiscales--petroleum
Gas del Estado--natural gas
Combustibles Sólidos Minerales--coal and solid fuels
Combustibles Vegetales--vegetable fuels
Agua y Energía Eléctrica--hydro- and thermal electric power.

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certain part of its profits--if it makes them--to the treasury in return. Certain regulations, such as those governing the size of storage tanks maintained by distributors are more restrictive in the case of private companies than in the case of YPF. In 1948 the Government established a National Energy Fund to be used to develop the country's energy resources. This fund is partially financed from certain portions of the retail selling price of petroleum products collected from distributors. Thus, 80 centavos of the retail selling price of 1.40 pesos per liter of gasoline is paid into the Fund by the distributor. From time to time the Government has allotted money from this Fund to YPF for petroleum development. To the extent, therefore, that the private companies must pay into the Fund this surcharge on products they sell, they may be considered to be subsidizing their chief competitor.

The Ministry of Industry's Subsecretariat of Energy and Mining is responsible for regulating the entire industry through its two sub-offices, the Dirección de Energía and the Dirección de Minería. It is empowered to control and regulate all imports, production, refining, and marketing, and its power is complete.

The private companies presently producing petroleum operate in concessions obtained from the Federal and Provincial Governments in the early twenties. They are at present limited to those areas, the balance of the country being considered the "national reserve", and as such reserved to the State. YPF, as a State entity, has access to these areas, but the private companies do not.^{6/} Each of the present private producers are required to file their annual drilling program in advance for approval and/or modification by the Dirección de Minería.

Each company refining petroleum must submit in advance to the Dirección de Energía its annual refining program for the coming year, indicating its crude requirements and the amounts of the various products it will produce. The Dirección de Energía must approve, and may modify, this program on the basis of total country needs as established by it. Those refineries which must import crude and/or refined products to fulfill their approved production and distributing programs--and the private companies must import 90 percent of their crude needs--are given import quotas by the Dirección de Energía.

Prices of products are fixed by the Dirección de Energía, as is the percentage which may be "retained" by the companies as their income. The balance of the sales price is taken up by contributions to the Energy Fund, and various taxes. Any increases or additions to refining capacity must be approved by the Dirección de Energía.

Thus, the private companies have no liberty of action, and their income, their share of the market, and the size of their operations are closely regulated. Theoretically, YPF is also subject to control by the Dirección de Energía, but in practice it has benefitted from this system. The decisions taken by this body with respect to refining programs, import quotas, etc., are

^{6/} Private companies are currently negotiating with the Government for additional acreage.

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generally based on relative positions in the market, and their practical effect has been to freeze the position of the private companies to their present share of the market and to perpetuate YPF dominance. As the market grows, the lion's share of the increase is absorbed by YPF.

Another significant aspect from the power-control viewpoint is the tendency of the Dirección de Energía to lean on YPF for technical advice. As a result YPF practically always advises Energía or other government agencies on matters affecting the private companies, while it is at the same time their principal competitor.

Thus, economic power in the petroleum industry is exerted almost entirely by the Government, with the private companies' liberty of action greatly circumscribed. The tools through which this power is exerted are the Ministry of Industry, the Direcciones de Energía and Minería and YPF. It may be said that the power decisions originate from two sources: (a) from YPF itself which, motivated by a vested interest in maintaining its dominant position, can influence policy, and (b) from top government officials and economic planners who ultimately decide broad policy and influence it through the action agencies.

V. ORGANIZATION AND ECONOMIC POWER IN ARGENTINE INDUSTRIES

The population of Argentina in 1937 was 13.5 million. By 1953 it had increased 36 percent to 18.4 million and was continuing to climb about 2 percent per year. In 1946, when the population was 15.7 million, the census reported that 1,108,000 were employed in industry (Table 2). Of these 1,057,000 were in manufacturing. Twenty-three percent of this number was in food manufacturing, 19 percent in textiles and clothing, and 22 percent in production of metals, machinery, and electrical equipment.

The census reported 84,405 manufacturing establishments, but many of these were very small. Only 2,254 manufactured more than 1 million pesos, of product per plant, or about \$450,000 at the then value of the peso. (Table 3) The latter group, however, turned out 65 percent of total production and employed 49 percent of the laborers. This group comprises Argentina's manufacturing industry as the term would be understood by the ordinary United States reader.

During the period from 1937 to 1953 the number of persons employed in Argentine industries rose 48 percent; and 51 percent to 1954. It had been even higher in the prosperous year 1948. Indices of employment in ten industrial groups are available from Síntesis Estadísticas Mensuales since 1937, and for 17 groups since 1943. (See Table 4) These show that employment in production of rubber goods (especially tires), petroleum products, chemicals, and electrical machinery more than doubled within the 17 years. Judging from such data as are available, employment in the electric power and gas industry, tobacco, textiles, clothing, metals, and ceramics increased at a rate as great as the population of the country, or somewhat faster.

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TABLE 2
ARGENTINA, INDUSTRIAL ESTABLISHMENTS, PERSONNEL, AND VALUE OF PRODUCT, BY
BRANCHES OF INDUSTRY, 1946

	Estab- lishments	Total Persons Occupied	Value of Product (Millions of Pesos)	Value Add- ed by Mfr.
TOTAL	86,440	1,107,829	15,640	7,662
Extractive Inds.	554	27,529	269	253
Mfg. Industries	84,805	1,056,673	14,703	6,992
Food	18,294	235,513	4,666	1,678
Tobacco	112	10,447	326	236
Textiles	2,061	127,161	1,839	973
Clothing	10,409	67,128	1,161	500
Wood and lumber	10,079	106,641	736	422
Paper and pulp	524	19,100	290	129
Printing	3,056	44,207	439	274
Chemicals	2,103	52,220	1,061	529
Petrol. products	47	5,565	466	171
Rubber	131	8,113	132	61
Leather	4,364	51,579	776	314
Ceramics, glass	6,380	9,672	533	321
Metals, (exc. machinery	8,971	103,755	1,080	584
Vehicles and machinery	12,286	103,206	815	513
Electrical equipment	1,763	19,558	194	113
Miscellaneous	4,315	37,755	280	174
Electric and gas	991	23,627	578	418

Source: IV General Census (1946) Vol.3-Presidencia de la Nación, Ministerio de Asuntos Tecnicos.

TABLE 3
ARGENTINA-CLASSIFICATION OF INDUSTRIAL ESTABLISHMENTS BY VALUE OF PRODUCT, 1946

Value of Production in Pesos	Estab- lishments	Number Of Laborers	Production Millions pesos	Percent of Product
Up to 10,000	28,490	27,312	158	1.1
10,000 - 25,000	19,492	42,937	331	2.2
25,001 - 50,000	12,301	52,179	448	3.0
50,001 - 100,000	9,511	71,940	688	4.7
100,001 - 250,000	7,734	103,362	1,215	8.2
250,001 - 500,000	3,282	84,242	1,160	7.8
500,001 - 1,000,000	1,879	84,154	1,361	9.2
Over 1,000,000	2,206	432,906	9,432	63.8
	(2.6%)	(45%)		
TOTAL	84,895	899,032	14,793	100.0

Source: IV General Census (1946) Vol. 3-Presidencia de la Nación, Ministerio de Asuntos Tecnicos.

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TABLE 4

TRENDS OF EMPLOYMENT IN LEADING ARGENTINE INDUSTRIES
(Index Numbers, 1943=100)

Industry Group	1937	1943	1948	1953	July 1954
General level	79	100	132	117	120
Electricity and gas	--	100	102	136	138
Foodstuffs	74	100	124	113	117
Tobacco	--	100	115	135	129
Textiles	73	100	141	122	123
Clothing	--	100	134	120	127
Wood and lumber	--	100	116	80	76
Paper and cardboard	74	100	128	128	133
Printing	--	100	130	114	115
Chemicals	70	100	138	139	142
Petroleum products	81	100	142	194	195
Rubber	109	100	238	273	315
Hides and leather	77	100	133	103	103
Ceramics, glass	72	100	165	135	133
Metals, exc. machinery	91	100	143	130	135
Vehicles and machinery	96	100	128	113	116
Electrical machinery	--	100	288	284	315
Miscellaneous	--	100	102	83	80

Source: Sintesis Estadistica Mensual de la Republica Argentina,
Secretaria de Asuntos Tecnicos,--compiled from various
issues.

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With the rather limited Argentine market, and with a protectionistic policy that has tended to keep prices of many important products above corresponding levels in other countries, it is common for an industry to contain only a small number of firms. Frequently three or four firms dominate a given commodity field. In some cases a specific product is produced by only one firm. In others, as in the production of cotton textiles or woolen goods, there may be three or four important firms, plus a large number of very small ones, which produce, either in competition with the large companies or as suppliers for them. This occurs also in the production of chemicals, rubber products, metal specialties, machinery, and electric equipment.

Under this condition there have developed a large number of monopolistic situations, whether of outright monopoly, monopolistic competition (between substitute but monopolized products) or, occasionally, oligopoly when there are only two or three producers of a given identical product.

Argentine manufacturers, like most of those in Latin America, try to obtain higher profit margins per unit of product than is typical in the United States. In addition, since plants are frequently small and with less efficient equipment than in the United States, costs tend to be high. High costs, together with wide profit margins and frequently an element of monopoly profit, all tend to increase prices to the consumers, thereby limiting the capacity of the market and reducing Argentine real income.

On the following pages several leading Argentine industrial groups will be described briefly, insofar as available data permit. Time and available personnel limit the amount of detail in these discussions and consequently, many of the conclusions are of a very tentative nature.

In the course of the discussion, an effort will be made to compare prices for standard industrial articles in Argentina and the United States. Such a comparison is difficult to make, however, because of the multiple foreign exchange system of Argentina and various restrictions on imports of competitive products. Neither is it possible to analyze adequately the rates of earnings made by Argentine corporations in order to determine whether they contain any large element of monopoly profit. Capital valuations in Argentine balance sheets are generally obtained by adding together the number of pesos invested at various dates, plus undistributed profits retained in the business. Since there has been a relatively rapid and continuous inflation in Argentina, especially during the last 15 years, the resulting capital aggregates have very limited meaning. Replacement of industrial plants might cost two to five times the original number of pesos expended, depending on how long ago the investments were made. The figures are, nevertheless, of some importance since the Government bases certain control measures over Argentine and foreign capital on this type of valuation.

Metals 1/

There are probably about 9,000 metallurgical plants of all sizes in Argentina, employing an estimated 103,000 employees. In Argentine statistical

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terminology, however, this category includes all types of metal products except for vehicles, machinery, and electrical equipment. It includes blacksmith shops as well as smelters, and galvanizing plants as well as pipe factories. The average plant is relatively small, having an average of only 11 workers. The total number of firms is more difficult to establish than the number of plants, since many firms have more than one establishment. The total value of 1953 metallurgical production is estimated at 6,658 million pesos and the value added by manufacturer at 3,597 million pesos. 2/ Profits of leading firms for the same year are estimated at about 18 percent of invested capital and reserves, compared with 13 percent for industry generally. 3/ The 1946 census showed that 56 percent of the country's metallurgical production was concentrated within the Federal Capital and 89 percent within the Province of Buenos Aires. It is not believed that these ratios have changed materially since 1946.

The classification is necessarily somewhat arbitrary, since many important firms in this line also engage in other activities including the production of some electrical equipment, vehicles, or machinery. For the purpose of this

SOURCE OF DATA: (2/)

The number of employees in the industry was calculated on the basis of the 1946 census figures and the 1953 index figures published in the Síntesis Estadística Mensual, Secretaría de Asuntos Técnicos (1943 = 100). Value of total output was estimated in the same manner, except that it was necessary to begin with the 1946 volume figures, assume that volume and value would maintain a constant relationship, convert 1953 volume into value, and then compensate for peso depreciation, deflating by the cost of living index. Total volume added by manufacture was calculated from the value of 1953 production on the assumption that it held the same proportion with this figure as in 1946. The number of plants was based on the assumption that it would bear in 1953 the same relationship to the number of employees as in 1946. The number of employees and the value of production, as well as capital invested and rates of return for leading firms were obtained from those firms directly or from their published balance sheets. It should be mentioned that the figures for the leading firms do not always coincide exactly with the 1953 calendar year since some firms operate on a fiscal year of their own choosing.

Percentages of production of a given item attributable to one firm or to a small group of firms are estimated from available trade information. These statistics make no pretence to great accuracy, but it is believed that they provide a satisfactory picture of conditions and degree of concentration in the industrial groups which were studied.

3/ Figures on overall profits are based on a study, appearing in the December 10, 1954, issue of the Review of the River Plate, of 202 companies, of which nine were in the metallurgical field. The rates of profit are given with relation to capital and reserves shown in the balance sheets, which, because of continued inflation, have but little bearing on the current worth of the companies.

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report, however, it has been possible to select a group of four firms known to be among the most important in the field. Figures on this group will give some idea of the degree of concentration in the industry from the point of view of ownership and control. It might be mentioned that an important company, mostly government-owned, has been formed to set up a basic steel industry. But since this firm is not yet in production, it is not included in the group of four summarized below.

The total capital and reserves of this group, according to the last published balance sheets, were 553 million pesos, on which earnings were 86 million or 16 percent. This is close to the 18 percent figure for the nine large metallurgical firms for which figures are available. The facts that investments were made at various times and that there has been pronounced currency depreciation in recent years make it impossible to interpret such data on investment or earnings except in comparison with other groups of companies established over the same period of time. An idea of the relative importance of the four companies may be gained from the fact that the group employed 11,500 persons (11 percent of the total for the industry) and that the value of production was 906 million pesos (14 percent of the industry total). It has not been possible to obtain an estimate of the value added by production for these firms.

Not shown by the figures in the table is the concentration in a few hands of the majority of the total of the production in certain lines. In other words, while the four firms account for 14 percent of the total Argentine metallurgical production, this does not show the degree to which these companies monopolize the production of specific items or the fact that some items are produced by only one or a few firms. These four firms, for instance, produce approximately 65 percent of the steel (75 percent of the amount produced by private firms), 55 percent of the wire, and 75 percent of hot rolled steel (of all types produced in Argentina). Skelp and seamless steel tubes and wire-rods are each produced by only one firm. Four firms account for 85 percent of the total production of ordinary pipes. One firm produces 80 percent of the pig lead and more than 50 percent of all lead products. Zinc smelting is centered in three establishments, of which one is wholly private, one mixed, and one completely government-owned. One firm, shortly to be joined by a second, monopolizes the production of hack saw blades. Many more examples could be given.

The concentration of production in a few hands for many of these items has come about as a result of official policy, rather than through attempts of private firms to monopolize the market. Present government policy favors private, but not necessarily competitive, enterprise. It is common practice for the Government to estimate the needs of the country for a given product and then to arrange for a single firm or a small group of firms to establish manufacturing facilities to cover these requirements; the Government providing this firm with exchange permits for imports of essential equipment, and so on. The shortage of exchange permits and the limited size of the market for many individual products greatly strengthens the monopoly or near-monopoly position of the "early birds". Firms enjoying such privileges seldom indicate any reluctance to profit by them.

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Electrical Equipment 4/

The Argentine electrical equipment industry consists of a few large and a great many small establishments, possibly numbering about 2,600 in all. There are no reliable estimates on the total number of firms as contrasted with the number of establishments. There is some difficulty in classification because many electrical equipment firms also produce other metal items. In any case, the industry, with some 29,000 employees, turned out approximately 3,318 million pesos worth of goods in 1953, the value added by manufacture being estimated at about 1,938 million 5/. This industry, as is the case for most others in Argentina, is highly concentrated geographically. The 1946 census showed that the Federal Capital accounted for 62 percent and the Province of Buenos Aires for 93 percent of total production. It is not believed that this geographical distribution has changed much since that time.

On the basis of overall production, there is less concentration of ownership and control in the electrical equipment industry than in many others. Three of the leading firms, however, do account for a relatively important share of the total business. The combined capital and reserves of these firms, according to their last available balance sheets, were 317 million pesos, on which earnings were 72 million, or 23 percent. As investments have been made at various times over a long period of years, during which considerable currency depreciation has taken place, this cannot be taken to indicate that an investment made in the same field today would yield anything like 23 percent. The three firms had 11,500 employees in 1954, or 40 percent of the total for the industry. Their production was valued at 950 million pesos, or 29 percent of the industry total. Figures on value added by manufacture are not available. While not all of three firms manufacture all of the following items, the group is estimated to produce approximately 50 percent of the electric motors, 90 percent of the refrigerators, and 60 percent of the electric fans.

The bulk of the production of the three firms, as well as of the country as a whole, is represented by household appliances. Storage batteries also occupy a very important position. A few items are manufactured by only one firm, and the production of many is concentrated in the hands of a small number of firms. Many small manufacturers produce a small number of units of a given device even though the bulk of the output is concentrated in the hands of a few firms. There are, for example, perhaps a hundred "manufacturers" of refrigerators, but it is estimated that one firm accounts for 80 percent of the country's total output. The bulk of the radios, on the other hand, actually is produced by a multitude of small firms or individuals. At the moment, only one firm manufactures telephone equipment. The same is true of radio receiving tubes. Only two firms produce transmitter tubes. One firm accounts for perhaps 75 percent of the country's total light bulb production. Probably 50 percent of the electric motors are produced by a single firm. The production of batteries is considerably less concentrated, but even for this item two producers account for 20 percent of the total. Most of the electrical devices produced in Argentina were developed and patented in other countries. Partly as a result of this, the bulk of such production in Argentina comes from foreign-owned companies. Much of the existing concentration results from the fact that only a few such foreign firms have decided to go into production in this country. These foreign firms are usually experienced and efficient producers; and this efficiency has

4/Prepared by Howard R. Brandon, Second Secretary.

5/For source of data see footnote (2) on Page 29 (under Metals).

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tended to retain for them a proportionately large share of the market. Governmental pressure does not seem to have played an important part in forming the production pattern in this industry. Furthermore, indications are that a decline may be expected in the concentration of production in some lines. A second firm, for example, will soon begin the production of telephone equipment and it seems likely that other competing firms may enter the electrical equipment field in Argentina.

Textiles 6/

At the time of the 1946 industrial census, the Argentine textile industry was made up of 2,061 establishments and the number is appreciably larger now. On the basis of the census, adjusted by indices of industrial activity, it is estimated that the textile industry employed 124,211 persons in 1953. Total wages and salaries paid amounted to 1,600 million pesos, 11.8 percent of all industrial wage and salary payments. Production of textiles in 1953 amounted to 9,897 million pesos, while value added in process of manufacture was 5,239 million pesos.

Geographically, more than 90 percent of the textile industry is concentrated in the Province of Buenos Aires and in the Federal Capital. In 1946, there were only 230 establishments which employed 100 or more persons each. These establishments, about 11 per cent of the total number, accounted for 59 percent of production. Only 11 establishments employed more than 1,000 persons each. These accounted for 15 percent of total employment, and for 10 percent of its total output.

The estimated investment in the textile industry arrived at by the 1946 census was 1,362 millions of pesos. With a six-fold increase in the general price level since that time, and a ten-fold increase in wage and salary levels, total investment has increased enormously; but no reliable statistics are available concerning its present amount.

A survey by "The Review of the River Plate" of 27 of the large textile corporations, having capital and reserves of over 500 millions of pesos, showed that earnings on capital and reserves were 26.6 percent, 13.5 percent, and 8.91 percent respectively, in 1951, 1952, and 1953. A report of the Argentine Federation of Textile Industries states that all textile undertakings made a net profit of 4 percent on net sales for 1952 and 1953. Assuming net sales in the neighborhood of 9 billion pesos, profits would amount to 360 million pesos. This, if the average earned in the industry were 8.91 percent, would indicate a total investment of about 4 billions of pesos. Because of the effects of continued inflation and the different dates when plants were constructed, however, any estimate of the total current investment is necessarily little more than a guess.

While there is a great number of textile firms, probably no more than forty or fifty are important. Many textile firms have only a loom or two with very little capital. Knitting mills and stocking mills are usually quite small. Moreover, the analysis is complicated by the fact that some of the large companies overlap into other industrial fields, and there are various degrees of specialization within the textile field itself. Thus, the largest single company, with assets valued at 470 million pesos, holds stocks which are carried at a valuation of 200 million pesos

6/ Prepared by Harold L. Henrikson, Second Secretary.

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chiefly in two large paper-manufacturing corporations. The next largest company, and largest in point of sales, devotes about 10 percent of its activity to cotton textile production, about 50 percent to the production of burlap, rope, and other coarse textiles, and about 40 percent to production of other articles, such as shoes.

The ten firms believed to be the largest in the textile industry, including the two already mentioned, have stated capital and reserves of 1,246 million pesos. Their annual production is estimated at 2 billion pesos, and their annual earnings at 100 million pesos. The three largest firms have capital and reserves of 837 million pesos, annual production of 1,085 million pesos, and earnings of 90 million pesos. Of the companies which operate entirely within the textile industry, the three largest have capital and reserves of 325 million pesos, production estimated at 525 million pesos, and earnings estimated at 30 million pesos.

Cotton Textiles

Argentine cotton fiber production in 1953 is estimated at 121,280 tons, valued at 974 million pesos. Virtually no cotton is imported. The composition of the cotton textile industry is shown in the table which follows:

Cotton Textile Establishments - 1953

Spinning	61
Weaving	1,222
Knitting	394
Stockings	213
Other	628
TOTAL	2,518

Consumption of cotton fiber in 1953 was 86,856 tons, practically all in spinning mills. These had a capacity of 853,206 spindles, of which 814,828 were classified as active. Of the 61 spinning establishments, 12 had more than 20,000 spindles each, and accounted for 52 percent of the cotton spinning capacity. Output is estimated at about 1.5 billion pesos.

Employment and wage data for 1953 are as follows:

	Persons Employed	Wages and Salaries (000)
Spinning	24,444	302,742
Weaving	31,800	362,321
Knitting	11,338	95,145
Stockings	7,963	72,079
Other	2,683	23,749
Total	53,784	553,294

The cotton textile industry had 24,639 looms (21,989 active) in 1953. Of the 1,222 weaving establishments, only 14 were classified as utilizing more than 1,000 metric tons of yarn per year. These represented 1.1 percent of the total number

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of establishments but consumed 64.1 percent of the yarn used in weaving.

The cotton knitting industry had 5,244 knitting looms in 1953 in its 394 establishments. Only 17 of these, or 4.3 percent of the total, were classified as using more than 100 metric tons of yarn each per year; and their consumption amounted to 52 percent of the cotton yarn used in knitting.

The ten largest firms in the cotton textile field had capital and reserves of 1.2 billions of pesos. Annual sales are estimated at 1,875 million pesos, and earnings amount to 109 million pesos. However, this again includes the two large companies mentioned above, who sold some non-textile products, and who received profits from non-textile sources. The three largest companies in the cotton textile branch are identical with the three largest companies in the entire textile industry, figures for which were given above. Leaving out of account the two largest companies, which are not primarily in the cotton textile industry, the next three largest companies had capital and reserves of 320 million pesos, production of 590 million pesos, earnings of 37.5 million pesos. They employed 9,000 persons, or about 12 percent of the total in the cotton textile industry.

Synthetic Fibers

Four companies produce all the synthetic fibers made in Argentina. In 1953 there was no significant importation or exportation of such fibers. One of these companies is the exclusive producer of nylon fiber, and all of them produce viscose and acetate fiber. Given below are trade estimates of the production figures for these four companies.

Synthetic Yarn Production - 1953

(Thousands of Pounds)

Rayon and Acetate Filament Yarn	
Viscose High Tenacity Yarn	2,576
All Other Viscose Yarn	11,840
Acetate Yarn	2,402
Total	<u>16,818</u>
 Staple Plus Tow (Viscose Plus Cupra Rayon)	 1,000
 Rayon and Acetate Waste (Viscose or Cupra)	 938
 Other Synthetic Fibers (Nylon)	 <u>247</u>
 Total Synthetic Fiber Production	 19,003

No trade estimate is available regarding production of woven piece goods or other products manufactured from synthetic fibers. Assuming an average weight of 120 grams per square meter for rayon and acetate fabrics, it can be estimated that cloth production from these fibers was about 71 million square meters in 1953. Practically all of the nylon is used in stockings, and almost all the other synthetic fiber is made into cloth. On a basis of four dozen pairs of nylon stockings per kilo, it is estimated that nylon stocking production was about 450,000 dozen

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pairs in 1953.

Prices

A comparison of Argentine and United States textile prices is contained in the table below. The prices of United States products were taken from "Survey of Current Business". The Argentine prices were obtained from official statistics and from trade sources for articles which, as far as possible, corresponded to the specifications for the United States products.

Wholesale Prices of Selected Textile Products
 (July 1954)

<u>Description</u>	<u>Unit</u>	<u>Price per Unit</u> U.S. Arg. <u>Dollars Pesos</u>		<u>Dollar Equiva-</u> <u>lent of Arg. Price</u> <u>at Exchange of</u> <u>14 to 1</u>	<u>Rate of Ex-</u> <u>change Impli-</u> <u>cit in Arg.</u> <u>Price</u>
Cotton					
U.S., middling					
15/16"	lb	0.34			
Arg., 24 mm	lb		3.31	0.24	9.74 to 1
Yarn, Rayon					
U.S., viscose 150					
denier, filament ...	lb	0.78			
Arg., bright, cone					
continuous filament,			21.19 (1)	1.51	
150 denier	lb		to 30.15	2.15	38.7 to 1
Staple, Viscose					
U.S., 1-1/2 denier.	lb	0.34			
Arg. bright, 1-1/2					
denier	lb		11.34	.81	33.4 to 1
Yarn, Cotton					
U.S., natural stock,					
on cones or tubes, 20/2,					
carded weaving	lb	0.64			
Argentine, same ..	lb		12.70	.91	19.8 to 1
Yarn, Cotton					
U.S., natural stock,					
on cones or tubes, 36/2,					
combed knitting	lb	0.92			
Argentine, same ..	lb		23.59	1.69	25.6 to 1
Denim					
U.S., 28-inch	yd	0.35			
Arg., 320 grams per					
meter, 28-inch	yd		6.36	.45	18.2 to 1

1/ See top of next page, for footnote 1/

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- (1) A third producer has a price intermediate between the two shown. The discrepancy results from workings of price control. The higher price was used in calculations.

The Argentine textile market is, to a large extent, insulated from the developments which determine world market prices for textiles because of natural circumstances and government policy. Large surpluses of wool fiber are produced and exported at an exchange rate of 6.25 pesos per dollar, which means low returns to producers, but also cheap raw material to the woolen industry. Likewise, Argentina produces a greater tonnage of cotton than is required by domestic demand and, except for small quantities of long fiber cotton, is self-sufficient in this respect. Here, too, domestic prices are lower than similar prices in the United States, and afford the cotton textile manufacturer an initial advantage. Thus, the Argentine cotton or woolen textile manufacturer is generally favored with an adequate supply at a relatively low cost.

Another important advantage which the Argentine textile manufacturer enjoys is the relatively low level of industrial wages and salaries.

The demand for synthetic fibers, at a price which would permit profitable operations, undoubtedly exceeds present production. However, under the Government's policy of fostering industrial development, no synthetic fibers are being imported. Prices have been fixed by the Government at levels intended to cover production costs and to allow some return on the original investment. Since investments were made at different dates, and under different exchange rates for the peso, each of the companies has a different fixed price. The highest of these is half again as much as the lowest. The high-cost producer is protected from foreign competition by the unavailability of foreign exchange with which to import competing fibers, while the average price which the industrial user pays is kept low by price control.

Despite these advantages, it is apparent from the table above that once the raw materials have been subjected to a process of manufacture the ratio of United States prices to Argentine prices begins to alter in favor of the United States. Whether or not the Argentine prices are greater than United States prices in terms of the real purchasing power of the peso in world markets is impossible to determine, because of the multiple fixed rates of exchange and other state controls. However, on the basis of the most favorable official rate of exchange, the "free market rate" of about 14 pesos to the dollar, Argentine textile prices clearly exceed comparable United States prices.

It seems probable that, given the Argentine preoccupation with industrialization and the shortage of foreign exchange, much of the difference in prices results from high-cost production. Few of the textile establishments contain machinery that is up to present day operating standards in the United States. In the absence of protection from foreign competition most of them could not remain in business.

Undoubtedly, a relatively small number of fairly large textile enterprises occupies a dominant position in the textile industry. The great majority of the smaller ones are dependent on the few for raw materials, contract work, and even capital. As between the large companies, competition takes place; though it is impossible to say how much. Some companies hold stock in other companies, as minority stockholders or with outright control.

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It is obvious that, because of the effects of continued inflation, the book value of assets of most companies is much less than current value. Any close relationship between accounting values and real economic worth would be purely fortuitous. Even on the basis of accounting values, earnings by these dominant companies were not abnormally high in 1953. However, that was a notoriously bad year for the textile industry. In 1951 and 1952 earnings were very much higher. Without governmental controls, they would probably increase considerably, and the tendency toward limited competition would be more apparent.

At the present time, it appears that a significant degree of concentration exists within the textile industry. The extent of the monopolistic advantage gained from this concentration, however, evades analysis because it is obscured by the operation of governmental price control and because it is inextricably intermingled with other advantages resulting from governmental policy to promote industry and to protect the domestic manufacturer.

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Chemicals and Drugs 7/

Organization

The chemical industry is composed of a relatively small number of large firms who manufacture a wide range of industrial chemicals, plus a large number of small companies each specializing in a few chemicals. Practically all the manufacturers of chemicals also act as importers of products not made locally, both for their own use and for resale. There are comparatively few firms acting solely as importers.

The following estimates on Argentine chemical manufacture refer to 1953: 8/

No. of firms	115
No. of plants	200
Employees (office & factory)	20,560
Value of product	1,313,478,600 pesos
Value added by industry	656,739,300 pesos
Capital invested	550,000,000 pesos
Rates of return	8-25% (average 10-12%)

7/ Prepared by Viron P. Vaky, Second Secretary.

8/ Statistical Note: These figures are based on published 1946 industrial census figures adjusted according to trade estimates of the industry's growth and other available data as follows: Number of firms and number of plants are based on estimates of local chemical trade associations. The figure on employees is based on the 1946 census figures and adjusted according to the percentage increase in employment in the industry as shown by indices published in official monthly statistics. The value of product manufactured is calculated on the basis of 1946 census figures and adjusted according to increases in production volume as shown by official indices. It has been assumed that the percentage increase in production volume corresponds to the percentage change in value. The resulting value figure was also adjusted for inflation since 1946 according to the increase in the cost of living indices published monthly by the Government. The value added by manufacture is calculated on the basis of the percentage relationship existing between total value of production and that added by the industry in 1946. There is no evidence of any significant change in conditions which would challenge that assumption. Capital invested is estimated by local trade associations and refers to subscribed capital. Rates of return are trade estimates and refer to returns on subscribed capital and reserves. The figures shown for rates of return indicate the limits of the variation.

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Five companies stand out in the industry as the largest, and hold a preponderant position in total capital invested and value of production. Following these five are a host of small companies, with very few firms occupying a position of even medium importance. The following figures show the percentages of total investment, number of workers and value of production for the five largest and ten largest firms in the industry: 9/

	<u>Investment</u>	<u>No. of employees</u>	<u>Value of production</u> 10/
Five largest	52%	21%	35%
Ten largest	65%	34%	48%

Concentration in the industry is greater, however, than is indicated by the above figures. Four of the five largest firms own or hold substantial interest in other important manufacturing firms, and in such cases control the distribution of the products of those companies. While these five firms are not the most important in all commodities, they do hold a commanding position with respect to important and basic industrial chemicals. The following table shows the percentage of total 1953 production of important chemicals controlled by these five firms either directly or indirectly:

<u>Product</u>	<u>% of production by</u> <u>5 largest firms</u>	<u>Product</u>	<u>% of production</u> <u>5 largest firms</u>
Benzine	67	Aluminum Sulfate	20
Toluene	43	Ammonia	86
Phtalic Anhydride	100	Nitric acid	52
Methanol	100	Sulfuric acid	75
Formaldehyde	100	Carbon Bisulfide	80
Acetates	80	Thermo plastics	50
Tartaric acid	100	BHC	100
Acetic acid	50	Lead Arsenate	100
Caustic soda	100	DDT	100
Chlorine	100	Aniline dyes*	100
Hydrochloric acid	100		
Hydrogen	80		

* To be produced shortly

Another aspect of concentration in the industry is the degree to which important chemicals are made and sold by a single firm. Phtalic anhydride, methanol, formaldehyde, lead arsenate, DDT, and amyl alcohol are made by only one producer. Benzine, toluene, tartaric acid, and several other

9/ These data are compiled from the last published balance sheets of each company.

10/ This figure is based on the amounts invoiced by the companies during the year.

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chemicals are made by only two producers in each case.

Still greater concentration is indicated by the fact that the five largest manufacturers are also among the most important importers of raw materials and finished products. Among other criteria the Central Bank allocates exchange on the basis of the applicant's past history of imports, and, in many cases, to consumers only. The tendency of the first of these practices is to freeze the import pattern in the hands of the traditionally large importers. The effect of the second is to squeeze out the middleman.

Another aspect of the chemical industry's organizational pattern is the commercial activity of the Government, effected through two entities, the General Bureau of Military Factories (Fabricaciones Militares) and the National Bureau of State Industries (DiNIE). The first of these operates three plants for sulfuric acid (23% of the country's capacity), a synthetic toluene plant, and is the only present producer of crude sulfur in the country. It also produces a host of other products, including nitric acid, minimum, litharge and sodium bisulfite. All of these products are channelled into the commercial market in direct competition with private producers. It is also expanding, and is now constructing new plants for production of sulfuric acid, nitric acid, ammonia and ammonia salts. It also owns one-third interest in one of the big five private chemical firms.

DiNIE is completing a plant for anhydrous ethyl alcohol, and has underway plans for the construction of caustic soda and soda ash plants.

The prospects of increasing competition from state entities disburbs most private producers who fear unequal competition. There is consequently a general feeling that there should be a more precise definition of the respective spheres of action of private enterprise and the Government.

Pricing and Operations

Manufacturing costs in the Argentine chemical industry tend to run somewhat higher than in the United States or European countries. Such fundamental problems facing the industry as insufficient electric power, inadequate transportation and difficulty in obtaining trained personnel make it difficult to reduce overhead costs to more economic levels. Moreover, except for sulfur, ethyl alcohol, brine and some pigment materials Argentina is unable to satisfy its own needs for basic raw materials. The consequent dependence on imports has raised recurrent problems of foreign exchange availability, which in turn have made it difficult to plan ahead. Periodic shortages of foreign exchange have also handicapped existing plants in modernizing and improving their machinery and equipment. Since the domestic market is limited, most plants are relatively small. Consequent inability to produce on a mass scale prevents any substantial lowering of unit costs.

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The interplay of all these factors, plus an exchange rate of 7.50 pesos per dollar for imported chemicals compared to a black market rate of over 27 as this despatch is written, has resulted in domestic prices which are in most cases considerably above world market levels. Bearing in mind the 7.50 exchange rate applicable to chemical imports, the following table, showing what rate would equalize existing Argentine and U.S. prices, will give an idea of present prices differentials: 11/

Product	Av. US price per kg or liter in dollars	Arg price per kg. or liter in pesos	Conv. rate in pesos 1 U\$S = X pesos (2) * (1)	Arg. price in dollars at 7.50 rate
Benzine	0.106	4.20	39.60	.567
Toluene	0.089	4.00	35.50	.540
Sulfuric acid	0.0235	1.30	57.00	.175
Sulfur, crude	0.03	1.80	60.00	.24
Zinc oxide	0.308	12.50	42.00	1.69
Ammonia	0.09	8.50	95.00	1.15
Methanol	0.116	6.00	52.00	.81
Chlorine	0.10	2.70	27.00	.36
Caustic soda	0.0561	2.75	34.00	.37

Average of 16
industrial chemicals 37.60

The local industry is therefore not competitive with imports, and depends on protection for its existence. This has taken the form principally of cutting off competing imports. From time to time also, the government has declared the manufacture of a particular product "of national interest". Industries in this category generally receive customs privileges for imports of machinery and equipment in addition to import protection. The Government-controlled Banco Industrial has also extended financial credit to new plants or expansion projects.

Government protection against foreign competition has generally been extended at the request of individual firms who certify that, with such protection, they are able to manufacture all or part of the country's needs. There is thus a form of cooperation and acquiescence between the Government and the industry in this pattern. 12/

11/ Prepared by a local chemical company. US prices are July 1954 quotations as quoted in Oil, Paint and Drug Reporter.

12/ See the quotation from the recent speech by President Perón on this subject, quoted on page 16 of this despatch.

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While not enunciated as policy, there is a tendency on the part of the Government to favor new manufacture insofar as it covers local needs, but to discourage construction of excess capacity unless an export market exists. In several instances in the past, Government authorities have made it known that only one or two projects for manufacture of a particular product will be authorized although several applications are received. Official policy thus tends to favor the establishment of monopoly or partial monopoly on individual items in the course of the protection and stimulation of local industry. This too is acquiesced in by industry. In fact, many companies condition their expansion plans on the receipt of protection, monopoly privileges and exclusive rights to import materials, pending initiation of manufacture, privileges which are frequently granted by the Government. The effect of this system is a race among producers to be the first to establish manufacture, as the company or companies who first succeed in marketing a new product are assured of the domestic market almost as a monopoly as well as protection from foreign competition.

Prices of chemicals are not at present officially controlled. In cases where production of a commodity is in the hands of a small number of manufacturers there is no evidence of outright cartelization. The degree of industrial concentration, and the pattern of limited over-all competition, however, tend toward tacit agreements as to profit mark-ups and limitation of the intensity of competition. There is a strong tendency to keep in line with each other, and there have been practically no instances in recent years of price cutting to gain market advantages. The situation is somewhat different with respect to imports, various importers vying strongly with each other to offer the lowest price and most advantageous terms and thus to gain the lion's share of available permits.

From time to time the Government has intervened to secure adequate distribution of items in short supply, and has also acted on behalf of domestic producers in cases where local production cannot meet the entire needs of the country, by requiring consumers to use a certain percentage of the local product. Such intervention is more frequent and extensive than in the United States, and is generally "ad hoc", being abrogated as the situation changes. Government restrictions also prohibit excessive or monopoly profits (agio) and authorities have the right to examine books and to prosecute when evidence of speculative or excessive profits exists.

Pharmaceuticals

The pharmaceutical industry is more competitive than the chemical industry, and production control is widely diversified. It is composed of some 220 firms of all sizes. Pertinent data on the industry is as follows: 13/

13/ This data is based on estimates of the local pharmaceutical trade associations and on 1946 census figures which have been adjusted according to estimates of the industry's growth. See note 8.

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No. of firms	220
No. of plants	220
No. of employees	16,000
Capital invested	350,000,000 pesos
Value of product	1,100,000,000 pesos
Value added by industry	704,000,000 pesos
Average rate of earnings	15-22%

Imports of finished medicinals plays a big part in the local industry, and all the manufacturers also import part of their line of products. The trade estimates that 25 to 30% of the pharmaceuticals consumed locally are imported in finished form.

Prices are fixed by the Government which sets the profit margins at the manufacturers', wholesalers' and retailers' levels. These are respectively 20% of costs for locally manufactured goods and 6% for imported (with 5% added if the medicinal has an expiration date), 16.5% of the manufacturer's price, and 35% of the wholesaler's price. In addition there are rigid health controls exercised by the Government over the various products sold.

As in the case of chemicals, the government's general policy of protecting local industry tends to favor the creation of privileged position. Thus imports are cut off to protect local manufacture, while the practice of allocating exchange on an historical basis referred to above tends to favor the traditionally large importer and to freeze import patterns. However, the fact that the demand for medicinals is much more elastic than chemicals as new medical developments occur, together with the difficulty in cornering the supply of any given product because of the existence of so many substitutes or the same product under different brand names, has meant a much lesser degree of concentration in the pharmaceutical industry and as a corollary a more competitive climate.

Conclusion

There is a substantial degree of concentration of chemical production in relatively few hands. In many cases all production or supply of a commodity is controlled by a single firm. This results in a limited degree of competition within the chemical industry.

This pattern of concentration is supported and perpetuated by Government policy and protection. Thus, the establishment of domestic manufacture is favored by protection from the stiff competition of foreign imports. The practice of allocating foreign exchange to importers for necessary imports on the basis of past records of importations tends to freeze the import pattern, to favor the traditionally large importers and to prevent entry for newcomers. The fact that the domestic market is in most cases relatively

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small, but foreign competition is shut off, and that the Government tends to discourage construction of excess capacity make it comparatively easy for one or a small number of firms to gain control of all the supply of a given product. This in turn favors the firms with large resources who can most easily and quickly establish new production.

The resulting limited degree of competition within the chemical industry has meant a price structure based almost entirely on supply factors with cost setting the minimum. The degree to which this is true of course, depends on the degree of concentration. The most practical effect is to permit higher profit margins than would be the case in a highly competitive industry. 14/

The possibility of government intervention, on the other hand, tends to prevent the extreme effects of monopoly. The readiness of the government, for example, to intervene where products are in short supply provides some limit to control by the producer. The restrictions on "agio" also tends to place an upper limit on profit margins.

Thus, the organizational pattern of the chemical industry favors concentration of production in a few hands, tends to favor the large company, and to favor a higher return than in a strongly competitive industry. The basis for this economic pattern appears to lie in an effective, but probably not intentional, cooperation between the government, on the one hand, which desires to protect and foster local industry, and the manufacturers themselves, on the other, who desire to profit from limited competition.

In pharmaceuticals, as in chemicals, there is a tendency to utilize governmental protection and control to improve one's competitive position and eliminate competition. The possibilities of doing this, however, are more limited. As most medicinals are a formulation of drugs, there are many substitutes for the same use and many products are sold under different brand names. The result is that it is difficult to gain a monopoly of the production of any item except where patent control exists and substitutes limited. The market, being variable and elastic as new medical research uncovers additional uses, increases this difficulty. Moreover the fact that prices are frozen by the Government reduces the advantage of monopoly even where it may exist as for example as a result of patent control. The result is a relatively competitive industry, with diversified control and comparatively little in the way of economic power groups.

14/ Rates of return on capital and reserves for the five large chemical firms were indicated above. Actually the rates of return for last year were well above the industry average:

Firm A: 17%	Firm D: 25%
Firm B: 24%	Firm E: 15%
Firm C: 16%	

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Rubber Manufacture 15/

Pertinent data on the rubber industry is as follows: 16/

No. of firms:	213
No. of plants:	220
No. of employees:	15,000
Capital invested:	306,000,000 pesos
Value of product:	674,799,740 pesos
Value added by industry:	310,407,880 pesos

Tire manufacture constitutes by far the most significant sector of the rubber industry. Five tire manufactures with 20% of the industry's total labor force and 34% of the capital investment account for almost 60% of the value of the industry's output. Two of the five tire companies, both American owned, have 62% of the tire-producing capacity. The balance is divided among the remaining three firms which are of approximately equal size.

Except for very small amounts of sizes not made locally, no tire imports are permitted. The local market is therefore supplied almost entirely by the five domestic manufacturers. Prices of tire and tubes are not officially fixed, but a degree of control exists in that each company must file with the Ministry of Industry any price changes in advance of their effective date. If no objection is made by the Ministry within a certain period the new prices go into effect. While this procedure limits somewhat the liberty of action of the tire manufacturers in pricing matters it has not proved very restrictive in practice. The tire manufacturers have been able to secure the increases they wanted in practically every case.

Government supervision on other matters has in the past extended to control over the distribution and marketing of tires on the grounds that the commodity is important to the national economy. From 1951 to the middle of 1953, tires were in short supply and the government instituted rationing and controlled market allocations. These controls were lifted in 1953 and tire manufacturers are now free to distribute and market, although they are still required to report their production and sales so that the government may keep track of the adequacy of supply.

With respect to raw material supply, the Government has extended more favorable treatment to the tire manufacturers than to other users of rubber.

15/ Prepared by Viron P. Vaky, Second Secretary

16/ These data are based on published 1946 census figures adjusted according to trade estimates and other available data to show growth since that time. See the statistical note in the chemical section.

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For some time non-tire producers were forced to buy their rubber from IAPI, which was the sole importer for the non-tire consumers, at prices above the world market price, while the tire manufacturers were permitted to import directly. Near the end of 1953 IAPI ceased to import rubber, but the government required all except the tire manufacturers to channel their import requests through the trade association, Federación de la Industria de Caucho. The tire companies continue to import all their materials directly. The Government has consistently given the tire manufacturers priority in exchange allocations for raw material imports, again on the grounds of the economic importance of the industry. In the past, however, when raw materials and exchange were short, the government has not hesitated to regulate the consumption of rubber for both tire and other uses.

Government supervision of the tire industry has thus been extensive. While it is not broad at present, there still exists the power of the authorities to intervene if there is any dislocation in the industry's normal operation. This readiness of the Government to intervene tends to limit the ability of the group to obtain monopoly profits, or to make any arbitrary division of the market.

Tire manufacturing costs tend to be lower in Argentina than in the U.S., particularly for labor and raw materials (the latter because of the exchange rate of 7.50 per dollar applicable to rubber and chemical imports). On the other hand, overhead and taxes tend to run higher proportionally in Argentina. A rate of 14 pesos to the dollar is applicable to tire imports. A comparison of average retail tire prices in the U.S. and Argentina is as follows: 17/

	U.S. prices per unit in dollars	Arg. price per unit in pesos	Conversion rate 1 U\$S = X pesos (2) ÷ (1)	Argentine price in dollars at author- ized 14 rate
Auto tires 6.70-15 4 ply	43.62	352.00	8.07	25.14
Truck " 7.00-15 6 ply	50.18	632.00	12.59	45.14
Truck " 9.00-20 10 "	82.86	1,526.00	18.42	109.00
Tractor " 11.00-24 8 ply	94.42	2,962.00	32.49	211.57
Tubes 6.70-15	3.55	39.50	11.13	2.82
Tubes 7.00-15	4.06	57.00	14.03	4.07

17/ US prices are 1954 quotations and include federal tax. Argentine prices are those effective during 1954.

Automobile tires are competitive with imported units, but the larger tires are more expensive due to limited mold capacity and higher cost per unit.

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The rate of earnings, calculated as a percentage of subscribed capital and reserves, for the five tire companies as computed from the last published financial statements and balance sheets are as follows:

Firm A: 66%	Firm D: 6%
Firm B: 55%	Firm E: 25%
Firm C: 28%	

The large return shown by the two largest companies is somewhat deceptive in that it is calculated on the book value of the capital which was invested long ago before the peso devaluation of recent years. In terms of the current real value of the companies' total assets, however, the rates of return are probably nearer 20-25%.

In actual operation the tire industry is a paradoxical combination of competition and cooperation. Each of the 5 firms vies with the others for its share of the market, and if one brings out a new commodity such as white sidewalls the others are quick to follow to hold their competitive position. On a broad basis, however, the five stay close together and tend to operate as a unit. There is close cooperation, for example, on matters referring to Government control. The most significant aspect is a tendency toward tacit agreements on pricing which tends to place prices at the level of the least efficient producer. This was evident a few years ago when the largest producer with the lowest cost wanted to lower prices. The smaller producers would have been unable to compete and persuaded the larger firms to forego such a reduction.

The tacit agreement on such matters springs from the fact that the productive capacity of all five firms can barely meet present demand. The larger firms are not in a position, moreover, largely because of exchange shortages, to increase their capacity so as to absorb the slack if a less efficient competitor were forced to the wall. And as the government is more interested in adequate supply than in lower prices through competition, it would not likely permit such an occurrence. The result is an adjustment in the form of such tacit cooperation which in effect creates a type of oligopoly, and which also means higher profit margins and larger returns.

Outside of the tire producers, the balance of the rubber industry consists of the manufacture of a wide variety of rubber goods by some 208 firms most of them very small. Production is well diversified and no single firm controls any significant portion of any particular commodity. There is therefore little evidence in this sector of significant economic power groupings, government control being perhaps the most important single influence in this group.

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Portland Cement 18/

Portland cement is without question Argentina's leading construction material and its use is so nearly universal that it constitutes perhaps the best available gauge of building trends. Twelve widely scattered plants, eleven of which are owned by five private companies and one by Petroquímica E.N. (a Government entity) account for the country's total cement output. In 1953 these plants, with some 5,500 employees, produced 1,659,321 metric tons of cement valued at 423,236,000 Argentine pesos. (Figures published by Portland Cement Manufacturers' Association). The value added by manufacture is estimated at 214,073,000 pesos. 19/ The total invested capital of cement companies, including the value assigned to the Petroquímica plant, was 202,719,000 at the close of 1953.

The paid in capital of the five private enterprises, as shown in their latest available published balance sheets, was 146,500,000 pesos, on which net earnings after taxes were 44,820,525, or 31 percent. It should be noted, however, that figures on capital refer only to the original number of pesos invested, no allowance being made for subsequent currency depreciation. If the figures could be readjusted to show the present replacement value of plants and equipment, the percentage of profit thereon would be much less than the 31 percent average shown in the companies' balance sheets.

The plants are located at or near the principal centers of population. Only four of the twelve are located in the province of Buenos Aires. While these accounted for 54 percent of the capacity and 60 percent of the actual production in 1953, this was quite in keeping with the concentration of industry generally in the same area. With regard to ownership, no one firm owns more than three plants altogether or more than one in a single province. An idea of the lack of concentration in the industry can perhaps best be conveyed by comparing in the following table the largest and smallest companies in the field, using invested capital as the criterion for size:

18/ Prepared by Howard R. Brandon, Second Secretary

19/ The estimate is made on the assumption that the ratio between the value added by manufacture and the total value of the cement produced is the same as in 1946, the last year for which such figures have been published. There is believed to be little difference in the percentage of value added by manufacture among the various firms in the business.

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	<u>Largest Firm</u>		<u>Smallest Firm</u>	
	<u>Thousands</u>	<u>% of Industry</u>	<u>Thousands</u>	<u>% of Industry</u>
Investment, pesos (1)	44,000	30%	12,000	8 %
Net profits, pesos (1)	11,766	26%	5,700	13%
Capacity, metric tons (2)	593	26%	80	3.5%
Production, metric tons (2)	491	30%	85	5 %
Approx. value of production in pesos (3)	124,000	30%	20,000	5 %

- NOTES: (1) As shown in latest available published balance sheets.
(2) Calculated from figures published by Portland Cement Manufacturers' Association.
(3) Calculated from production volume and year-end prices at factories concerned.

As the smaller of the two firms compared above is also engaged in other lines of activities, the discrepancy in their relative importance is considerably less than indicated by figures on capacity and production of cement. In terms of production capacity, two firms account for 57 percent of the total, three for 79 percent, and four for 90 percent.

Although the number of cement producers is small, close government control prevents any appreciable monopoly profit. The Government exercises strict direct and indirect control on marketing. The Foreign Trade Promotion Institute (IAPI) is the sole importer of cement and in 1954 imported approximately 275,000 tons of this product, mostly from Soviet bloc countries (see Enclosure 3). For more than seven months in 1954, domestic producers were limited to 50 percent of their average January-April sales in the Greater Buenos Aires area. In addition to competition offered from imported cement, strict, if indirect price controls are imposed on Argentine producers.

While no official price per unit of cement has been set by the Government, manufacturers are required to fix their own prices at levels that will give them a net profit of no more than 90 centavos per bag of 50 kilograms plus (since October of 1952) an additional 80 centavos a bag for those firms agreeing to invest the entire additional amount thus received in machinery or equipment destined to increase production capacity. All five firms have taken advantage of this opportunity to make the extra profit, in spite of their inability to dispose of it as they might wish.

Total maximum profits are about 10 percent of current production costs per unit (a moderate figure in Argentina). If costs increase, this percentage will fall. In the past, it has generally been possible for each firm to obtain the full allowable margin of profit, even though this meant slight price variations among producers. Existence of this multiple price system

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has been possible because since 1946 domestic production has not been sufficient, under government price control, to meet the demand and consumers have to a considerable extent had to buy cement where it was available. During the past two years, however, and incidentally, since the extra 80 centaves per bag has been permitted, the demand has not been so strong and the less efficient producers have had to keep prices in line with the competition, cutting profit margins accordingly.

While there are slight price differences from area to area, it appears logical to select those prevailing in the Province of Buenos Aires and New York City for purposes of comparison. The latest quotation for New York prices for bulk cement available to the Embassy is \$3.70 per barrel. The factory price in Buenos Aires is 62.39 pesos per barrel. An exchange rate of 16.86 pesos per dollar would equate the two prices. On the basis of the controlled "free market" rate of 14 to the dollar, used for the import of increasing categories of goods, or of the current black market rate of 28, Argentine cement prices are certainly competitive. At the basic rate of 7.5 to the dollar, which is the rate used for most imports of essential goods, however, domestic producers would obviously have difficulty in competing with unlimited imports of this product. It might be pointed out that the favorable exchange rate applicable to fuel imports, five pesos to the dollar, plays an important part in keeping Argentine production costs low.

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VI - CONCLUSIONS

The large landowners, who once constituted the principal economic and political pressure group of Argentina, are no longer of much influence, although they have not been disturbed in the ownership of their properties. The Government itself, and the bureaucracy which composes it, has replaced them as the prevailing power. There is close government control of many types of economic activity; and the official rather than the landlord or the business man is at the helm.

Under this situation, it is true, conditions are favorable for an occasional person, with political influence or connections, to derive substantial personal benefit from enterprises that depend on government policy and regulation. (See Enclosure 4.) In addition, there still remains the basic structure of Argentine private economy, and old established business houses continue to operate, although with some adjustment in their methods to the new system of regulations. (See Enclosure 5.)

In general, Argentina now constitutes a clean-cut case of a managed economy. The management, however, must be in conformity with the country's resources, its institutions, and the aspirations of its people.

It was remarked earlier that Argentina has a real problem in finding productive employment for its rapidly growing population. This has stimulated the Government's interest in the expansion of industry. Another influence in the same direction came from resentment against foreign control of public utilities, credit institutions, and many industrial and commercial enterprises before the present government regime. The Argentine urge to economic independence has in a large measure been converted into a program for industrialization as indicated in Argentina's Second Five-Year Plan.

In this trend toward economic independence the Government has made pronounced progress in nationalizing public utilities and in stimulating the development of new industries in order to avoid dependence on imports. It now owns not only the national railway system, the telephone system, and some other public utilities, but also dominates the production of petroleum and operates a limited number of industrial enterprises on its own account. Nevertheless, the great bulk of Argentine industry and domestic commerce is still in the field of private endeavor.

The expansion of local industry and the increase in government ownership during the past decade has been at least partly offset by various undesired developments. The Government has shown a willingness to encourage new industries by granting them various privileges and advantages. It has been relatively generous with them in granting foreign exchange for the

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importation of equipment and raw materials and has often excluded imported competing products. Since the Argentine market is somewhat limited in size, this policy has facilitated the creation of many monopolies or semi-monopolies.

It would not be possible to appraise the exact effect of these influences on the Argentine economy without a more elaborate study than was possible in preparing this despatch. Neither is it possible to determine just how much Argentine prices are affected by monopoly profit, and how much by high cost of production which results from the small scale of manufacture and from the frequent use of equipment that is not of the latest and most efficient model. Statistics are available to throw some light on the combined results of these influences, but not on their individual effects.

Table 5 summarizes the rates of earnings on 202 Argentine corporations whose stocks are quoted on the Buenos Aires stock exchange. This shows that the average earnings on capital plus reserves amounted roughly to 23 percent in 1951, 20 percent in 1952, and 13 percent in the relatively depressed year 1953. These percentages, however, overstate the true earnings in some degree since the capital values are determined from the recorded original investments, without correction for the inflation of the past 10 or 15 years. Even making allowance for this influence, however, it seems safe to say (a) that Argentine industry has been relatively profitable in normal years, and (b) that it contains a greater element of monopoly profit than is common in the United States. In fact, after observing the small scale of operations and the relatively old machinery in some Argentine plants, it seems questionable if some plants could continue to operate if there were not a relatively wide profit margin to offset elements of high cost.

The extent of monopoly or partial monopoly was commented on in the discussions of principal industrial groups earlier in the despatch. Numerous cases were mentioned where a given article was produced by only two or three plants, and where the benefits of a semi-monopoly situation were further assured by the exclusion of competing imports. Thus, four firms produce 65 percent of the steel, 55 percent of the wire, 85 percent of the pipe. The three principal electrical equipment firms produce about 50 percent of the electric motors, 90 percent of the refrigerators, and 60 percent of the electric fans. In 1953 it is estimated that the five principal chemical firms produced from 50 to 100 percent each of 20 important chemicals, including such basic products as caustic soda, chlorine, sulphuric acid, nitric acid, ammonia, etc.

In spite of government controls, permitted selling prices are usually adequate to afford a satisfactory or even generous margin of profit in normal years. Argentine businessmen, like those in other Latin American countries, ordinarily strive to obtain a wider margin of profit than is

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Table 5

Argentina-Percentage Yield on Capital Plus Reserves,
1951, 1952, 1953

202 Companies Whose Stock Was Quoted On
Buenos Aires Stock Exchange, Arranged in
Order of Earnings for 1953

	No. Comp- anies	Financial Year Ending in		Year
		1951	1952	1953
Building Materials	9	a/	a/	24.6
Farming and Other Primary Activities	18	26.4	22.4	23.4
Motor Cars and Accessories	10	33.0	41.8	18.9
Metallurgical Industry	15	24.4	23.0	18.4
Pharmaceutical Products	6	19.1	17.2	16.1
Foodstuffs	11	20.0	22.6	15.1
Footwear	4	16.9	13.2	14.2
Sundry Activities	35	18.1	18.9	12.8
Paper Manufacture	5	30.4	14.8	12.4
Beverages	10	23.2	24.1	9.8
Textiles	27	26.6	13.5	8.9
Public Utilities	9	—	—	6.5
Vegetable Oils and Paints	10	10.5	13.6	6.2
Real Estate and Building	16	7.6	8.8	5.9
Printing and Publishing	13	33.0	27.4	5.3
Glassware, etc.	4	31.1	29.2	4.1
TOTAL OR AVERAGE	202	22.7 b/	20.1 b/	13.4

a/ Included in "Sundry Activities"

b/ Excluding "Public Activities"

Source:

Review of the River Plate, Vol. CXVI, 3203, December 10, 1954, pages 35-38, Article by J.E. Spinosa Catella, "Profits of Argentine Joint-Stock Companies".

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common in the United States. Where a finished product from a protected or from a monopolistic industry utilizes domestically produced raw materials from another protected industry, prices to consumers are likely to be high.

John A. Hopkins
Counselor of Embassy
for Economic Affairs

✓ *mtt*
Enclosures:

1. Translation Article 40 Argentine Constitution
2. Labor (Confidential)
3. Cement (Confidential)
4. Jorge Antonio (Confidential)
5. Bunge & Born (Official Use Only)

Incls. as stated
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TRANSLATION OF ARGENTINE FEDERAL CONSTITUTION ARTICLE 40

Article 40 - The organization of wealth and its operation have as object the well-being of the people, within an economic order conforming to the principles of social justice. By means of a law the State may intervene in the economic domain and monopolize any given activity, to safeguard the general interest and within the limitation of the fundamental rights assured by the Constitution. With the exception of importing and exporting, which shall be in the hands of the State in accordance with the limitations and rulings that may be established by law, all economic activity shall be organized in accordance with free private enterprise provided that it does not have as an ostensible or concealed aim to dominate Argentine markets, eliminate competition or usuriously to increase profits.

Minerals, waterfalls, petroleum fields, coalfields, gas deposits and other natural sources of energy, with the exception of vegetable sources, are the imprescriptible and inalienable property of the Nation, with the pertinent participation in the yield thereof that may be agreed on with the Provinces.

Public services belong ab origine to the State, and in no event may they be alienated or conceded for operation. Those which are in private possession shall be transferred to the State, by means of purchase or expropriation with prior indemnity, when such is determined by a national law.

The price of expropriation of public service concessionary undertakings shall be the original cost of the assets involved in operation, less the sums that may have been amortized during the period fulfilled since the granting of the concession, and sums in excess of a reasonable profit which shall also be considered as repayment of the capital invested.

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LABOR

The membership of CGT is probably closer to 4 million than to 6 million. The proportion of Argentine labor which it covers is, nevertheless, impressive. Despite the fact that Perón is strongly dependent upon labor for the continuation of his regime, paradoxically this does not mean that it is able to dictate to him. His word is enough to cause the CGT Confederal Council to elect whomever he wishes to the CGT offices. CGT, in turn, exercises discipline over the various affiliated unions. This discipline, not without past help from the police, has become so effective that Perón now claims that the Government does not intervene in any way in the conduct of union affairs, leaving all special problems entirely to the top labor body, CGT.

Leadership in all of the unions is at least nominally Peronist. Opposition elements within the unions have not usually been able to perform fruitfully in union office because of non-cooperation from the authorities and appear to have abandoned the effort. Rival (non-CGT) labor unions have ceased to exist, either because of repressive measures, or because of lack of legal recognition for dealing with employers.

The foregoing does not mean that labor is without real influence. Labor's rights come into play frequently and require spokesmanship which is usually supplied effectively by the Peronist officials of the unions. Drastic remedies for thorny problems are not usually put into effect without the tacit approval of Perón. Hence, strikes, for example, are relatively few.

Another way in which labor makes itself felt is by bringing genuine worker discontent to Perón's attention. An example of this occurred early in 1954, according to some reports, when Perón abandoned a position against a wage increase when CGT officials told him that the demand for it among workers was intense both in the capital and in the interior. Whatever the stimulus, Perón presently told labor and capital to sit down and bargain on wage increases. In these sessions labor demonstrated in several industries a genuine power to affect the amount of wage increases even to the point of pushing them well out of line with the average. Pressure by labor, however, was partly offset by activities of CGE, the Perón-controlled employer organization. It provided a considerable brake on the raising of rates, and can probably be said to have held the average result to about what Perón thought fitting. Thus, by Perón's sufferance (or with his refereeing behind the scenes) both labor and management exercised a degree of bargaining power in the determination of wages.

Awareness of genuine worker sentiment is likely to influence Perón on almost any subject, and is reflected in the measures which his government takes. This has created some problems of importance for the economy. The partiality of the Labor Ministry toward labor has undoubtedly prejudiced both foreign and domestic investors somewhat against new or further activities in Argentina. The government tendency to pamper labor has weakened company discipline to the detriment of production, and has also led to some formal arrangements of a featherbedding type. It is believed that Perón has recognized the need for eliminating wasteful labor practice and in general promoting higher productivity.

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It seems likely, however, that the steps he takes in this direction will be in a manner more or less palatable to the workers and may not be taken with the greatest firmness.

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CEMENT

The explanation offered by the National Director of Supplies in his Disposition No. 21 of May 24, 1954, for restricting the sale of domestic cement in the Greater Buenos Aires area was that the market there was well supplied, while there was a shortage of cement in other areas. It has, however, been reliably established that, through improper handling and storing, IAPI allowed thousands of tons of imported cement to deteriorate seriously. Trade circles believe that the restriction on the sale of domestic cement was imposed to enable IAPI to dispose of this undesirable merchandise.

The whole question of the importation and distribution of cement by IAPI is a sore point with producers. They claim that Argentine capacity is sufficient to meet the total needs of the country and has been for many years. While it is true that production has not covered the demand since 1946, the blame is laid to the shortage of fuel. With an easier fuel supply, it is claimed that domestic producers are quite capable of meeting the country's entire needs.

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JORGE ANTONIO

Jorge Antonio constitutes an excellent example of a businessman who has been able to turn the present Argentine economic and political situation to his own advantage. Argentine born, of Syrian extraction, Mr. Antonio up until 1946 or 1947 was an obscure hospital intern when he attended and became friendly with Juan Duarte, President Perón's private secretary and brother-in-law. About 1950 Antonio was sent by Duarte to Germany where he made a deal with Mercedes-Benz for exclusive distribution rights of this automobile in Argentina. Since that time his rise has been meteoric.

During the year or two preceding Duarte's death in 1953, the name of Jorge Antonio was increasingly associated with that of Duarte in the Mercedes-Benz business and other activities. Following Duarte's death Antonio remained as head of the automobile distributorship and the continued favor that he has enjoyed in the ~~HIGHEST~~ government circles plus the wide range of additional enterprises with which he has become associated give credence to the view that he enjoys the confidence of high political personages.

At the present time (February 1955) Antonio is believed to have an important interest in, or to control, the following enterprises:

Petrogas, a new oil development company of which Eduardo Greco, President of the Banco Español del Río de la Plata, is the titular head. In view of the government's announced intention to permit private companies to develop oil production, this company may be expected to play an important role.

Petropan, a newly formed joint Argentine-U.S. company formed by Antonio and Floyd Odlum's interests with \$20 million capital to engage in petroleum and uranium development.

Belgrano radio and television chain. This was recently purchased from the government by a Jorge Antonio company known as Promotores Asociados de Teleradiofusión.

Deutz and Fahr tractor manufacturing enterprises. Antonio reportedly has an interest in both factories, to be constructed in Argentina.

Mecanica Rural S.A., agricultural machinery manufacturers, who also represent the Ferguson tractor.

Melatti, hide and quebracho export firms.

A factory to make railway car wheels, recently purchased from the Government.

Fabar S.A. This was a relatively small grain exporting firm; but has expanded greatly since its purchase by Antonio interests about a year ago.

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Capehart Argentina S.A., manufacturers of radio and television sets.

A thoroughbred horse trading and breeding company known as the Soc. Anonima Importador Exportadora Comercial Industrial Financiera e Inmobiliaria which operates the "Dos Estrellas" Stud. This firm is doing the bulk of a thriving business in horses between Argentina and the rest of the world.

An insurance company. One of the principal insurance companies operating in Argentina is reportedly controlled by Antonio.

Krupp locomotive manufacturing project. Although still in process of development, Antonio is believed to have an important interest in this enterprise.

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BUNGE & BORN

Bunge & Born Ltda. S.A. Comercial, Financiera e Industrial is one of the largest business organizations in Argentina. The main activity of the concern consists of the export of brains, hides, skins, and animal products. Although these activities were curtailed in recent years after the formation of the government state trading agency, IAPI, Bunge & Born Ltda. is still one of the three largest exporters of these products.

In addition the firm is engaged in the importation of metals, chemical products, cement, and general merchandise for resale and for the use of numerous subsidiaries owned and operated by the company. There are a total of about twenty-five subsidiary companies. Together they manufacture a great variety of products, including flour and feed, edible and non-edible oils, textiles, paints and varnishes, tin containers, chemical products, tanning extract, lithography, etc. There are also numerous land and cattle subsidiaries, real estate and financial institutions in the combine. The capital of Bunge & Born is registered at 180 million pesos, but total assets should be close to a billion pesos.

The subject firm is closely connected with Bunge & Born of Uruguay and with the firm of the same name in Europe, and the United States. It owns flour mills in various other South American countries as well as Argentina.

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