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DEPARTMENT OF STATE

AIRGRAM

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A-1097
 NO. (ENCL REPRODUCED IN PBR)
 SECRET

AIR POUCH
 HANDLING INDICATOR

TO : Department of State 7 31

G/pm

FROM : Amembassy BUENOS AIRES

DATE: May 22, 1965

SUBJECT :
 COPY NO. 1 SERIES A

REF

A week or so ago Alex Shaw reported to me, apparently concerned, that his cousin, General Shaw, and General Lanusse had made up their minds that this Government must go and that they had general support. He thought I ought to talk to Shaw if I did not already know him well. I agreed to his arranging a private dinner with Shaw.

In addition to Alex Shaw and myself, however, dinner included Joe Martinez de Hoz and Puricelli, President of Shell. It had obviously been staged by Alex to persuade General Shaw of the necessity of a golpe, though I am puzzled what he thought I would contribute.

Using Puricelli as an expert witness, Alex first developed all possible aspects of error in the Government's petroleum policy. This was not wholly successful in light of the present negotiating position, particularly of Shell, and in light of the fact that the Shell representative made clear the scarcity and relative high cost of petroleum resources in Argentina and the long term necessity for substantial imports. Puricelli and Martinez de Hoz both thought that, even if the Government introduced a law to permit contracts involving risk, as I indicated they were considering, Congress was almost sure to disapprove.

Alex then picked up the ball himself and stressed the long term damage to the confidence of European investors in Argentina of the present remittance difficulties, carefully saying he did not know about the US on which he deferred to me. He also quoted a Swedish banker,

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who was a great friend of Argentina, he said, as saying, during a recent 24 hour visit, that what Argentina needed was military rule. Without precision he discussed many differences between Ministers and private critical comments made by one about others as illustration that the Government was "falling apart". He thought rebuff of what he described as formal call for Foreign Minister's meeting by Zavala Ortiz was greatest blow to Argentine prestige in recent history. He criticized the complete rigidity of Illia's mind within party doctrine and several times suggested that Perette was more open-minded. This was all directed specifically at General Shaw, but the effect was somewhat marred when, after an opening comment about the seriousness of the Argentine economic problems, Puricelli interrupted to say that what was needed most to solve them was political stability.

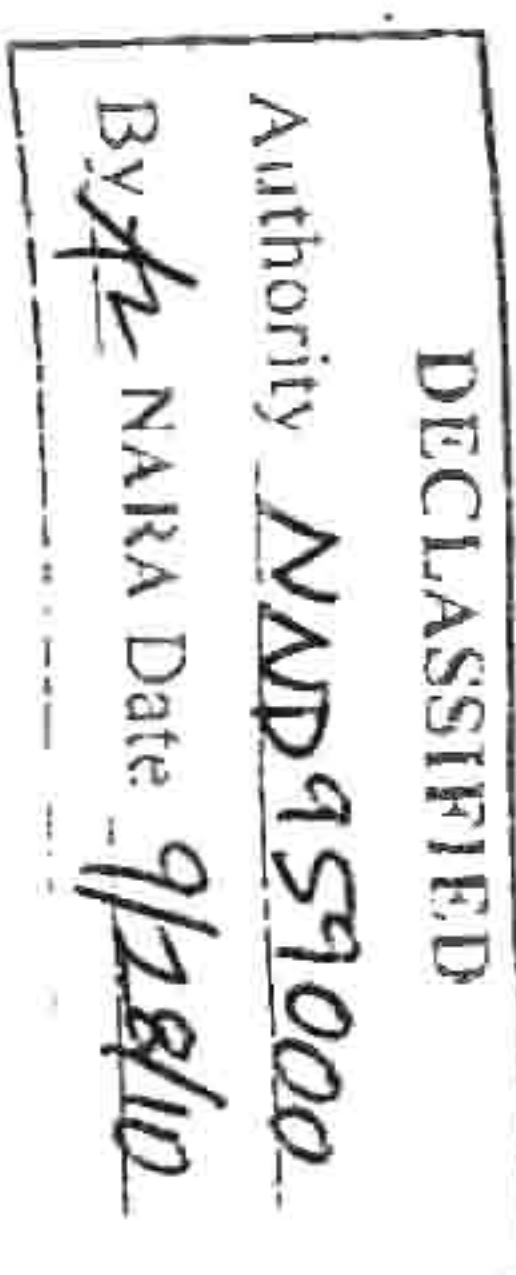
General Shaw said relatively little. He expressed doubts about Perette's open-mindedness, feeling he was strictly a party man. He felt the great problem of Argentina was Peronism. Peronists had "disoriented" the mass of voters to the great detriment of Argentine strength. He thought really what Argentina needed was strong leadership and with that people would follow along. At present they have only politicians who spend their time following the lead of the mass of voters, rather than telling them what to do. Argentina still needs caudillo-type direction.

Martinez de Hoz said very little but did make one or two critical comments about the way democracy worked in fact in Argentina, and the relative political immaturity of Argentina as compared to the United States.

I said little in this part of the discussion except to briefly endorse Puricelli's remark on the importance of political stability and to suggest that the Swedish banker friend of Alex might be an excellent banker, but I did not think he was very expert in the political field. I think General Shaw understood my point of view.

Shaw wanted background information on the present Dominican situation which I gave him, including developments over the weekend which had concerned the Government here. Alex seemed somewhat surprised and upset with General Shaw's statement that the Government

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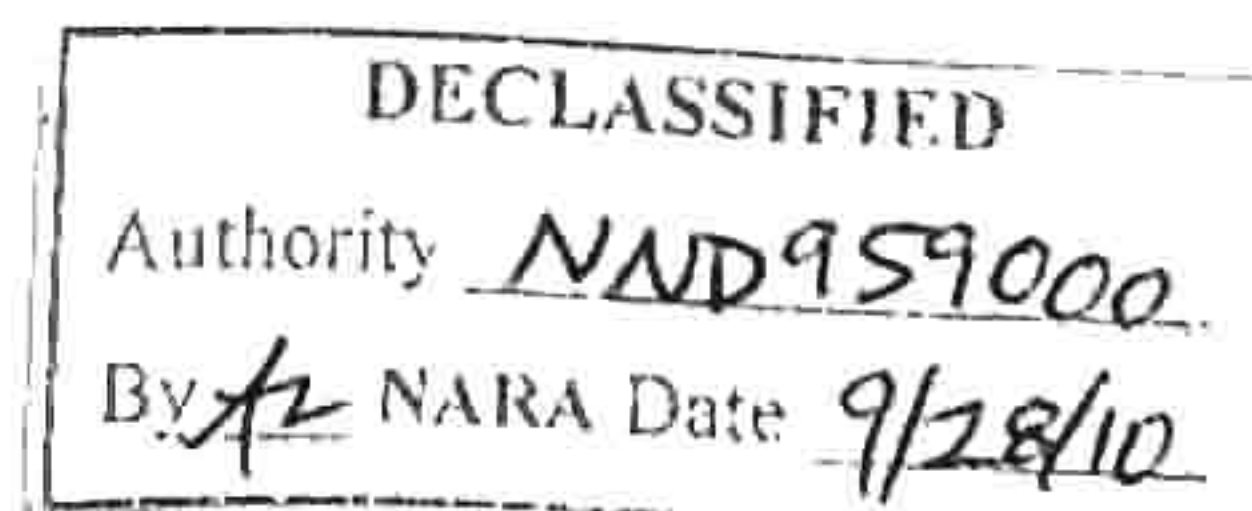
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Buenos Aires

had made the decision to send troops and would have received Parliamentary approval if there had not been these new developments, particularly the TV broadcast of Amb. Harriman. It was not clear whether or not General Shaw agreed that the Government was justified in backing down. He said in general it was his opinion that the Government felt it could handle the Congress - and he agreed - but was more worried about street demonstrations. He expressed the view that the four resolutions passed by Congress were a real victory for the Government in that they did not object to the idea of sending troops but merely said Congress must pass on it and did not condemn the Government's foreign policy, thus leaving the way open for the Government to move ahead. He also expressed firm support for US actions. He referred to a recent accurate survey which showed that 24% of the people in Argentina opposed US and OAD actions in the DR. He said that while there were only a couple hundred thousand communists, this showed how powerful they really were, operating through front groups and how great their influence could be. He seemed to conclude that anybody opposing the move was acting under communist inspiration.

As we were leaving, Alex gave the General the name and particulars of Abraham EIDLICZ, Director General of National Directorate of Fuel and Power, as a known communist that the Government ought to do something about.

I have addressed the attached letter to General Shaw and am sending a copy to Alex Shaw, who has been a friend and should know clearly where I stand with respect to his activities which I found exceedingly disturbing and pernicious.



Attachment: *all m. m.*

cc of letter to General Shaw

S E C R E T

5/22/65

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American Embassy,
Buenos Aires, Argentina,
May 21, 1965.

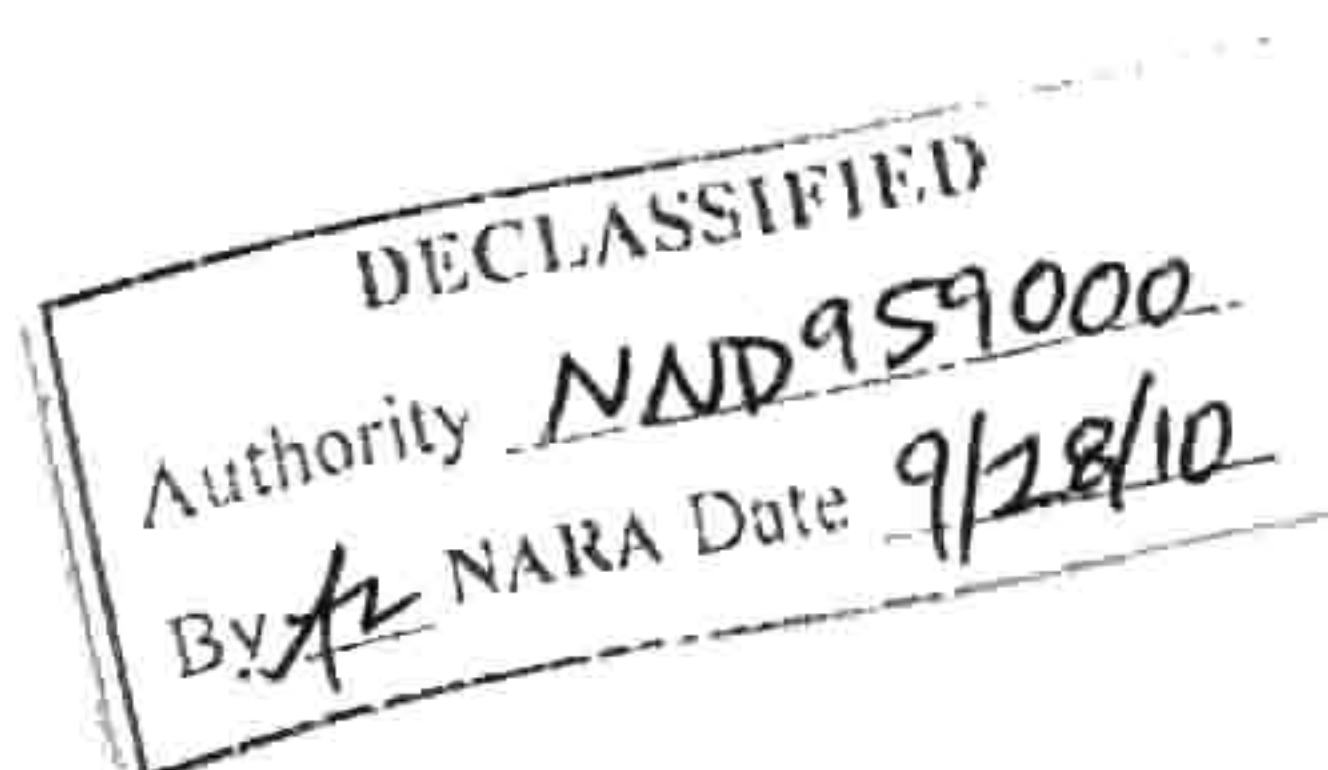
Dear General Shaw:

I enjoyed greatly the dinner last evening at the home of your relative, Alex.

I did not intervene in the strictly economic discussion which Alex initiated because it is a very large and complex subject, it was already late, and I knew that you wanted also to talk a bit about the DR situation. I hope to arrange an opportunity to talk further sometime with you about current Argentine economic developments and prospects. Meanwhile, you may find interesting the enclosed set of figures on developments in several important fields during recent years, prepared by the Embassy for Washington and leaders of the US business community here. I might also add that we have found useful a report on the 1965 situation in the May 17 issue of Analysis based on studies by IDES.

The problem specifically emphasized by Alex of slowness in making remittances, and its effect on foreign interest in investing in Argentina, is undoubtedly a serious one. It arises primarily from the large volume of indebtedness incurred in 1960 and 1961 on quite unsatisfactorily short terms of repayment. We believe the Government is now following the only practical path for resuming a free flow of interest and dividends and other payments by seeking to renegotiate this unusually heavy debt burden in this year and in next, so that it can be paid over a longer term.

General D. Jorge Alberto Shaw,
Chief of Staff,
Azapardo 250
Buenos Aires



17 # 102,
Buenos Aires
5/22/65

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My Government and the international financial institutions are all supporting by words and actions this Argentine effort as necessary and justified by the measures the Government is taking on its own behalf. I hope most sincerely that it will succeed.

While recent problems have undoubtedly created some concern about Argentina as a place to invest, I know there are a great many important US companies who have great faith in the future potential of the Argentine market, and, once this problem of remittances and the heavy debt burden are resolved, will be eager to put into operation plans already drawn up for new investments, provided, as Mr. Puricelli put it, there is a reasonable prospect for future economic and political stability here.

~~Nothing is more important for the Argentine people than to see the country's economic situation improved and to have a reasonable prospect for future economic and political stability.~~

Sincerely,

Edwin M. Martin
Ambassador

Enclosures

