It appears that definite steps have been undertaken for the purchase of the Mexican-Ericsson Telephone Company in Mexico by a group organized by Axel Wenner-Gren. The newspapers here have been carrying articles about this and I am sending you herewith a few clippings but I think that as this is an important operation it may be of interest for you and Sofina to have intimate details which I have with regard to the background. As much of the information contained herein has come to me through my previous official posts, I would appreciate the information I am giving in this letter being kept strictly confidential, except such parts as have appeared in the Press.

There are two telephone companies serving Mexico City and the surrounding area. The "Mexicana", which is owned wholly by the IT&T, and the Mexican-Ericsson, which is owned by Swedish interests. The IT&T of New York owns, I understand, 25% of the stock of Mexican-Ericsson. So far as I know, Mexican-Ericsson does not hold any stock of the "Mexicana".

The fact that there are these two telephone companies serving Mexico City and such a considerable area of Mexico has caused considerable inconvenience over many years as the two companies were not interconnected and this has made it necessary for business houses, banks and many private persons to have two telephones. The Mexican Government recently issued instructions to the two companies that the systems must be interconnected and steps to this end were in progress but were considerably delayed on account of the difficulties in securing the necessary equipment.

The IT&T has long wished to buy the Mexican-Ericsson and combine it with its own company - the "Mexicana" - and ever since 1940, and in a measure before, conversations have taken place between the IT&T and the Swedish owned Mexican-Ericsson but they never came to a conclusion as no agreement could be reached on price and the IT&T could not find the money to buy Mexican-Ericsson.
When I came to Mexico early in 1942 as U.S. Ambassador, I found that efforts had been made by the IT&T as an American Company to secure a loan from the Export-Import Bank of Washington to enable it to buy Mexican-Ericsson. At that time it is my recollection that Mexican-Ericsson was asking about 23 million U.S. Dollars for its property, which seemed in some respects an exaggerated amount. At that time the IT&T was placing a value of about 19 million U.S. Dollars on the "Mexicana".

The U.S. Embassy in Mexico City took at that time and, I believe up to now, has taken the attitude that it was advisable to consolidate the two companies and that the Export-Import Bank should advance the money to the IT&T for the purchase of Mexican-Ericsson. On various occasions from 1942 until I left the post of Ambassador to Mexico in May, 1946 I appeared before U.S. Committees in Washington which were considering whether a recommendation should be made to the Export-Import Bank to give this credit to the IT&T. The U.S. Army and Navy consistently took the attitude during the War that for reasons of security alone it was desirable that the telephone systems in Mexico should be owned either by the IT&T or be purely Mexican interests. The Department of State never took a firm attitude in the matter, although on the whole the attitude of the higher officers of the State Department was in accord with the position taken by the Army and Navy. At various times between 1942 and 1946 it appeared that a definite attitude would be assumed by the various agencies of the U.S. Government in the form of recommending that the appropriate credit be given to the IT&T but no decision was reached.

The IT&T has consistently wished to remain in the Mexican telephone picture only if it could get control of the Mexican-Ericsson. The Mexican-Ericsson has been prepared for years to buy out the "Mexicana" but the IT&T took the attitude that it could not and should not sell the "Mexicana" without the approval of the U.S. Government.

At the end of the War, the U.S. Army and Navy seemed to lose interest in the telephone matter and the IT&T despaired of getting a credit from the Export-Import Bank. No action would be taken by the Bank unless the appropriate recommendation came from the State Department, the Army and Navy and other interested Agencies of the U.S. Government.

In early December of this year, I lunched with Col. Behn, of the IT&T, who said that knowing what I had done to be helpful in bringing about a solution of this question he wished me to know what had happened recently. He said that Axel Wenner-Gren had purchased the Mexican-Ericsson. In order to do so he had had to sell some pulp interests in Sweden. He had sold these pulp interests and used the money to buy control of the Mexican-Ericsson. (I did not ask Col. Behn whether this included the 25% of the stock in
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Mexican-Ericsson owned by the IT&T and he did not offer any comment on this point. Col. Behn went on to say that one of the Wallenberg, the Swedish Bankers with whom Wenner-Gren works, had approached the IT&T and offered to buy the "Mexicana" for 11 million U.S. Dollars. Col. Behn said that he did not wish to sell the "Mexicana" to Wenner-Gren or to the Swedish interests but that as he could not get the money from the Export-Import Bank to purchase the Mexican-Ericsson, the IT&T would probably be obliged to sell the "Mexicana".

Col. Behn said that representatives of the IT&T saw Mr. Lovett of the State Department and other officers of the U.S. Government and could get no definite reply from them indicating that the IT&T could get the money from the Export-Import Bank to buy Mexican-Ericsson. He had, therefore, approaches made in Mexico City to Mr. Beteta, Minister of Hacienda, with the Mexican Government. Mr. Beteta replied that the Mexican Government was not particularly interested as to who owned the telephone companies but were interested in good service. Mr. Beteta further said that it was not of primary interest to the Mexican Government whether the "Mexicana" absorbed the Mexican-Ericsson or whether the Mexican-Ericsson absorbed the "Mexicana". He further indicated that the Mexican Government did not have the money to help out either the Mexican-Ericsson or the "Mexicana".

Col. Behn said to me that under these circumstances he saw no alternative except for them to sell the "Mexicana" to the Mexican-Ericsson, or to a group organized to absorb both companies. I gathered that the price of 11 million U.S. Dollars offered for "Mexicana" was acceptable. That surprised me a good deal, more particularly as Col. Behn and others of the IT&T had always spoken of the value of the "Mexicana" as being approximately 19 million U.S. Dollars.

On my arrival in Mexico City on December 16th, I found articles appearing in the Press here indicating that Wenner-Gren was very active in forming a new company to absorb both the Mexican-Ericsson and the "Mexicana". About a week ago Wenner-Gren held a Press conference and informed the correspondents that a new company was being formed known as "Teléfonos de Mexico S.A." He said that this company had already absorbed the Mexican-Ericsson and was about to purchase the "Mexicana".

This morning there appears an item in all the important Mexico City newspapers to the effect that yesterday at 12:00 o'clock, before a Notary in Mexico City, the new company "Teléfonos de Mexico S.A." was formally organized and that General Abelardo L. Rodriguez had been made President of the new company. The reports state that the other members of the Board of "Teléfonos de Mexico S.A." are Axel Wenner-Gren, Bruno Pagliai, Lic. Adalberto Saldaña, José de la Mora, Luis Montes de Oca, Marcos Wallenberger, Aldrich Ericsson and Lic. José Joaquin Cesar. The press item further states...
that the "Teléfonos de México" starts with a capital entirely paid in of 80 million Pesos, which is to be later increased to 500 million Pesos. This report further said that the first decision taken by the new Board was to name as General Manager of "Teléfonos de México" Mr. Gunar Beckman, who has been for some years the Managing Director of Mexican-Ericsson.

I informed myself yesterday in informed circles, which it is not necessary to identify further than to state that they are in position to know the facts. I find that the new company has been organized and that it is Wenner-Gren who has taken the initiative. It is correct that Wenner-Gren had already purchased Mexican-Ericsson as stated in the first part of this letter. What price Wenner-Gren paid for Mexican-Ericsson is so far not known and at what price Wenner-Gren will sell Mexican-Ericsson to "Teléfonos de México" is not known, but one thing is certain and that is that Wenner-Gren will make a good profit. I also learned yesterday and again confirmed this morning, that "Mexicana" has agreed to sell to the new company but I have not been able to get any indication as to the price which the IT&T will get from the "Teléfonos de México".

One thing is clear and that is that the price paid for Mexican-Ericsson will be considerably in excess of the price paid for the "Mexicana" and it is correct that the property of the Mexican-Ericsson is worth more than the property of the "Mexicana". For a good many years the "Mexicana" had more customers than the Mexican-Ericsson but in recent years the Mexican-Ericsson has been going ahead of the "Mexicana".

This development in the telephone situation in Mexico has important implications and they are of very real interest. I will briefly set forth some of them. There has been no real interest on the part of the Mexican Government or of the Mexican people in getting Mexican control of the telephone system. There has, however, been a feeling which did not find much expression that the telephones should be Mexican owned. It is interesting that, in view of the importance of the telephone systems and that both companies were foreign, that given the nationalistic trends in Mexico, practically nothing was heard about nationalization of the telephone systems. I am inclined to think that both Government and informed Mexicans had had enough experiences with Petróleos Mexicanos and the Government owned railways to discourage them from further ownership of such a public utility. I know, however, that ever since there has been talk of the two systems being combined and passing into the hands of Swedish and United States interests, certain important Mexicans, including some in the Government, all the time have been buying shares in both Mexican-Ericsson and "Mexicana" in anticipation of a merger and particularly in anticipation of a merger which would mean the IT&T controlling both companies.
Axel Wenner-Gren has been in Mexico since the U.S. entered the War. It is not necessary to go into the background of Wenner-Gren as his activities in Sweden and in Europe and his interests in the U.S. before the War are well known. For what seemed to him good and sufficient reason both the United States and, I believe, the British Government placed him on their PROCLAIMED LIST during the War. Wenner-Gren made tremendous and continued efforts until the very end of the War to get off the PROCLAIMED LIST and Ed Flynn and Ben Smith were among those who used all their influence fruitlessly to get Wenner-Gren off the list. Several financial firms in the U.S. and in England were also interested, probably because they had been doing business with Wenner-Gren before the War and hoped to continue to do so. In Mexico, Wenner-Gren succeeded in interesting Gen. Maximiliano Avala Camacho, whom he convinced he had a great deal of money which he wanted to invest in Mexico but could not do so because he was on the PROCLAIMED LIST. While I was U.S. Ambassador to Mexico from 1942 to 1946, or rather up to the death of General Maximiliano Avala Camacho, the latter endeavoured on a number of occasions to get me and the U.S. Government to take appropriate action for the removal of Wenner-Gren. I do not believe that more pressure was brought to eliminate a person from the PROCLAIMED LIST than in the case of Wenner-Gren but it was useless, for the U.S. Government felt that it had too definite information concerning the activities of Wenner-Gren in the years preceding the entry of the U.S. into the War. Wenner-Gren also unsuccessfully tried to go to the U.S. during the four years preceding the end of the War and in spite of tremendous pressure by certain persons in the U.S. and in Mexico, he did not succeed.

During the War, Wenner-Gren was unable to do very much in the way of business as whatever money he had in Europe and in the United States was tied up. He stated to Mexicans and others that he had large sums of money which he wished to invest in Mexico and this naturally created a certain interest in him, both by those who felt that they could make some money through association with him and also by those who felt that he could do something for Mexican industry. The fact is that he had no free money — that is in considerable sums — but he did engage in various minor enterprises in Mexico and associated with him certain Mexicans. Among other things he had become interested in the Banco Continental but is supposed to have sold his interest therein before the U.S. entered the War. It is interesting to note that immediately after the War Wenner-Gren emerged as principal owner of this bank.

It is probable that all the initiative in the organization of the "Teléfonos de Mexico" came from Wenner-Gren. Associated intimately with him is Bruno Pagliai, who is one of the principal owners of the race track in Mexico City and who is associated in the United States with Ben Smith. Bruno Pagliai has made a good deal of money and undoubtedly has some close contact with high officials in
the present administration as well as in the one which preceded it.

Wenner-Gren is a clever business man even though he may be unscrupulous. He has shown a good deal of judgment in getting Mexicans closely associated with him in this new company. This will please Mexicans in general. The Mexican public as a whole does not know much about Wenner-Gren and Pagliai and the fact that both of them are viewed with a certain amount of distrust in informed responsible circles will probably not much affect the new enterprise.

So far as the Board is concerned, the inclusion of Lic. Adalberto Saldaña, who is Sub-Director of the Nacional Financiera, a financial organization of the Mexican Government, is significant. He is a young man of good reputation and of very high capacities. His inclusion in the Board indicates that the Nacional Financiera is going to play a considerable role in the financing of the new Company in spite of the fact that Col. Behn was informed from Mexico City that Mr. Beteta, the Minister of Hacienda, had indicated that the Mexican Government was not in a position to help finance a telephone combination, it is obvious that Wenner-Gren and Pagliai, through their close contact with certain high officials in the Mexican Government, have been able to assure the new company of the financial support of the Nacional Financiera.

The inclusion of José de la Mora is significant. He is a wealthy Mexican of good reputation and is one of the leading industrialists of the Country in the textile field. The inclusion of Luis Montes de Oca is also significant. He is one of the most important of the Mexican bankers and is generally considered conservative. He has a very good reputation. The other Mexican on the Board is Lic. José Joaquin Cesar, a lawyer, who has for years been the lawyer of Mexican-Ericsson. The Swedish interests in the new company are represented by Wallenberg and Ericsson, who are non-resident in Mexico. While the Board is presently a small one it is probable it will be enlarged by the addition of further Mexican members. The inclusion of so many Mexicans on the Board will create a good impression here.

The new company is said to have a paid in capital of 80 million Pesos, which is to be expanded to 300 million. If the "Mexicana" has been sold for 11 million U.S. Dollars and the Mexican-Ericsson for around 20 million, a capital of 300 million Pesos seems exaggerated even though considerable expansion in the telephone system can be envisaged and is necessary.

Wenner-Gren has not had too good a reputation among informed persons in Mexico. They have felt that he talks a great deal and does not have available the considerable sums which he claims to have. His action in carrying this new company will very probably increase his stature in Mexico.
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What is in many ways most significant in this connection is that Gen. Abelardo Rodriguez has been elected President of the Board, according to the Press. Whether Gen. Rodriguez has accepted I do not know but if he does accept it will give the new company as fine a start as any company in Mexico could have. I know Gen. Rodriguez very well and count him as one of my closest Mexican friends. He is a former President of Mexico. He is one of the most important business men in Mexico and a man of considerable fortune honestly acquired. I do not know of any Mexican person of higher reputation than Gen. Rodriguez and in the political field, although he is not interested in anything for himself, he is one of the most powerful men politically in the country. He is presently Governor of the State of Sonora but he undertook this position only as he wished to do something for his native State before he definitely retired from the political picture and he has in a few years done wonders for that State through honest administration. If Gen. Rodriguez accepts the post of President of Teléfonos de Mexico there will be little difficulty in the Company raising the funds which it needs in Mexico.

There are a good many informed people who will view the formation of this company with concern. Not because it is not a good thing to combine telephone companies but because they view with concern the important part which Wenner-Gren and Pagliai will play in it. It remains to be seen to what degree what the presence of men like Gen. Rodriguez, Montes de Oca and Saldana will mean.

I think there is a good deal of reason to believe that there will be some financial juggling in the new company and that Wenner-Gren and Pagliai will make a great deal of money out of it. It is probable they will be able to get away with a good deal for they will see to it that some of their associates and probably some of the people in the Government will make a good deal of money out of the organization of the company and its internal operations. From the security point of view it is an unhappy circumstance that the telephones have fallen into Swedish hands for if there is a War Sweden will fall very quickly into the hands of the Soviets. On the other hand, however, it is not likely that Swedish control can be much influence in the security picture as the Mexican Government can take the appropriate measures in time of War. On the other hand, however, there are security aspects which cannot be disregarded and which I will not go into further in this letter.

One of the unhappy circumstances is that, from the U.S. and Hemisphere point of view, the equipment of the telephones in Mexico will now come almost exclusively from Sweden and in case of War the telephones in Mexico would have great difficulty in operating as they would likely be cut off from supplies from the Swedish plants of Ericsson. I will not enter into certain obvious conclusions which may already be drawn from the formation of this
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new company. I have in this letter confined myself largely to a recital of facts and background and I shall not fail to keep you informed.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith.

Encl.

cc: Sofina
    Mr. Graydon

GSM/KMB