Mademoiselle Jenny,

Je tiens à vous informer que ce n'est pas comme vous l'avez écrit dans la lettre à M. E. Paydon.
Dear Dannie:

I have not burdened you with any letters because I know how much occupied you have been. I have kept Graydon, in Toronto, and Lorisé, in New York, informed concerning developments here and have asked Lorisé to send you copies of certain correspondence, addressed particularly to Graydon, to you now that the labor negotiation is settled. I did not wish to bother you with it while it was going on.

First of all I want to tell you about the family. Hettie and Edna arrived here about ten days ago and unfortunately from Houston to Mexico City passed through some bad weather, but they recovered in a day. They had a very pleasant week's stay with Jimmy and June and spent the last weekend with Mr. and Mrs. Maryssael in Cuernavaca and are now with us here. Hettie is looking better and I am sure is feeling better than she has for some time. I need not tell you how much we enjoy having them here with us at the house and hate to think of their leaving. We will keep them here as long as we can. I think both Hettie and Edna are finding Mexico City and its surroundings interesting and are really seeing as much of the nearby country as possible without making too trying trips.

Jimmy and June are well and Jimmy is really doing a good job. They are, I am sure, very happy together and that is a great satisfaction, and Jimmy in his work is showing very real understanding and initiative and is increasingly being of help to me. He has already acquired a very good knowledge of the company and what is most encouraging is that he really has an interest in his job. I need not tell you how happy I am to have him with me and to see him so interested and to have him so helpful. I really believe that he has found what he wants to do and he can be very useful, not only in this but in others of the companies. I find that his judgment is good and that is a rare thing these days.

Mexlight is passing through a difficult period of its existence but I have every confidence that we are going to come out of this better and stronger. I cannot begin in this letter to go into many of the problems with which we have had to deal, and they are many, but I somehow feel that because of all that we have had to do the men in the company here know their own company better and are more interested in it.
In the first place we have passed through the most difficult labor negotiation that the company has had and that is saying a good deal. It was made so difficult because our negotiation came just at a time when there was all this unrest in the other American republics and which was undoubtedly due in a very considerable measure to extreme Left elements in these countries under the pressure and influence and in some cases the use of money, by Soviet Russia which has as one of its principal objectives the weakening of the United States through the disturbing of inter-American collaboration. What happened at Bogotá was only one of a series of movements which was planned in the other American republics and as a matter of fact, unfortunate as the events in Bogotá were, for Colombia, they had a salutory effect so far as the other American countries such as Chile, Bolivia, Brazil, Paraguay and Mexico are concerned, for in all of these there is no doubt that there was a real determination on the part of certain elements to upset the government and to substitute extreme Left regimes.

Here in Mexico there is no doubt that the President and the Labor Department and other agencies of government wanted to help us in our labor negotiation. They wanted to help us because difficulties with respect to our negotiation would make the task of government with respect to further negotiations more difficult, and they also knew that a bad settlement or a strike or an intervention would be bad for the credit of Mexico abroad - that is in the United States - from which this credit is so much needed. Unfortunately the authority of the government here has been very much weakened by unfortunate factors, through the abuse of position by friends of the President, by an increase in graft and improper practices, and other unhappy circumstances which even in this country, where so much is condoned, have weakened the position of the government. At a time when the government should have been strong it was weak and labor knew this and three of the principal unions in the country joined with ours in an absolutely arbitrary position.

In the letters which I have written to Graydon, of which copies have now been sent to you, I have gone into this in a good deal of detail, and while you will not have the time to read these letters, Samuels, I am sure, can give you the substance thereof. The long and the short of it is that the settlement which we were forced to accept to prevent a strike or an intervention means a 25 per cent increase in wages and certain social charges which bring the cost of the new contract to about twelve and a half million pesos. This is tremendous and is twice what we expected the cost would be and what the government wished it to be. In spite of this heavy load we came out of it well, for it could easily have been so much worse given the situation which the government and the company had to face. An intervention would have been fatal for the company as well as for the credit of Mexico, and if there had been an intervention the whole program of supplying adequate power for Mexico would have been out of the window, with tremendous consequences for the country as well as for our and other companies. The government is pleased with the way in which we handled the negotiation and the industrial and financial leaders of the country are pleased with the way in which we handled it, for they know that if we had not handled it as well as we did it would have been a very serious matter. The settlement is a bad one in some respects, but in fact we were fortunate to get out of it as we did, keeping in mind all the factors. This is well understood here.

Before
Before agreeing to this settlement a few hours before the zero hour on April 30, I insisted that we must have the assurances of the President that we would be compensated for this increase before the usual six months period under the adjustment clause. The President, through the Ministry of Labor, gave us this assurance. I had hoped to talk this over with the President by this time and get a definite settlement of the increase, but the ten day government holiday which they have in Mexico twice a year came along, and the President has indicated that he will see me immediately on his return to the city, which will be about May 27. I must insist that this increase to compensate us for the twelve and a half millions the new labor contract is costing us will be made effective July 1. We may not be able to get it by July 1 but I think we will be able to get it by August 1, at the latest.

I have not been in Washington and New York since I saw you just before your departure for Europe - that is, I have not been north since my return here on April 21. McCloy has now returned from his trip to several South American countries and according to all the information which I get the trip did a good deal of good in the sense that he is much more understanding with regard to credits for Latin America.

We have had the visit here of a New York construction engineer by the name of Madigan, who is a consultant of the World Bank and a close friend of McCloy, and who worked with McCloy in the War Department. He came principally to establish whether the demand for power existed here to justify the program for which we are seeking a credit and for which the Mexican Power Commission is asking a credit. He has asked us for a good deal more information but I feel sure that his report will be, on the whole, a favorable one. We are getting together the additional information which he asked of us and it is a big job, but I really think that the data which he has asked of us can easily be justified from the bank's point of view.

Hickey, the President of the United Corporation, who is also a consultant of the World Bank, sent us several weeks ago a five page questionnaire which seems utterly unnecessary and it means a tremendous lot of work, but I can readily understand how Hickey may want this information for his report for the bank.

We are getting all this information together and hope to have it in the bank by the first week in June.

After your departure for Europe the two Graydons and Lorié made a trip to Washington and had conversations with some of the loan officers of the bank, and I think the attitude of the officers of the bank was about as discouraging as anything we have experienced since the beginning of the negotiation for this credit. I will not go into detail on this, but the attitude of the loan officers was anything but cooperative and I am sure the Graydons and Lorié left Washington very much discouraged. I felt, however, at the time, and I think this is justified by developments, that this was just difficult attitudes on the part of secondary officials of the bank. They raised questions with regard to the capital structure of the company and were not cooperative in trying to solve these questions.

I am
I am told that the World Bank now wishes to go ahead with our credit. I think everything is ready for the bank giving some $90,000,000 dollars to the Brazilian Light & Traction and they are only waiting for the approval by the Brazilian Congress of the Brazilian Government guarantee of the loan. The Chilean loan was granted before the Bogotá meeting by the World Bank and I am sure that this was a purely political move before the Bogotá meeting. The next loan will undoubtedly be the Brazilian Light & Traction and I imagine it will be announced early in July. It is natural that the World Bank would wish to give this credit before acting on ours, because the Brazilian credit has been before the bank for eighteen months and ours has been there only since the middle of January.

I am going up in early June and should be in New York and Washington not later than June 10. By that time the reports of Hickey and of Madigan should be before the bank. We will then have to have some concrete discussions and get things to a head. The important thing is for the bank to determine what exigencies it may make with regard to the capital structure of the company, and it is our hope that the bank will increase the amount of our credit by $9,000,000 dollars necessary to pay off the first mortgage bonds in 1950, as this will place the World Bank credit pari passu with the rest of our debt and will make it unnecessary, according to the legal advice we have so far, to consult the second mortgage bondholders or the holders of the cumulative income shares. The price of equipment has gone up so much since we made our first estimate of twenty-three and a half million dollars in October 1947, that I am afraid the bank must give us more than twenty-three and a half million to cover this increased cost of equipment. If on top of this they give us the $9,000,000 to pay off the first mortgage debentures it will make a considerable credit, but it will be a tremendous relief and a great help in every respect if we can get the World Bank to give us the money to pay off the first mortgage bondholders. We have already been obliged to use some of the reserves which we had accumulated in Toronto to pay off the first mortgage bondholders in 1950, in order to pay some of the expenditures in connection with the Tacubaya plant and those operations with respect to the new units at Lerma and Necaxa that we have not been able to delay. While all this has gone into capital expenditure, our cash balance in Toronto is not nearly so good as it was, but this has been an inevitable development as a result of the delay in granting the credit, and when we get the credit we should be able to recuperate this position.

My own feeling is that the World Bank has made up its mind to give us the credit and that there are three issues pending. The first of these is the capital structure of the company and I am hopeful that we can get this straightened out by the middle of June, and I will, of course, have Allan and E. A. Graydon come down from Toronto to Washington for any talks which may be held on this subject, for I am not competent on my own to pass on many aspects of the matter, and if necessary I will have Bernier, from Mexico City, come up, as he knows the legal structure of the company better than anyone else. The second question which has to be settled to the satisfaction of the bank is that the Mexican Government give us, without delay,
the increase in rates necessary to cover the increased cost of this last labor contract. The third thing which we must have before the bank can take action is that the Mexican Government, under the electricity law, guarantee to us and to the satisfaction of the bank a return on our investment. The bank must have the assurance not only that we will recuperate the additional cost of the labor contract, but that we will have this further increase in rates to give us a reasonable return on our investment. These two matters I must endeavor to get settled here before I go to Washington in early June. The increase to cover the labor costs I can get, I believe, before I go, and I hope before the end of June the appropriate steps can be taken to cover the increased rates effective in January or February 1949. One could not blame any bank or anyone for not lending us any money until the Mexican Government implements this new policy and the electricity law through this concrete action.

Once we have the credit, and I think we now have hope that this can be finished by the middle of July, we shall have to look after the local financing in Mexico, and while this is going to be difficult, I have given it a good deal of thought and I think we can handle it. We have to recognize, however, that the degree to which the Mexican Government can help us through 6 per cent money from bonds of the Nacional Financiera is limited, for the market for these bonds is very limited in Mexico. From the public we can expect little in Mexico but I think the banks will be ready to lend us some of the money we need for local expenditures because they know that this program of ours is absolutely indispensable and they are pulling their own chestnuts out of the fire by lending us some money, but they are not going to let us have it at less than 8 per cent and that is terrible. This means that we must try to get as much of the loan money through the Nacional Financiera at 6 per cent and as little as possible from the banks here. This means that we will have to use every penny we earn over the interest and amortization charges on our old and new debt, for capital expenditure on the new program, and this means that while we would be earning, under the new rates effective in January or February 1949, enough to pay a reasonable dividend, we cannot pay any dividend for several years to come, as we simply have to use this money we may earn for capital expenditures. In fact it is not a question of wanting to do it, but we will have to do it because the private money market in Mexico and the resources through government borrowing would just not be adequate to meet our needs. The situation which saves us so far as local expenditures are concerned is that we will, of course, not need all of this money at once, but over a period of four or five years.

I have agreed to go to the shareholders' meeting of Mexlight which is to be held in Toronto on June 30. I think it is desirable that I be there. I do not think that any questions will be asked, but as it is known that we are planning to engage on this program of new plants and that we are negotiating a credit, there is a possibility that there may be some questions, and I think the Chairman of the Board should be there, and besides that it will be useful to have the opportunity to talk over certain matters with the Graydons and with the National Trust. If Donald Duncan is back by that time I will ask him to make the trip to Toronto with me if his other occupations permit. I expect to return to Mexico City early in July.

The attitude
The attitude which the Mexican Government took with reference to the clause in the inter-American treaty for the protection of property at Bogotá was not good. The reserves which Mexico made are the same reserves which she has continuously made and do not necessarily mean that the government does not favor private initiative, but the effect of the Mexican attitude was certainly not helpful to Mexico or anyone else. There are negotiations in progress in Mexico City now between the United States and Mexico for the negotiation of a revision of the trade agreement between the two countries, and the attitude of Mexico has been pretty arbitrary and is not going to be helpful in Washington. In spite of these handicaps I believe that our credit will not be affected.

The government here, I am sure, can be depended upon to continue to help us with our credit and in the matter of rates, etc., for it is a matter of life and death for the Mexican economy to get the credits which our company needs and other credits which the country needs.

The American & Foreign Power Company, as you know, has asked for a credit of twelve and a half million dollars from the Export-Import Bank and has refused to remove its application from that bank where it is still pending and is now under discussion. The same considerations, however, which will apply in the World Bank to our credit will apply to the credit American & Foreign Power is seeking in the Export-Import Bank, and I am therefore not concerned over this phase of the matter.

We have a good group of people in the company here. We have some dead wood but on the whole we have a good group here. The difficulty is that we have too few non-syndicalized people to handle the administrative and management job in a company as big as this. It means that everyone on the high levels is overburdened. I have always been a hard worker but I find that I have to work harder here than I have for years, and that is not a complaint but merely to give you an idea of the task we have, Maryssael is doing an excellent job. The difficulty is that all of our people are overburdened and will be for at least three months more until we get some of these major matters settled. Everybody is doing his work cheerfully in spite of the too long hours and the pressures under which they are working.

I am at present studying the salary schedules of our non-syndicalized employees and we shall have to make some increases in the compensation of most of our officers and non-syndicalized employees and most likely make them retroactive to, let us say, March 1 of this year. Our syndicate people are getting this 25 per cent increase as of May 1, as well as increased social benefits, and it would be destructive of all morale if we did not give our officers increased compensation. I will discuss with the Graydons when I am in Toronto an increase in the compensation of Maryssael, and before I leave on this next trip Maryssael and I will agree upon and put into effect, probably as of March 1, 1948, the increases for our officers and non-syndicalized employees.

I think we shall have to consider, too, an increase in the compensation of Graydon, and perhaps of some of the people in the Toronto office, but this is a matter I cannot go into here and will consider while I am in New York and Toronto.

It is,
It is, of course, absolutely necessary for the maintenance of morale to give these increases to our officers and non-syndicalized employees here, because if we do not give them adequate recognition there is no advantage to their not being in the syndicate and if they were in the syndicate we could not run the company. One of the few things we will get out of this last labor contract is a few more positions of confidence and we sadly need them.

I will not propose any changes in the Board of Mexlight until I have had an opportunity of discussing this further with you, but I feel that it is really becoming increasingly important that we get a few more people of a certain type on the Board of the company and this in line with the conversations which we have had. I think we should do this as soon as possible but I do not think that we should do anything until I have had the opportunity of discussing it further with you.

I am enjoying my work and I feel that it is a well worth while job. I think in many ways the company is going to come out of these difficult periods through which we have had to pass much stronger, and I hope more secure for the future. If I can contribute towards that end I shall be very happy. I do not want to be overly optimistic but I cannot help but feel that Mexlight is on the right track.

Just a word about Conway. We have fixed the matter of his pension at $1,200 inclusive of any directors fees, and $6,000 a year for Mrs. Conway during her lifetime, and after his decease. Conway left about a week ago and plans to spend a few months in England, when he will be returning here to live. I think I should tell you that both he and Mrs. Conway are showing really definite signs of senility. It is almost impossible to carry on any reasonable or constructive conversation with him and it is a sad thing to have all his friends here note this. So far as Mrs. Conway is concerned, she is really in some respects quite unbalanced.

Conway is, I think, a friend of Peacock, in London, and he will undoubtedly have some strange things to say to Peacock, and you may wish, if you see fit, to give Peacock a word in this respect. I am sorry to say that he must not take seriously anything which either Conway or his wife may say with regard to Mexico or the company. I will not burden you with some of the extraordinary things which he and she have been saying about the company and about me, and a lot of things, for they are too trivial, and here everyone is sorry for them but understands. It is possible, however, that some of his English friends who do not realize what has happened to the man in the last five or six years will not know how to take some of his comment.

I have sent you a copy of a letter giving the most recent developments in the Tramways situation, and while we must not be overly optimistic, I think that we are really making some progress on this matter, as will be shown by that letter and its enclosure. I should add that it is not a letter to you, but a copy of a letter to Spécimel which I sent to you, as I assume Ronge is still not in Brussels.

You know
You know that the Federal District and other government agencies owe us a good deal of money which appears in our balance sheet, and we have had no hope, really, of getting any of it. Marysaal is carrying on some conversations with the Federal District with regard to the sixteen and a half million pesos it owes us and we have reached a point where it really looks as though the government wishes to pay. We really had little hope of collecting this debt, which is very old, but they have asked us for an offer and Marysaal is going to tell them that we are ready to settle for 12,000,000, and he will be ready to drop very quickly to 10,000,000, and even to 8,000,000 if they agree to pay us in cash in three yearly installments, which will bring the settlement of the debt within the period of Alemán's presidency. As a matter of fact, any settlement that we get of this debt, even if it is for less than 8,000,000 pesos, will be money found. Our people here had given up all hope of getting any of this, and it now looks as if we may get a settlement and I am convinced, as we all are here, that unless we get a settlement in the next year we can consider this whole debt as a dead loss. We will do our best to get as much out of it as we can and it will be helpful in connection with the local expenditures in Mexico on our new plant program.

This is already too long a letter, but Hettie tells me that you want my views as to what this last move by Soviet Russia means. I have seen the exchange of notes and there is no doubt that the Soviet Government misused a phrase of Bedell Smith's not to their advantage and improperly and tried to make propaganda out of it. Stalin then tried to use the position still further by making this reply to Wallace's letter, and of course went too far. I was inclined to think, as some others were, that Truman, in order to bolster up his own political position, might have made an unwise move, but I think that we have sufficient evidence that this is not the case, but that it was entirely a further effort on the part of Soviet Russia to disturb world opinion in Europe and South America and in the United States. The net result of the Soviet maneuvers will be to strengthen the stand against Wallace in the United States.

I am naturally deeply interested in the developments in the Barcelona situation but it is difficult to talk about this over the telephone with New York. The fact that Spain agreed to return these German assets in Spain has not, I believe, too fundamentally affected the situation. The Allied governments have been working for years to get Spain to take this action and when she was ready to do it there was nothing they could do about it, but I doubt whether it will change fundamentally the attitude of the United States or other governments towards the Franco government. That it does, in a measure, improve the position of the Franco government, however, is unquestionable.

What I cannot understand is that under the diplomatic pressure which has been exerted so far there has not been further progress in change of attitude by the Spanish Government and courts in the matter of the occupation of the Barcelona property. I still think that only a firm stand along the lines we have so often discussed is the safe one and the only one which can bring favorable results in the end, but I am far away from things and am not in a position to make any helpful comment, but you are now in a position to form your own judgments as to procedure and you will know how to handle the situation.

Hettie
Hettie and Edna and Sam Katz and Marion are having a game of gin rummy and it is time for me to turn in so, although there are a score of things on which I would like to exchange views with you, I must bring this terribly long letter to a close. I have inflicted this long letter on you because I cannot tell you how much I miss our having the opportunity to talk things over, and I need not tell you that my thoughts have been with you and are with you many times every day. We were delighted to hear from Hettie today that she had a letter from Yvonne in which she said that in spite of your occupations you are as fit as ever.

Marion joins me in love and good wishes to you and I hope that you will give my best to Yvonne and to Samuels and to any of our friends whom you may see.

Cordially and faithfully yours,

[Signature]

I mentioned Gussy because he is really fine. He is not reliable, of course. Genny is worse. She among other things tells people that I do not like the British" and while we know better, she does not. She has been led by her friends to think that I am anything but a friend of Britain for the last five years. It is less so important but I think are going to London and Peacock is very the Englishman strong from that. I just wanted you to have this for such grounds.