Dear Dannie:

I dictated a long letter to you on Saturday which I hope to sign and mail this evening. There are a number of matters which I want to inform you and on which I wish your counsel which I will cover in this letter.

Allan and Edwin Graydon were in New York for several days last week and we covered a lot of matters connected with Mexlight particularly as a provision in connection with the Board meetings we will have in Toronto in the early days of September. Among some of the matters we discussed, were the following:

As you know, the Maddigan-Hyland report which is really excellent has not yet been distributed. Without going into any detail, we went into the whole matter very fully and we decided that the best thing to do would be to make it available coincident with the issue of the Annual Report. I make mention of the Maddigan-Hyland survey in my report to the shareholders and this is one reason why it should be made available at the same time as the Report. When the Maddigan-Hyland survey is issued, the Mexican papers will give it a good deal of publicity because the general conclusions of the report will show a satisfactory condition of the Mexican economy and the newspapers in Mexico always like that sort of thing. The publication of anything concerning the survey can only do us good in the company.

We discussed the Barmex fee from Barcelona Traction for 1950. The Receiver had already agreed to a fee of $2,000 a month for 1950. You will recall that there had been some consideration and discussion that the fee should be reduced to a sum below for 1950. I was very much of the opinion that the Barcelona fee should not be less than $2,000 a month during 1950 and the two Graydons agreed with this. This matter is therefore settled for 1950. When the question of the fee for 1951 arises, the matter can be given further consideration.

We discussed the question of fees for various people who have rendered services for us. We are not certain what some of these fees will be in connection with the reorganisation, but the best estimate that we can make is that they will
run around one million dollars and that is what we have put into the accounts which will appear in the Annual Report. We have reason to believe that the total of the fees may be somewhat in excess of one million dollars. My own opinion is that the cost will run around $1,200,000. The Graydons agree that it might run as high as that. The costs in Mexico will run higher than we originally estimated. The cost of protocolizing and registering the new indenture may run fairly high. It is, as you know, a very long document of almost 700 pages and the fees of notaries in Mexico are fixed by law. We hope that we can avoid a very high protocolizing fee in Mexico City by having the indenture protocolized in the State of Morelos and this would very much decrease the cost of this particular item. As we cannot accurately estimate the cost of the reorganization, we decided that as it will not run less than a million dollars and as we cannot determine how much more it will be but it is not likely to be more than $1,200,000, we decided for a number of good reasons - which it would take too long to go into - that it would be better to leave the amount of one million dollars in the accounts, on which basis they had already been drawn up. If the reorganization costs somewhat more than that, we can explain it adequately in our next year's accounts and report.

The fee of the First Boston Corporation is, as you know, a fixed fee and ordinarily the balance due them is payable at the end of the reorganization. As the reorganization is complete and as, for all practical purposes, the work of the First Boston Corp. is over, the balance of the $350,000 fixed fee, over and above the monthly payments we have been making them, would now be due. My own feeling is that the First Boston may prefer us to continue to pay them I think it is $10,000 a month until we have paid off the $350,000, rather than to pay them the balance due now. The Graydons are of the same opinion. We decided, therefore, that we would not say anything to the First Boston Corp. about this unless they raise the question. If they do, and want to be paid off, we would of course do so. It would, of course, suit us better to continue to pay the $10,000 a month until the total fee is liquidated.

So far as the fee of Sullivan & Cromwell is concerned, their services will practically terminate very soon. They have nothing further to do on the reorganization and with the declaration of the effective date of the loan as I see it their work is done. You will recall that in the case of Sullivan & Cromwell, the understanding we have with them is that there is no fixed fee. We were to pay them I think it is $7,000 a month and then, on the termination of the job, they would inform us of their fee and the amount which we had paid in through these monthly payments would be deducted from the fee. You will recall that when I told Arthur Dean that in some ways I would have preferred a fixed fee at the outset, he indicated that it would be difficult to foresee just what the work would be and that it was customary to do it on the basis above described.
He observed at the time that the Mexlight and Sullivan and Cromwell would never quarrel about the fee and that they would never endeavor to collect a fee which was not satisfactory to us. The Graydons and I reached the conclusion that after the effective date of the loan, Sullivan and Cromwell would very likely inform us of their fee and that, at least for the present, we should not take the initiative in raising this question with them. If the fee which they eventually indicate is, in our opinion, not reasonable, Allan Graydon and I will discuss it with Mr. Dean and I am sure that we will not be confronted by anything unreasonable from them.

Binder has informed us of his fee and it is very reasonable, and we are proceeding to pay it. I talked to Graydon about this this morning and he is arranging to pay the Binder fee. We knew it would be a reasonable one and I do not, at the moment, recall the exact figure, but it is even more reasonable than the Graydons and I anticipated. We will have to discuss later with them the amount of their fixed fee for the services which they will render for Mexlight in London. It will have to be somewhat larger than what we have been paying them as the work which they will be doing will be somewhat increased.

We shall have to pay Mr. Archibald and Mr. Collis of Kitcat their fee, but I think these will be reasonable and we will be determining the amount thereof in the near future. The fee for Collis will be practically a nominal one.

So far as Blakes is concerned, we have an arrangement with them similar to the one with Sullivan & Cromwell and they will be giving us an indication of their fee in connection with the reorganization, probably about the same time as Sullivan & Cromwell.

I suppose that there will be a small fee for Hooker, Alley and Duncan, but it should be a relatively small amount and practically nominal for their intervention in the reorganization is a minimum.

The only fee that gives us any concern is that of the National Trust Company. I think that they will probably confront us with a fee which we will have to discuss with them. There have been some developments which would indicate that they are making a build-up for a good-size fee. They really did not have much to do during the reorganization, except in connection with the meetings of the security holders in Toronto. If they try to stick us for a big fee, it will be on the basis of a build-up and for things which they did not do and if it is necessary to discuss the fee with them on the basis of its being out of proportion, I am going to be pretty tough. There is no use, however, being concerned about this matter until we actually know what they want to charge us. It may be that they will come across with a very reasonable fee in the
first instance. I am merely mentioning the fee of the National Trust Company because it is the principal one about which we might have to have some discussion.

We also discussed the question of new by-laws. Allan Graydon raised the question of revising the by-laws some months ago. My duties should be more specifically defined in the by-laws. With the election of Mr. E.A. Graydon as a Vice President the question now arises whether he should remain as Vice President and Secretary as well. The Graydons are of the opinion, which I share, that it would be better to have him act as Vice President with certain specific duties in Toronto and that we should elect one of two members of the Toronto staff as secretary. We discussed this whole question fully and we arrived at the conclusion that it was too late now to discuss this change in the by-laws before the Annual Meeting in Toronto in early September, but we would be thinking about it and we would determine on this matter when we got together in Toronto in early September and then Blakes can draw the by-laws. There is no hurry about it and I only mention it at this time as you will recall that we mentioned this matter to you some time ago.

We discussed the matter of the changes in the Board. We will have to make some. We are really committed to two additional members resident in England. It seems to me that the best choice we can make is Binder and Reginald Leeper. As to Leeper, I am sure he will accept although I have not discussed this matter with him in even the most indirect way. He is a very respected person in the City of London and he is quite well known because of his long service in the Foreign Office before he went to the field in the Near East and in Argentina. So far as Binder is concerned, it would of course be most acceptable in every way if he would join the Board. I have never mentioned the matter to him and I can see why he might, at his age, not wish to undertake any further commitments, but he has - I believe - such a deep interest in our company and such an understanding of it that it would be of great value to us in every way to have him on the Board and I know of no one in London whom we could more appropriately ask to be on the Board.

If you agree that we must ask Binder and Leeper to join the Board, I would appreciate very much your advising me as in that case either you or I should approach them. We want to make these changes in early September and so far as these two additional Board members in England are concerned, we are really, as you will recall, committed. If you have any other ideas as to persons I would appreciate your writing me and it would be helpful if you could give me your views in this respect as soon as possible. If you are going to be in London again, it would be very nice if you were to talk with Binder and Leeper on this and get their agreement.
As to Canada, Finlay and Holmested are now serving on the Board so as to be sure of a quorum. We none of us like this situation and it is increasingly important that we replace them with two well-known and responsible Canadians, living in Toronto so that they will be able to attend Board meetings. Ability to attend Board meetings is necessary in the case of these men who would replace Finlay and Holmested. Allan and E.A. Graydon have three or four persons in mind and they are giving this matter careful thought and I will write you further in this respect as soon as I can. We will, of course, have to reach a decision about that also in August so that we can consider this definitely and take action early in September.

It was my thought, as you know, that we should have two Board members from Mexico. We have reached the decision that Juan Martinez should be elected as one of these. Maryssael, the Graydons and I are all in accord on this so that can be considered settled. I have searched my mind as has Maryssael as to whom we could suggest for the second director from Mexico, but we will have to leave it at only one (Martinez) for this coming year. There should by all means be another director from Mexico, and who is a Mexican, but whenever we try to make a selection of the two directors, we have all sorts of unexpected factors which have to be considered.

While I would like to see two more directors from the United States, and you will recall that we have often talked about this, I have no definite names in mind at this time and I would be glad if you have any further thoughts. Guest who is now on the Board went on temporarily and we can take him off at any time we see fit without causing any hard feelings. He has however, as you know, proven to be a very useful member of the Board. He is however one of the members whom we could drop.

I do not think that you will take too kindly to my suggestion but I really think we should consider not re-electing Richard and Dawes. Both of them are really not in a position to render services and there is no reason that can be adequately defended for keeping them there. We do not want to have too large a Board and people are going to look at us more closely, so that I really think we should consider this. It is difficult action and action we would like to postpone, but I do not see how we can avoid it.

I would be glad to have your views with regard to these changes in the Board at your early convenience as we cannot delay action and must come to some definite decisions at the early September meeting.

We discussed the question of bonuses very fully for Mexico City, New York and Toronto and we arrived at some
conclusions which I told the Graydons I would submit to you. As this will be a rather long letter, I shall write you separately about them during the course of the week.

I talked to Mr. Maryssael this morning over the telephone and it appears that the Attorney General is returning to Mexico City today and we should have his opinion some time about the middle of this week. As I told you in the letter I wrote you Saturday, once these opinions are filed in Washington with the Bank, the effective date will be declared and everything is clear all around to that end.

Lorie informs me that he has had a cable from you (215) of June 12th in which you refer to my telegram No. 640 of June 2nd to Maryssael, sent through Amitas. For your background, the situation briefly is as follows:

You will have noted from my long letter to Iliff that the new labor contract is in every respect a blow to the syndicate leaders. They had made such exaggerated promises and such exaggerated and unfounded statements and they came out so badly that their prestige suffered not only with the public but with our own workers. More than that, during the course of the negotiations and since the contract was signed, there have been some very serious attacks against the leaders of our syndicate in the press, and some of these attacks have been in the form of very strong attacks of Riera, Rojas' dishonnesty and mal-practices. These syndicate leaders have been so accustomed to attacking the company and its officers that now that they are getting the same sort of thing from sources completely outside of the company - and I need not tell you that we are not making or promoting these attacks ourselves - that they simply cannot take it. Maryssael and I were absolutely sure when the contract was signed that we were going to have some difficulties with the syndicate leaders for they would feel that they would have to do something to protect their position and prestige. Besides that, we were aware that there were certain things in the contract itself that would have to be discussed with the syndicate and that would make some trouble as the syndicate would use that as an opportunity of asserting itself. As a matter of fact, immediately after I left Mexico City, the syndicate indicated that extra time was being suspended and that they would also suspend what we call "substitutions", if we did not agree to some of their interpretations. Maryssael and I and all of us had agreed that we could not give way to any of these pretensions and attitudes of the syndicate should they continue in their past conduct. We were all agreed that we had to set a trend and that we might as well make the trend now rather than later. We were all agreed that our position was stronger and that of the syndicate leaders weaker and that we could not compromise with them further on these matters of principle. They did put into effect the suspension of extra time. My
understanding is that they have not yet started with the suspension of "substitutions". You know what the effect of suspension of extra time and "substitutions" means in delayed billings and collections and in the cash position of the company. If we had to live under the constant threat of the syndicates we would not carry on the programme of works on time, etc. Maryssael told me this morning over the telephone that the authorities are being helpful in this matter and that he hopes to settle the situation in a few days. I told him this morning that as soon as the President returns to Mexico City, he should see him and explain the whole situation and I feel sure that the President who knows these syndicate leaders will help us do the necessary.

I do not think you need be concerned about this situation. The reason I sent Maryssael this telegram was to emphasize the position we had taken before I had left Mexico City and I can tell from our conversation this morning that he has maintained this position.

There are still several matters of current interest that I would like to write you about but this letter has grown to too great length already and I will be writing you again in the next few days.

With all good wishes,

Cordially and faithfully yours,

George S. Messersmith